The Role of the Top Management Team Tenure on Corporate Social Performance and its Impact on Profitability

by

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ABSTRACT

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Companies are now expected to account for more stakeholders than just their shareholders in their strategic decisions. Literature points to a positive correlation between Corporate Social and Financial Performance, yet little attention has been paid to the executives who lead their companies. This research takes a focused look at the tenure of the 2009 top management teams of 98 companies from the Canadian energy, materials, and utilities economic sectors. Regression was used to test hypotheses regarding the impact of Top Management Team tenure on the environmental, society, and governance performance of these firms, and this performance on profitability. Results indicate that for these teams and companies, when controlling for firm age, size, and available slack resources, that tenure did not have a significant relationship to social performance. Moreover, these performances did not predict firm financial performance. The theoretical and managerial implications of the results of this thesis are also discussed.

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1. Introduction

Over the last two to three decades, the basic institutions of the (1) role of markets, (2) the state and (3) civil society have drawn significant attention in academic research, and business and societal discourse (Grit, 2004). The notion that business and the public are dichotomous operators in society is no longer the status quo. In short, the role of business in society has evolved to reflect a tighter partnership; as Niall Fitzgerald, an international business leader associated with the Clinton Global Initiative posits, "Company leaders are not only leaders of business but leaders within society. We are a part of society not apart from it" (Fitzgerald, N. & Cormack, M., 2010, pg. 8).

Examples of increased civil attention to detrimental business accidents and practices, such as the protests of and accountability demands that BP take for the DeepWater Horizon oil spill, and the reluctance of U.S. Presidential authorization for the Keystone XL pipeline, due to civil demands for better environmental impact studies, point to the commonality of civil action. These example demonstrate how in both cases, non-voting societal stakeholders demanded accountability that they had no real legal stake to. These examples inclusive, there are increasing societal expectations that business should be more a partner in society than a separate actor in some independent fashion (Fitzgerald, N. & Cormack, M., 2010). The result of this citizen-driven call for more accountability has led to an increased recognition of Big Business to be more cognizant of the interests of outside stakeholders (Mansell, 2013).

The expectations that citizens are starting to hold for big companies reflect a citizenry shift to a Stakeholder Theory interpretation of Business and Society. Under stakeholder theory, Top Management Teams (TMT) (read: top-level executives) are

agents for every stakeholder (shareholder, employees, community, environment, etc.), and must balance all of these stakeholders' respective interests (Smith, 2003). The increased discretion for executives under this theory allows for more personalized interpretations of problems and strategic options; meaning that the organization becomes more of a reflection of its TMT (Finkelstein, Hambrick, Cannella Jr., 2009).

In contrast, the business, financial and legal communities view the role of Business and Society from a more traditional interpretation, Shareholder Primacy Theory. The primary concern of which is that the firm should always seek to maximize shareholder profitability (Jensen, 2001). The fundamental distinction between the two theories is that stakeholder theory suggests that firms should balance their legal obligation to shareholder interests with the interests of all other stakeholders, even if at the expense of company profitability (Smith, 2003).

Both the DeepWater Horizon disaster and the Keystone XL pipeline are examples of citizens demanding greater accountability from TMT of large corporations. So while the interpretation of corporate law and the business community expects TMT to only pursue financial returns, there seems to also be an increasing level of discretion that TMT have to direct a company's strategic direction in more ways than simply as agents of their shareholders (Freeman, 1984). Evidence suggests that companies that concern themselves with the interests of more stakeholders have better corporate social performance (CSP), which correlates to better corporate financial performance (CFP) in the long run (Margolis & Walsh, 2003; Jo & Harjoto, 2011).

It would be expected that if companies are moving to a high level of TMT discretion, that their company strategic direction would personally reflect their TMT,

irrespective of the industry. If the literature holds – that higher CSP correlates to higher long-term CFP – we should expect to also see this effect in the energy, materials, and utilities sectors which are economic sectors known to have high emissions and to be quite resource intensive (Bommer, 1998). Even in these industry sectors, if there is a more strategic leadership theory interpretation of how leaders should direct their companies, then there should be a link between TMT composition with a high level of executive discretion and a company's CSP and CFP.

"The study of strategic leadership theory will advance by isolating the conditions under which the effects of executives are great or small" (Finkelstein et al., 2009, p. 120). This research will aim to add to the literature of executive strategic leadership by outlining the effect of TMT tenure on CSP and profitability in the three aforementioned sectors of the Canadian economy: Energy, Materials, and Utilities. By doing so in these publicly scrutinized industry sectors, this study will add credence to the growing literature of the correlating link between CSP and CFP, and also strengthen the stakeholder theory interpretation of Business and Society in which companies concerned with more than just shareholder return are indeed more profitable long-term, and the allowance that strategic leadership theory grants management to facilitate the addressing of all stakeholder interests.

Once recent government legislative mandates, in both the U.S. and European Union, on corporate transparency in American and European corporate reporting requirements take effect, such as the Dodd-Frank Wall Street Reform and Consumer Protection Act in the U.S. and the PE-CONS 47/17 European Union directive, companies will face even greater public accountability for their corporate social performance. This

will also increase the attention on how top management teams leverage their personal experiences to address various stakeholders; to which this thesis argues that TMT tenure is the most important construct of TMT composition, because it is the determinant of how long the other composition constructs of a member's experiences/background impact the company's strategic direction (Finkelstein, 2009; Thomas & Simerly, 1995).

The reporting requirements in the Dodd-Frank Act are two-fold, (1) Section 1502 "the conflict minerals provision", which aims to prevent SEC listed companies from funding of human rights abuse in the Democratic Republic of Congo (Ouellet, 2012). The other provision, Section 1504, is aimed at U.S. based oil, gas, and mining sector companies, and which requires full disclosure of all payments to foreign governments, irrespective if this information is competitively sensitive (Ouellet, 2012). Prior to this act, these companies could provide financial assistance to 'social projects' in developing countries without having to disclose any reports, meaning the money could very well have gone to corrupt politicians instead of their reported destinations (Ouellet, 2012).

The E.U.'s PE-CONS 47/17 directive is related to the mandatory disclosure of nonfinancial information of companies in the 28 EU member states, all of whom have until 2017 to incorporate this directive into domestic law. The importance of this directive is three-fold: (1) it raises the standard on the disclosure of nonfinancial information across a spectrum of more than 6000 companies. The directive applies to all "public interest entities", which includes banks, publicly traded corporations, and insurance companies with more than 500 employees and/or with revenues in excess of 40 million Euros" (Morgan, 2014). In addition to these organizations, the directive is also aimed at European and some non-European companies of relevance to E.U. citizens

because of their type of their business, size, or their corporate status (Morgan, 2014). (2) The directive highlights the need for proper due diligence. Companies subject to this directive will have to report on performance, risks and policies related to (i) environmental, social, and employee matters; (ii) human rights; (iii) anti-corruption and bribery (Morgan, 2014). The key aspect of this part of the directive is that companies will not have the discretion to report their nonfinancial disclosure. The directive stipulates the processes for adequate due diligence, i.e. showing their reporting on specific issues, and if certain issues are omitted, they will have to report their rational for doing so (Morgan, 2014). (3) It mandates greater supply chain transparency, meaning that these companies will be required to identify and manage nonfinancial issues of their supply chain, from human rights records to negative environmental implications (Morgan, 2014).

In short, these changes to reporting requirements in the U.S. and E.U. will require firms to disclose more about their social performances, reducing their ability to narrate Greenwashing spin, by increasing the exposure and scrutiny of their social performances.

Strategic Leadership Theory suggests that TMT exercise great discretion and leverage their experiences to influence CSP, instead of TMT just being reactionary to their corporate economic environment (Canella & Munroe, 1997). The theory is concerned with the psychological composition of TMT and it presumes that the variability of TMT centers on psychological constructs, such as functional knowledge, education, tenure, and values. This means that given how each person's experiences and psychological makeup differs, that TMTs and individual executives would process and interpret the same information differently; it is how these personal interpretations

influence the strategic choices that TMT make that is central to strategic leadership theory (Cannella & Monroe, 1997; Finkelstein et al., 2009).

This study utilizes Stakeholder Theory to explain the move from Shareholder Primacy Theory to describe the relationship that Business has with Society, and that it is through Strategic Leadership Theory that TMT members can facilitate addressing all of the concerns of various stakeholders, as well as to explain how the compositions of TMT, with high discretion, are able to make strategic company decisions that are highly personalized and that reflect their TMT. And given this, the idea is to see how tenure impacts the CSP and CFP direction of company strategic direction.

What could be seen as problematic is the correlational nature of TMT composition to corporate social and financial performance – is it that the company's TMT predicts strategic orientation or that the company's strategic orientation predicts the management team? However given that there are greater expectations on Big Business by society, and the fact that these TMT executives are also citizens of society, it would be expected that the guiding lens of strategic leadership theory and the increased discretion for management to make their decisions with will lead them to steer the company in a way that performs better in environmental, society and governance scores.

As Finkelstein et al (2009) pointed out, increased discretion for executives allows for more personalized interpretations of problems and strategic options; meaning that the organization becomes more of a reflection of its TMT, and that of all composition measures, tenure is the most theoretically defensible (Thomas & Simerly, 1995). The reason for this is because "the longer an individual has worked for an organization, the more familiar he/she is likely to be with its products, markets and technologies, but also

with its people, standard operating procedures and culture" (Gupta, 1988, Pp. 216; cited in Thomas & Simerly, 1995, Pp. 412). Thomas & Simerly (1995) argue, and find support for, the notion that in some industries, longer tenured teams have a better understanding of all the specific stakeholder needs and the feasible options that they have for meeting them, and that this leads to better CSP. This would suggest that above all other TMT composition constructs, that the tenure of the team is most influential since it indicates how long the TMT member has been with the organization, understands the organization, and how/which of their personal experiences/background they can leverage in meeting/adapting to all stakeholder needs. Therefore, longer tenured teams should have better ESG performance in the Canadian energy, materials, and utilities sectors as well, since their management teams have spent longer on the team, understand their respective industry better, and can better leverage their other experiences and psychological factors to shape the discretion of their decision making in meeting all stakeholder needs. Thus, even in these sectors of the economy, companies led by long tenured teams would have more discretion, and through strategic leadership theory, this would allow their decisions to be more reflective of their personal values and experiences, instead of TMT just being reactionary to their corporate economic environment, and that these reflections of their values in their decision making will lead to better CSP, and that this lead to better long term CFP, even in sectors of the economy where it might not be expected.

2. Literature Review

2.1 The Economic Model – Shareholder Primacy

The most important notion to explain and predict firm behavior in the economic theory model is that the role of managers is to act as agents of the stockholders/principles (Key, 1999). The economic model uses a theory of the firm fashioned out of the ideas of utility maximization, rationality and self-interest (Friedman, 1962). The role of the business manager, in this case, is only to maximize the wealth of the firm through his/her contractual duties to the owners. Under the economic model, maximizing shareholder returns is the sole duty of the mangers of the firm (Friedman, 1970; Brenner & Cochran, 1991). The action of the part of the manager to do anything other than this would be acting as the principal, and would be in direct violation of their sole fiduciary responsibility to serve as an agent to the owners (Friedman, 1970). The logic of Friedman's argument stems from the theoretical interpretation of the role of business and society according to the business community - Shareholder Primacy Theory, or Agency Theory. This is also the theoretical foundation of corporate law and is so engrained in western economics that it is taken as a given assumption by most economists, and is a doctrine taught in all business schools (Jensen, 2001). Often, this theory is misinterpreted as one that encourages TMT to pursue shareholder value by any means necessary, even if TMT act illegally to do so, yet the theory is clear that managers are to pursue profits "legally and non-deceptively" (Smith, 2003). Under this theory, the only CSP that the TMT must attain is all that they are legally obligated to. It is not that these TMT members necessarily would privately disregard any merits of CSP, it is just that their agency role

and legal fiduciary responsibility requires that they only act and steer the company on the premise of maximizing shareholder value.

It is noted that the reviving interest of academic literature in corporate social responsibility began to pick up in 1980's, during the marked peak of 'Reganomics', 'Thatcherism', and that decade's push toward increased privatization (Grit, 2000, 2004). This was also the same decade that U.S. courts began to suggest that duties to shareholders in corporate governance were shifting from being the only duty, to being only one of many duties in management's consideration (Key, 1999). The undercurrent of a theoretical shift away from a laissez-faire role of Business in Society to one of more corporate accountability to stakeholders during a time of right-wing ideological societal governance prominence should not be discounted. Just as the foundation of corporate law's shareholder primacy is impossible to overhaul, the changing expectations of Big Business and the philosophical interrelations of Business and Society are also impossible to slow down.

2.2 Theoretical Shift of Expectations

The value that it presents is what is inherent to any new theory, and the strength of any new theory comes from how it identifies the values that explain observable behavior (Mills, 1959). So when existing dominant theoretical frameworks continue to be unable to explain societal behavior, a vacuum for a better, more explanative theoretical framework to replace it presents itself (Kuhn, 1962). So while Friedman (1962) echoes the early sentiments of a required dichotomous split that Business ought to have with Society, that the values that underlie the actions of actors in the market should rest solely

in market rationality, there is growing evidence and literature that demonstrates that even during a ‘pro-business, less-governance’ era prominent in the 1980’s, a shift toward a more inclusive theoretical framework to account for more stakeholders was strong and well underway.

One of the first to offer an alternative explanation for this rationality argument was Allison (1971) who stated that individuals in organizations are driven not just by being rational actors, but also through (1) utility maximization, and by (2) the standard operating norms in society and within the organization, and also by (3) bureaucratic politics. As academics point to the expanding consideration decision making set by managers to include both personal and rational economic goals by the firm (Bird & Waters, 1987; Kurland, 1996), the prominent threat to the shareholder primacy theory model is that inclusionary notion in stakeholder theory of social values and standard operating norms being in unison with economic ones (Key, 1999). The growing sentiments of civil discourse to expecting more from business to contribute to society illustrates a theoretical shift of what citizens expect of large companies and the TMT members who ultimately run them – that they need to consider more individuals and interests than just that of their shareholders.

Miska, Hilbe and Mayer (2013) attempted to reconcile the different views on responsible leadership, from agent views, stakeholder views, and the converging views in between. Figure 1 from their study illustrates the degree of stakeholder inclusion and the scope of TMT responsibility for each of these views. Agent views are the narrowest in inclusion and responsibility scope, as the TMT role is only to that of the shareholders; while stakeholder views have the widest scope of TMT responsibility and the greatest

degree of stakeholder inclusion. In between the agency theory and stakeholder theory views are the converging views, where the role of the TMT is to reconcile economic responsibilities with environmental, societal and governance responsibilities (Miska et al, 2013). Essentially these converging views centre on acting on the strategic notion that "good ethics is good business" (Schwartz and Carroll, 2003, p. 516) The logic for TMT members in these converging views is still similar to those in agency theory views that companies should identify issues they can both resolve, and attain a competitive advantage (Miska et al, 2013).

Figure 1: Overview of perspectives on responsible leadership, Miska et al (2013).

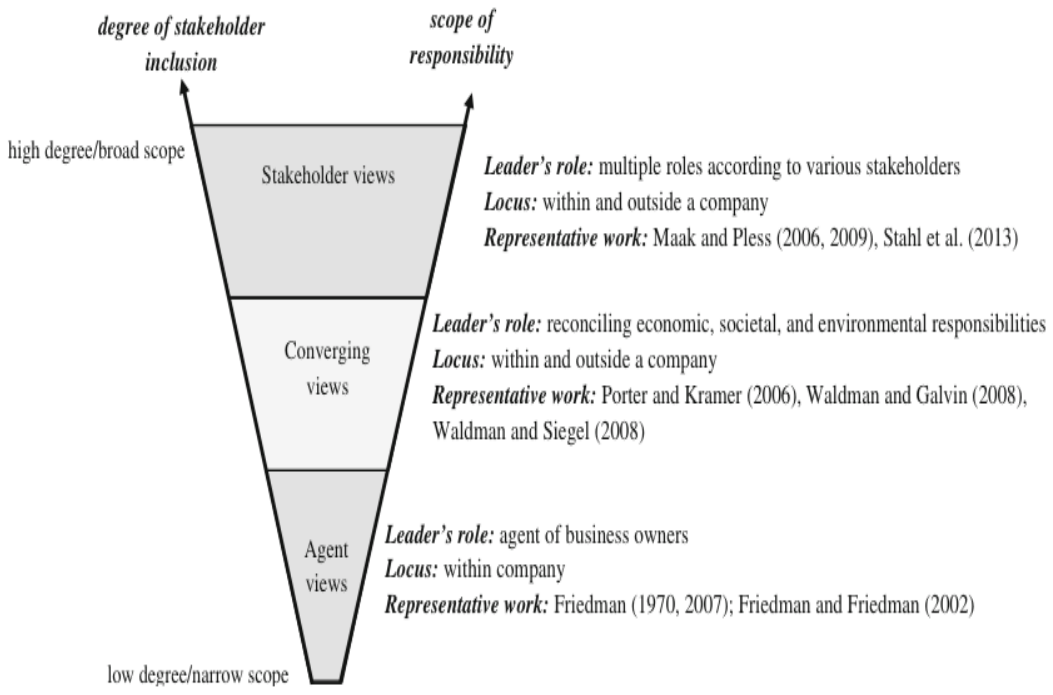

Fig. 1 Overview of perspectives on responsible leadership

2.3 Stakeholder Theory

The alternative theoretical interpretation of the role of the firm in the business-society partnership from strict shareholder, market rationality is structured in stakeholder theory. Freeman (1984) was the first to introduce it in his 1984 work, "Strategic Management: a Stakeholder approach," where he defined a stakeholder as "any group or individual who can affect or is affected by the achievement of an organization's objectives" (Freeman, 1984, p.46). The basis of this approach was a limited claim of providing a "generalizable/testable approach to managerial strategic decision making" to explain the firm's relationship to, and how it interacts with its environment (Freeman, 1984; Mitchell et al., 1997), or the standard operating norms of the society that the firm is a part of that Allison (1970) alluded to.

While lacking in full theoretical development, the first academic to present Stakeholder theory in which to assess the role of all people within a firm's environment was Freeman (1984). His work was the first to extend the responsibility that companies had to other internal and external actors other than voting shareholders. To do so, Freeman (1984) suggested that a firm should know "what it stands for"(p. 83), suggesting that firms must perform a value analysis of their "economic, technological, social, political and managerial" landscape in assessing its internal financial goals to shareholders, to external societal stakeholders, and that their actions are rooted in tradeoffs between the two (Key, 1999).

One of the main criticisms with Freeman's (1984) stakeholder theory is that it insufficiently addresses the dynamics between firms and stakeholders (Key, 1999). For instance, some critics point to the marrying logic of contract theory as the basis of these

relationships, which they argue is no different than shareholder primacy. In efforts to shore up these criticisms, many academics have begun to attach other theories to the stakeholder theory framework; such as property and contract rights, with one example being the Integrative Social Contracts Theory, which addresses business ethics from a contractual front (Donaldson & Dunfee, 1994; Jones, 1995; Donaldson & Preston, 1995). It is this incorporating of contract theories with observable organizational processes that could satisfy the criticisms of Freeman's work and legitimize the stakeholder theory as the foundational basis of the role of business in society.

2.4 Corporate Social Performance

2.4.1 Foundations of Corporate Social Responsibility

In efforts to develop a deeper understanding of firm behavior, Business and Society scholars have studied how the firm relates to its environment. This has led to such constructs as corporate social responsibility, responsiveness, as well as corporate social performance (Key, 1999). Frederick (1994) proposed different 'logics' for corporate social responsible behavior, presented as stewardship, charity, etc., to explain the obligation corporate members have to their greater community. Another logic of corporate social responsibility refers to corporate responsiveness, which is a way to manage societal demands, while ensuring business legitimacy (Key 1999). By adhering to the demands and social involvement expectations that society puts forth to the firm, companies that meet and exceed them tend to succeed as they are regarded as more trustworthy and attract a greater funnel of investment from societal members. The notion

of trust and its pertinence to company success and CSR performance in stakeholder theory is expanded upon later.

2.4.2 Corporate Social Performance (CSP) and Stakeholder Theory

In analyzing studies from 1971 to 2001, Margolis and Walsh (2003) found the link between CSP and CFP to be largely inconclusive. However, they largely attribute these results to various study imperfections, such as proper CSP and CFP measurement, omitted variables, and a lack of methodological and theoretical rigor (Jo & Harjoto, 2011). Despite these study imperfections, however, the empirical CSP literature that Margolis and Walsh (2003) reviewed tends to all point to a positive correlating association between CSP and CFP. In fact, many academics point to the positive effect that good corporate social performance has on company past and future financial performance, so much so that the positive correlation has become a fundamental assumption of stakeholder theory (Margolis & Walsh, 2001; Waddock & Graves, 1997; Ameer & Othman, 2012).

Frooman (1997) presented strong evidence to suggest that there are stiff financial penalties, in the form of depressed stock prices, for corporate social irresponsibility. Frooman's (1997) study of 27 case examples premises on the notion that corporate socially irresponsibility leads to decreased shareholder wealth, by linking to the origins of what a stock is: reflections of future cash flow, or reflections of an outlook on long-term financial success. While this logic is difficult to disagree with, the notion that transient investors trade on this premise of future cash flow is not. A recent example of this is the decision by MetLife Inc. to halt their reported earning guidance, in favor of focusing on

long-term performance measures. In efforts to shift investors' focus from short-term performance, MetLife Inc., the largest U.S life insurer, announced that they were going to stop providing annual earnings-per-share forecasts (Buhayar, 2013). This new approach is intended to be consistent with their internal emphasis on long-term strategic and financial goals; and to shift the discussion to their business model, which they cite as their business model's real driver of shareholder value over time (Buhayar, 2013).

Another study by Lee, Faff and Langfield-Smith (2009) found that in contrast to the work of Margolis and Walsh (2003) and other similar work that found a positive link between CSP-CFP, that there was a negative relation between CSP-CFP in equity markets. The authors however do not discount the importance of CSP, finding that the negative relation is more reflective of an equity price premium for high performing CSP companies, which is to say that financial markets recognize the value proposition of CSP and willingly accept lower returns in support of this; which also points to better CSP managing firms' ability to access lower cost of capital (Lee et al., 2009). This access to lower rates of capital also grants the firm an easier avenue to respond to stakeholder claims and social performance concerns that which companies that would have to borrow at higher rates could not (Cornell and Shapiro, 1987).

The MetLife Inc. example does not point so much to its strategic direction being reflective of a stakeholder theoretical approach, but more about how transient institutional investor groups certainly do not ascribe to the stakeholder theory interpretation of the role of Business and Society. The pushback from the TMT at MetLife Inc. to have their shareholder ownership is driven by more than a shortsighted narrative reflects that. With adequate links in the literature that point to sound CSP tying

to better financial performance, it could be that good corporate citizenship is a part of their business model, and if they were given the freedom by their shareholders to act in this way, they would actually improve business and shareholder wealth over the long term.

2.4.3 Effect of Corporate Social Performance on Financial Performance

Corporate Social Performance is not a catchall construct; meaning that companies can potentially perform well on certain aspects of CSP, yet poorly on others. Makni, Francoeur, and Bellavance (2009) aimed to address insufficient previous research of a causal link between CSP and CFP. They tested 179 Canadian firms using the 2004 and 2005 Canadian Social Investment Database (CSID) and Jantzi performance scores, specifically individual measures of: community + society, corporate governance, customers, employees, environment and human rights; and linked them to financial performance (ROA, ROE and stock market returns). The only significant result that they found was the negative impact that the environmental dimension of CSP had on financial performance. This is contrary to the earlier results of Mahoney and Roberts (2007), which showed a significant positive relationship between individual environmental CSP and financial performance, over a one-year lag period.

A fundamental component of this notion is the effect that CSP has on long-term financial performance, not on immediate stock market returns. It would stand against reason to believe that companies focusing solely on immediate share price reflections would do less well financially than would companies focusing on both financial and social performance, since the market is known not to vote for morality. Instead, the logic

behind these studies that positively link CSP to CFP is that these companies will make the long term investments in their CSP (for example, investing millions of dollars into smoke stack scrubbers) which would not be reflected in the immediate stock returns, but will provide future savings later, i.e. future CFP.

While the impact of CSP on CFP in Canada remains definitively unclear, many studies have shown how companies that perform well in corporate social performance tend to have better financial performance in the long term. Waddock and Graves (1997) found the relationship works both ways. First, they found that there was a virtuous circle: better CFP led to better CSP due to slack resources, and that financial performance depends on good social performance, linking good social performance to good managerial practice. They found that in support of slack resources, that companies can 'do good by doing well', and the other part of the virtuous cycle, that companies can 'do well by doing good', which they found to support their term of good management theory (Waddock & Graves, 1997). Their findings on the link between CSP to CFP centered on how investments in CSP, result in actual improved attention to key stakeholders, and that "may provide benefits beyond their costs that are eventually reflected in financial performance" (Waddock & Graves, 11997, p. 314).

In addition to Margolis and Walsh (2003), a recent report by CDP, an ESG advisory firm in the U.K., provided evidence of this positive CSP-CFP link. Their report tracked industry-leaders over the last three years against their financial performance and found that leaders of S&P 500 companies that are actively managing and planning for climate change had: (1) Greater profitability (18% higher return on equity than their peers and 67% higher than companies that did not disclose their climate change information);

(2) Greater stability (50% lower volatility of their earnings over the past decade than low-ranking peers); (3) Better dividends allocation to their shareholders (21% stronger dividends allocation than low-ranking peers) (CDP, 2014).

One reason for this positive correlation between CSP and CFP is rooted in economic rationality and is a product of streamlining corporate practices to the most stringent, such as implementing the same environmental management systems (EMS) in every country that a multi-national corporation operates in. So instead of flocking to a 'pollution-haven', where multi-nationals from developed countries with strict environmental regulations shift their practices to developing countries with more relaxed regulations and who are need of the economic impact (Akbostanci et al, 2004), the company might instead exceed the most stringent local compliance and expand this level of compliance to all of their global business operations, so that training is uniform, and costs of implementing and managing the EMS can take advantage of economies of scale and other streamlined benefits (Shareman, Shaft & Tihanyi, 2004).

Prior financial performance is also a key driver of corporate social performance and is measured as a lag function of prior successive years, as oppose to prior quarter financial performance. It serves to reinforce and improve the discretion of a TMT to strategically direct current CSP and is also positively associated with corporate reputations of corporate responsibility (McGuire, Sundgren, and Schneeweis, 1988). In their study, McGuire et al (1988) found that strong return on assets, total assets (size), and growth of operating income were each positively associated with a firm's reputation as being socially responsible, and also, that these firms were perceived to be less risky. In fact, McGuire et al (1988) found that 19 and 13 percent of a firm's future social

responsibility reputation could be predicted by risk and return on assets respectively; showing that a strong prior financial performance affords a company the leverage to improve their current CSP. The lag function of prior CFP points to how strong CFP over time grants the TMT increased latitude of discretion in corporate strategic decision making, which is not completely earned after a single successful fiscal year. The notion that companies who actively manage their CSP are less risky (McGuire et al, 1988) is also encompassed in Lee et al (2009) notion that these companies have an equity price premium to them. Equity markets would assume these companies to be more sensitive to external events, are better able to control their economic environment, and would be willing to accept lower rates of returns for this added security (Cornell and Shapiro, 1987).

The notion of prior financial performance success and perceptions of these companies to be less risky investments being positively correlated to strong corporate social performance is essentially encompassed in two main points: (1) slack resources, which demonstrates support of a positive relation between a company's resource availability, its corporate social performance, and future financial performance (Waddock & Graves, 1997); and (2) Trust.

2.4.4 Slack Resources

Slack resources (SLACK) is defined as "the pool of resources in an organization that is in excess of the minimum necessary to produce a given level of organizational output" (Nohria & Gulati, 1996, p. 1246). This definition shows how SLACK can be in the form of non-financial resources (i.e. employees) and financial resources (liquidity).

Most references to slack resources regard it in its financial context. That is, organizational financial SLACK refers to the excess and uncommitted liquidity a firm has available to them after accounting for the business expenses of normal operations. The calculation for SLACK then is the same as a firm's current ratio (current assets / current liabilities) (Mansfield, 1968; Bolton, 1993).

Previous literature suggests that the positive/negative view of slack resources depends on the theoretical lens of the role of Business in Society. Under agency theory, slack resources indicate inefficiencies on the part of the TMT and that executives with excess cash flow tend to run their organizations ineffectively – since these are resources that could otherwise go to shareholders in the form of a (greater) stock dividend (Mellahi & Wilkinson, 2010). On the other hand, under a stakeholder theory of Business and Society, SLACK is considered a resource for an organization that promotes innovation and organizational performance, by acting as a security blanket to economic environmental uncertainty (i.e. a recession) (Thomson & Millar, 2001). Slack resources are also said to be the reason that firm innovation fluctuates with financial performance, rather than solely from a firm's characteristics (i.e. size) (Bolton, 1993).

Arora and Dharwadkar (2011) found that corporate governance mechanisms and CSR are contingent on satisfaction with prior firm performance. In addition to also finding the Waddock and Graves (1997) conclusion of CSP being positively correlated to prior financial performance, Arora and Dharwadkar (2011), found that the association between corporate governance and CSR dimensions depends on the differences in TMT decision-making latitude in organizations from relative firm financial performance compared to their peer firms. That is, the role of satisfaction with prior firm performance

was important in studying the impact of corporate governance on managerial decision-making (Arora and Dharwadkar, 2011). So not only is CSP positively linked to CFP, but when a company is satisfied with their prior financial performance in relation to their industry peers, they will extend more discretion to their top managers, granting them permission to further the CSP of the organization. In short, slack resource availability positively connects prior financial performance to present CSP, which in turn is positively tied to present CFP. And this underlies the Waddock and Graves (1997) notion that that managers that address corporate social performance of the company and accounts for the interests of more than their immediate shareholders, perform better financially in the long run. It seems like somewhat of a paradox – management that does not focus solely on the interests of their company shareholders will end up better serving the long-term interests of those shareholders.

While it has become commonly accepted in stakeholder literature that slack resources has a positive correlated relationship with firm financial performance, many early conceptual studies had found mixed anecdotal and empirical results, with some finding a positive, others a negative, and some finding a curvilinear relationship indicating that slack is beneficial to a point, but becomes inefficient over time (Daniel, Lohrke, Fornaciari, and Turner Jr., 2002). The inconclusive nature of these studies had largely been attributed to inconsistent variables measures and sampling-error (Daniel et al, 2002). To remedy this ambiguity, Daniel et al (2002) performed a meta-analysis of slack resource literature. Their study focused on the relationship between a firm's financial slack (liquidity) and its effect on financial performance (profitability), with particular attention to the moderating influence of whether studies used (1) general or

industry-relative performance and (2) current year vs. lagged slack measures. Daniel et al (2002) reviewed relevant slack studies from leading strategy and business journals between 1990-2000, focusing on studies that provided a correlation between financial performance and at least one slack measure, which removed the subjectivity of any particular study's focus from their meta-analysis.

The results of Daniel et al's (2002) meta-analysis concluded and reinforced the notion that that relationship between performance and slack was a positive one; that financial slack is a resource and not an indication of firm or management inefficiency. In addition to finding this positive correlated relationship, Daniel et al (2002) also found this to be a stronger relationship in studies that controlled for industry-relative performance than did companies that did not control for this. The effect of the moderating role of lag of slack resources was perhaps their most surprising conclusion. Contrary to their hypothesis, Daniel et al (2002) found a stronger relationship in studies that employed current year slack – performance measures vs. lagged slack-performance measures. Similar to how lag of prior financial success points to TMT needing time to increase discretion to act on CSP initiatives, studies that advocated a lag view of SLACK did so on the conceptual notion that firms would need time to "unlock" these slack resources before they would be able to translate them into financial performance. However, the results of Daniel et al (2002) indicate that firms can turn these resources around quickly, and be able to use them within a fiscal year. The authors cite that this may be attributed to firms' ability to "unlock" slack resources through company downsizing. Another way that they can unlock these resources is by being able to liquidize them through pre-

existing credit lines; which speaks to how SLACK leads to better CFP and CSP, and is tied to trust with their stakeholders.

2.4.5 Trust in the CSP – CFP Link

The second reason for the CSP link to better CFP is concerned with (2) trust – specifically, voluntary governance and trust with suppliers (Gulati & Nickerson, 2008), social investors (Pava & Krausz, 1996), and with financial lenders in the form of access to lower costs of capital (Lee et al, 2009; El Ghoul, Guedhami, Kwok, & Mishra, 2011). Trust also manifests itself in the common trick that companies try to pull on consumers in the form of "greenwashing", which is a form of company *disinformation* where a company uses its financial and marketing resources to spin the narrative that their practices are 'green', instead of actually being so, or investing in parts of the organization that would make it so (Laufer, 2003). Parguel, Benoit-Moreau and Larceneux (2011) found that poor sustainability ratings negatively affected consumer brand evaluations of a company, since they could not trust the inferences of the company's intrinsic motivations; results that could act a deterrent to future 'greenwashing'. In short, a company that 'walks the walk' and invests in their CSP, will be seen as more trustworthy, and will benefit from this trust via relationship with suppliers, consumers and financial lenders, whereas those that instead attempt to try to bluff the public with paid lip service will be seen as untrustworthy.

2.5 Functional Top Management Team Members

2.5.1 Strategic Leadership Theory

In line with the shift to a stakeholder theory framework, and with it, the increased societal expectations on business operations, management researchers began to embrace the idea of top managers being able to significantly influence their organization (Cannella & Monroe, 1997).

Strategic Leadership Theory, which posits that executive experiences are reflected in TMT strategic decision-making, initially grew from Upper Echelon Theory (Finkelstein et al., 2009). In 1984, Hambrick and Mason formalized this theory, which argues that organizational outcomes are reflections of top managers' values and drive, rather than reflections of an overseeing corporate board control or happenstance. Upper Echelon Theory set the stage for Functional Top Management Team (TMT) research; since TMT members comprised of senior executives are responsible for the functional areas of the organization and are ultimately the ones who steer their respective organizations (Menz, 2012). Current literature suggests that Upper Echelon Theory grew into Strategic Leadership Theory, which states that top managers are in a unique position to have the most impact on the organization's strategy (Finkelstein & Hambrick, 1997; Cannella & Monroe, 1997).

This movement to a strategic leadership theory notion is an important development in corporate governance literature, since the basis of corporate law is still rooted in shareholder primacy theory, which refers to the fiduciary responsibility of TMT to act solely in the best interest of company shareholders (Smith, 1998). The changes in reporting requirements point to a bridge in these theories. The PE-CONS 47/17 European

directive is in large part, a response to public and investor pressure on businesses to report their performance, investments in, and risk to social and environmental concerns, and it points to the increasing importance that corporate transparency and accountability is becoming to the E.U. and its citizens (Morgan, 2014). Overhauling the long-standing foundations of corporate law is impossible, but increasing the accountability to more stakeholders by opening the transparency of corporate governance through reporting legislation will allow for TMTs to be more than just agents of shareholders, which in turn should open up to more strategic leadership.

Strategic leadership theory assumes top managers differ on a number of psychological constructs (i.e. functional or international experience, education, etc.), which shapes each individual's decision making (Cannella & Monroe, 1997). Hambrick and Mason (1984) stated "organizations area a reflection of its top managers" (pp. 193) and that organizational outcomes are a function of top managers' values and drive, as oppose to those of the board members or of complete happenstance.

The merits of using TMT and not board composition stem from Dalton et al (1998), who studied the relationship between board composition, its leadership structure and firm financial performance. Their results failed to present a link between firm financial performance and board composition.

Smith et al. (1994) research on TMT demography and process looked at 53 high-technology firms to "test three alternative models of the effects of top management teams demography and process on organizational performance." (Pp. 412) Their results show that teams' demography "indirectly related to performance through process," and "that process directly related to performance." (Pp. 412) They go on to state, however, that

effects of team demography on performance were also found to have direct effects on firm financial performance (Smith et al., 1994). As Cannella and Monroe (1997) point out, “it can be difficult to measure the psychological characteristics of top managers,” (Pp. 219) thus, strategic leadership theory predictions tend to then be tested relating to managers’ demographic characteristics. It’s through this logic that when looking at the CSP – CFP correlation link, that it is best to study the moderating effects of the experiences and psychological makeup of TMT members, of which are proven to drive performance and steer both company social and financial performance measures.

In current TMT literature, many authors have discussed the role that top executives have on steering the firm and on their relationship with firm financial performance (see: Hambrick & Cannella, 2004; Marcel, 2009). Overall, the literature points to TMT being able to impact financial performance, and most explicitly refer to Hambrick and Mason’s (1984) “upper echelons perspective” or to related concepts, like management discretion (Hambrick & Finkelstein, 1987). Strategic leadership theory also suggests that organizational outcomes may be dependent on the amount of discretion (attitude of action) afforded to the TMT. The more discretion executives have the more influence they have to exercise their intentions (Cannella & Monroe, 1997; Hambrick & Finkelstein, 1987). Nielsen & Nielsen (2013) defined TMT “as the executive team listed in the company annual reports,” of which they and Finkelstein (2009) list TMT tenure as one of the most important of the differing constructs that top management members and teams differ on. It is leveraged on this, and the aforementioned logic by Thomas & Simerly (1995) that we use TMT tenure as the primary driver of TMT impact on CSP, which is illustrated in the conceptual model (see: appendix 1)

3.0 Hypotheses

The shift to a stakeholder theory framework points to the increased discretion of TMT members. These executives, in running their respective companies, are no longer expected to solely concern themselves with shareholders interests, but instead are expected to use their increased latitude in decision making to consider the interests of a wider range of stakeholders. Given this larger consideration of interests and the discretion to make decisions, they will have to rely on their past experiences, which will shape how they interpret their company's competitive landscape and how best to run the organization. Thus, organizations become a reflection of the collective composition of the top management teams that run them.

However, it is important to outline how these variables will affect CSP in setting up the second hypothesis. Firstly, the longer the (1) tenure of the team, the more discretion that team would have. The longevity of the team would point to trust by various stakeholders in their ability to lead, since as Thomas & Simerly (1995) note, they have a better understanding of all the specific needs of various stakeholders and the feasible options in which to address them, granting them increased discretion to shape and better CSP.

It would be expected that given the numerous variables that would each influence CSP, and how Finkelstein et al (2009) outlined that of the background characteristics, executive tenure, functional experience, education and international experience were the main components of TMT composition that effect CSP, that an ideal scenario would be to create an index value of TMT composition, so as to take all of the composition variables in question and create a meaningful value on which to compare across all

companies, as well as to regress each variable individually for an encompassing picture of the all TMT variables to safeguard cancelling out effects by only analyzing an indexed value for TMT. However, without this latent measure of TMT composition as one collective value, a hypothesis that included each of the composition variables individually regressed on environment, social and governance scores would have to be rejected if any one of the seven composition variables proved not significant.

Thus, this study leverages the logic of previous research, such as Finkelstein (2009) listing tenure as one of the most important drivers of TMT composition, and the Thomas & Simerly (1995) finding that above all other TMT composition constructs, that the tenure of the team is most influential due to its indication of TMT familiarity with what the needs of all organizational stakeholders are, and the means by which they can leverage their other experiences to meet those needs, and uses executive tenure to operationalize the second hypothesis. That is, the influences of education, functional background, international experience, etc., are irrespective if a TMT member's tenure is too short for the member to be able to thoroughly learn the nuances of the organization and how they could leverage these other experiences in their strategic leadership decision making, and would be more pronounced the longer an individual has served on the TMT. This leads to the second hypothesis:

Hypothesis 1: Longer tenured Top Management Teams will be positively related to corporate environmental performance (CSID score)

Hypothesis 2: Longer tenured Top Management Teams will be positively related to corporate society performance (CSID score)

Hypothesis 3: Longer tenured Top Management Teams will be positively related to corporate governance performance (CSID score)

The correlating link between CFP and CSP is shown to work both ways – prior corporate financial performance leads to better present CSP, and better present CSP leads to better current financial performance (Waddock & Graves, 1997). The McGuire et al. (1988) finding that strong growth return on assets and in operating income leading to better corporate social performance reputations ties to this study's dependent measure of Net Income Before Taxes (NIBT). In addition to this, building off of Margolis & Walsh (2003) that better CSP companies correlate to better financial performances, and that these companies are viewed by all stakeholders as more trustworthy and less risky (McGuire et al, 1988); have access to lower rates of capital (Lee et al, 2009; El Ghoul et al, 2011) and to the CDP (2014) findings that managers of S&P 500 companies with more voluntarily disclosure of their nonfinancial performances had 18% better return on equity than their peers and 67% better return on equity than non-disclosing comparable firms leads. This leads to the third hypothesis, testing the effects that these companies' 2009 environmental, society, and governance scores has on 2009 profitability, controlling for previous year financial performance.

Hypothesis 4: Better company corporate environmental performance (CSID score) will lead to better corporate financial performance (NIBT)

Hypothesis 5: Better company corporate society performance (CSID score) will lead to better corporate financial performance (NIBT)

Hypothesis 6: Better company corporate governance performance (CSID score) will lead to better corporate financial performance (NIBT)

4. Methodology

4.1 Research Design

To test the effect that TMT had on the influence corporate social and financial performance, insight was required as to the exact composition of each of those teams. Initial efforts for attaining this information centered on searching the Wharton Research Data Service (WRDS), a web-based business data research service from the Wharton School at the University of Pennsylvania, and known to be "the de facto standard for business data" (The Wharton School, 2014). Since WRDS provides researchers with instant access to business related data for quantitative data research and combines access to other important business research databases such as COMPUSTAT (The Wharton School, 2014), it was thought to be an excellent starting point for deriving TMT composition. However, since the TMT is referred to all those listed on the company annual report (Nielsen & Nielsen, 2013), it may include members that are specific and important to a company's composition and as part of the driving influence that the TMT has on the company's corporate decision making, yet are unimportant to WRDS users, and thus, not found on the database search. Hambrick and Finkelstein (1990) cite this as a limitation in their study on top executives and upper echelon theory development – that while the top executives and CEO retain the most influence, lower-level employees may be influential in their firm's strategies, and by limiting their study to just the very top executives, their study may have missed part of the entire management team influence. This would leave an anticipated gap between the actual company composition and composition that WRDS finds. For any members for whom this gap presents itself, a

specific, alternative search of that individual was conducted. This is explained in further detail in the data collection section.

The intention of studying TMT tenure on CSP and CFP was to see if this explanatory variable had varying levels of significance on the three different components to CSID ranking scores – environment, social (society), and governance. With 2009 data from Sustainalytics, the next step was to attain a composition of each company's 2009 top management team. An example of how each company's composition was collected is included in appendix 5.

The first part of the study included running three linear regressions to assess the statistical significance of the direct main effects of tenure as an independent variable on environment (H1), society (H2), and governance (H3) score. The next part was to run these regressions again, but with the three control variables of firm age, firm size, and each company's amount of slack resources stepped in and collectively regressed with tenure, so as to see if these main effects are found in a more realistic setting.

Given the theoretical basis of tenure as an explanatory variable, the merit of this study will come from seeing how significant TMT tenure will be as a direct effect, as well as how each control variable was to each of the three aspects of CSP; therefore, each variable was entered in a forced entry method first, with the control variables stepped in afterwards. The mechanical step regression was used so as to guard against a systematic stepwise regression that would systemically exclude variables that are not significant, i.e. excluding tenure if the control variables wash its effects. Singer & Willet (2003) point out that you should never have a computer mechanically select predictors since it has no idea what your research questions are, or the theoretical basis used to formulate them, and

also because they are unable to distinguish predictors that you would want to study the effects of from the ones you're trying to control for. The outcomes of these regressions are discussed in the results section.

The second part of the study was to assess the link between CSP and profitability. This was done through another set of three linear regressions, this time with each aspect of CSP – environment, society, and governance score as independent variables, and regressing them on profitability as a dependent variable, by using 2009 NIBT as a proxy for measuring profitability. The control and explanatory variables, as well as more insight into the sample, are discussed in further detail in the next section.

4.2 Sample

The selection of the 98 firms from the Canadian energy, materials, and utilities sector was the data set that was part of a provided data set. The limitations of this notion are discussed in the limitations section. Of the 98 firms, the average of TMT tenure was 7.7 years, with the average age and size of the firms being 30.5 years and a natural log of 21.6, respectfully. Further descriptive statistics of the firms is listed in appendix 2.

The CSID performance scores were attained from Sustainalytics, an award-winning global research firm that specializes in environmental, social and governance (ESG) research and analysis. Sustainalytics aids global investors with responsible investment strategies, and partners with institutional investors to integrate ESG assessments into their investment decisions (Garz, 2014). For environmental scores, they assess firms' operations, supply chains and product & services; for society scores, they assess firms' employee relations, supply chains, customer relations and community &

philanthropy; and for governance score, they assess firms' business ethics, corporate governance, and public policy (Sustainalytics, 2014). They form these scores through reviews of company reporting; referencing external sources including international media reports, NGO reports and industry publications; analysis by analysts and sector specialists; as well as through company feedback (Sustainalytics, 2014).

Sustainalytics aggregates measures on each of Environment, Social and Governance performance and weights them (according to importance to sector) for a comparative group average of over 2000 firms, giving each an overall comparable group average measured score out of 100 (for a full list of the performance measures, see appendix 4). For instance, Alcoa's overall score was derived from a weighted average score of Environment (25%); Social (35%) and Governance (40%), while Bank of America's was weighted as Environment (30%); Social (35%) and Governance (35%).

In this study, we narrowed the number of companies to the specific focus to 98 firms based on their importance to Canadian investors, with a preference for the Report on Business' Top 1000, which lists Canada's top firms by profits each year, and on the S&P/TSX Composition Index, which accounts for about 70% of the market capitalization of all Canadian-based companies listed on the Toronto Stock Exchange (Brearton, Gross, & Ranny, 2005). In addition to their financial merit to the Canadian economy, these companies were chosen because of their inherent *dirty* nature. In addition to being heavy polluters, the energy, materials and utilities sectors tend to be comprised of heavy industrial corporations, who are intensive in other inputs, such as energy, land, and raw materials (Mani & Wheeler, 1997). It would be expected that of all sectors, companies whose core business activities are *dirty* and inherently detrimental to the environment in

particular might overlook the financial benefits of strong corporate social performance practices and investments. Essentially, if the equivocal link between strong corporate social performances does lead to strong corporate financial performance, it will be evident in the most scrutinized of industries and sectors for CSP. In addition to this expectation, the fact that the Toronto Stock Exchange is closely tied to these sectors, with fossil fuel companies accounting for roughly 24% of the entire TSX market capitalization (Lee, 2013) also lent additional admission for this particular sample of companies.

Management and economic literature uses a host of financial performance measures, such commonly used measures are ROA (Return on Assets), and EBITDA (Earnings Before Interest Taxes Depreciation and Amortization). This study uses the 2009 NIBT (Net Income Before Taxes) of these 98 firms to assess firm financial performance, a financial performance measure that has been used in a number of studies (Boubakri & Cossset, 1998; Weston & Mansinghka, 1971; Bracker, Keats & Pearson, 1988) as well as in an empirical investigation of the CSP-CFP relationship by Ruf, Muralidhar, Brown, Janney, & Paul (2001). The Financial performance values in this study were provided, and were based on a five-year Net Present Value of companies' Net Income Before Taxes (NIBT).

Essentially, this is a calculation that takes given revenue and subtracts the expenses of their activities for a comparable figure, and reduces the influence that each company's interest and debt structures, as well as regional variations in taxation and associated accounting practices would have on the subject companies. Net Present Value was calculated using the formula:

$$NIBT = [NIBT_I * (1 + r)^I]$$

NIBT (2008-2009) = ((NIBT_2008 * ((1+0.02371) ** 1)) + NIBT_2009)/5

With ‘r’ representing the annual rate of change in the Canadian Consumer Price Index, and ‘i’ referring to the number of years removed from 2009, the base year NPV. In addition to being a measure of financial solvency, NIBT points to an indication of a company’s nominal amount their financial resources, a measure closely tied to CSP investments. Initially, this study was to control for the financial performance of each company from 2005-2008 under the guiding premise that previous financial success over the past few years would impact current CSP. However, the findings by Daniel et al (2002) that current year performance SLACK is a more reliable indicator of financial resources than is a lag of a few prior years, as well as Mahoney and Roberts (2007) study of a positive correlation between CSP-CFP over a one-year lag, changed the logic of that guiding premise; leading to instead account for just the previous year (2008) NIBT and how that contributes to current CSP (2009).

4.3 Variables

4.3.1 Dependent Variables

The CSID scores in this dataset reflect some of the ‘dirtiest’ companies and industries in Canada; a common approach to defining ‘dirty industries’ is to select sectors high on emission intensity, which measures emissions to estimate the production’s pollution intensity (Bommer, 1998). In addition to being pollution-intensive, these tend to be weight-reducing industries – using large amounts of energy to transform large-scale raw materials into primary inputs for industrial production (Mani & Wheeler, 1997). Given the energy-intensive, weight-reducing nature of companies in these sectors, a few

particular CSID scores would be of importance. Specifically, these would be (1) community and society; and (2) environment score, since these are most pertinent to societal discourse that scrutinizes these types of companies (Dierkes and Preston, 1997; Patten, 1991), and as a result would be most closely managed by TMT than any other CSID measure. In addition to these, (3) Aboriginal Relations Score; (4) Impact on Society Score; (5) Corporate Governance Score; (6) Employee Score; (7) Environment Management Systems Score; (8) Public Reporting Score; and (9) Human Rights scores, would also all be particular importance to the TMT of these companies.

However, as noted, CSP is not a catchall construct – a firm can be a strong performer in one area of social performance and also be a poor performer in another. The value of the Sustainalytics data is that the company encompasses the performance measures of each company on the dozens of CSID performance measures to aggregate each performance measure of a company's CSP into continuous variables of environment, society, and governance scores that permit a more in-depth analysis. Therefore, there was no sense in comparing specific CSID measures, and that the merit of how/what about TMT composition that drives CSP when more encompassing scores existed. For the list of all CSID measures, see appendix 5.

The dataset also includes the Net Income Before Taxes (NIBT) in 2009. This data was derived from company financial annual reports and was used as the measure of long-term corporate financial performance (CFP).

4.3.2 Explanatory Variable

Executive Tenure

As discussed in the literature review, research points to executive tenure as one of most important drivers of the influence that TMT have on organizations (Finkelstein, 2009; Thomas & Simerly, 1995), since it serves as an indicator of how well the individual/teams understands their industry, organization, economic environment, and various needs of all stakeholders, and how to best cater to those needs.

Executive tenure refers to how long the individual spent on the top management team up to 2009. In the calculation of this explanatory variable, tenure was not a specific measure of how long that a person spent in their role, or in a TMT position, but rather was a measure of the number of years that they would have influenced the strategic direction of the company, as part of the top management team. That is, had an individual served a full calendar 12-month period on the TMT or only 1 month on the team, both were documented as a year of tenure in this study. For example, if an executive joined a company in November 2007 and left the company in January 2009, it was recorded as 3 years of tenure, as oppose to the 15 months of actual service. To be any more specific than this would be to parse out tenure on a monthly basis, which draws feasibility concerns, since the sources used to find TMT tenure only referred to the calendar years that an individual had spent at the organization. This inherent limitation is discussed in the limitations section of this thesis

4.3.3. Control Variables

To garner against internal validity problems, the study must control for some particular variables. Internal validity pertains to the confidence of the cause-effect relationship in an experiment, and a failure to isolate these control variables can lead to confounding variables that may ruin the experiment (Shuttleworth, 2014). Control variables are any other variable, aside from the variables being tested that are held constant because they could influence the results of the study. These variables are held constant so that the relative impact of the independent variables can be properly isolated and studied (Baron & Kenny, 1986). Therefore, controlling for these variables will reduce the effects of omitted variables and will allow for a more direct analysis of the aspects of TMT composition on CSP, and how CSP links to CFP.

This study uses many of the same control variables as Waddock and Graves (1997). The authors operationalized industry differences, firm age, and firm size, as they were factors that were said to affect both firm performance and CSP. Slack resources are another variable that was controlled for as it provides an indication of the financial resource availability for CSP.

Industry Differences

The variation in the conduct of business of companies across the economy required us to control for industry difference in choosing which companies to analyze. For instance, managing CO^2 emissions or water efficiency use would apply to an Oil and Gas company and would both be used as part of their core indicator, and sector CSID score. Banks, on the other hand, would have EMS programs pertaining to paper recycling

programs and electricity energy consumption, but not have a system for CO^2 emissions. Dierkes and Preston (1997) found that firms dependent on the environment or natural resource exploitation are subject to stronger environmental controls than companies in other sectors. This is largely attributed to the fact that these companies are the most scrutinized in public discourse (Patten, 1991).

Industry differences must be controlled for since there are clear differences in performance and levels of R&D investment across various industries (Waddock & Graves, 1997). To adequately capture CSP in these varied industries, comparisons had to be made between companies and their respective peer groups. This aligns with the results of Daniel et al (2002), that it makes more sense for companies to achieve high slack resource levels relative to their peers than to achieve high levels in an absolute sense. For instance, an oil and gas company with strong CSP, particularly in the form of an excellent environmental management system, would still emit more emissions than would a poor CSP operating financial institution. The selection of our specific 98 companies stretched across nine industries into three sectors: (1) Energy; (2) Materials; (3) Utilities. The specific industries in the energy sector are: (i) energy equipment and services; (ii) Oil and Gas; the materials sector is comprised of (i) chemicals; (ii) containers & packaging; (iii) metals & mining; (iv) paper & forestry products; and the utilities sector is made up of (i) gas utilities; (ii) electrical utilities; (iii) multi-utilities & unregulated; The selection of these sectors was intended to control for industry differences, and was another reason for restricting the selection of companies to the dirtiest of the economy, as oppose to a more varied mixture of companies from various industries.

Aside from controlling for industry differences, management science literature requires some firm level control variables. Firm headquarters (HQ) location, age, and size have all been used as control variables. Of these variables, the latter two of age and size were particularly pertinent to this study. Firm headquarters location may influence social performance as the societal expectation in some countries would be much more stringent than in others. The earlier example of companies from western European countries having better CSP and held to a higher standard by their various stakeholders than are companies from "pollution-haven" countries necessitates firm HQ to be controlled for in studies with a data set comprised of companies originating from multiple countries. Given that this study focused on Canadian companies, firm HQ would be a moot variable, and thus was not included.

Firm Age

Studies, such as Orlitzky and Benjamin (2001), found that as companies grow, that their ethical awareness does also. Continual growth is inherent in capitalistic survival; so as firms start off small and grow each year, their CSP improves with age. Cochran and Wood (1984) found that age of the firm is inversely related to investment in CSP; that is, investments in CSP initiatives are more expensive the younger the firm is, since establishing these performance measures in the first place tend to be more expensive than is having to alter them later. In this study, firm age in 2009 was calculated as 2009 minus the year that the company was founded.

Firm Size

In addition to strong return on assets and growth in operating income, McGuire et al (1988) found that the size of a company's total assets (size) was positively associated with a firm's reputation as being socially responsible. Waddock and Graves (1997) first posited that as a firm gets larger, so does their responsibility to behave responsibly because larger companies are more likely to be cognizant of their relationship with societal stakeholders than would smaller companies. More, Orlitzky and Benjamin (2001) found that smaller companies strategize around basic survival, and it is when they grow in size that they can shift their focus to more ethical responsibilities. Kimberly (1976) noted that in economic literature any of (1) number of employees, (2) total asset value, or (3) total sales has been used as a measure of company size, as they similarly correlate to each other. To permit the comparison of the firms in this data set, this study used a natural log of the 2009 total asset value of each firm as a proxy for firm size. Using the natural log of total assets, as oppose to the financial value itself, is common in economic and management literature as it intends to control for any issues of non-linearity or problems with heteroskedasticity; in addition to being a more accurate representation and ease in calculation (Salami & Iddirisu, 2011).

Prior Financial Slack Resources

In measuring how TMT tenure affects each firm's environmental, social, and governance performance, the study needed to also control for each company's available slack resources to determine the available resources that each company could potentially have used to addresses these.CSP initiatives. The logic from Daniel et al (2002) permits

the use of previous year financial results instead of a lag average of multiple previous years, which was shown to be less robust. In addition to Daniel et al (2002), Mahoney and Roberts' (2007) study found a positive correlation between CSP-CFP over a one-year lag.

This study controlled for organizational SLACK, which again, refers to the excess and uncommitted liquidity a firm has available to them after accounting for the business expenses of normal operations, and is regarded as a resource for TMT to strategically utilize (Daniel et al, 2002). Given that the variability of SLACK amongst companies within and across different industries and sectors will differ, it is imperative that it be used as a control variable. This information was found on the same company annual reports that were used to collect the Top Management Team members and used the current ratio formula (current assets / current liabilities) to come up with it. Given the conclusions of Daniel et al's (2002) third hypothesis, that the relationship between SLACK and financial performance is strongest for studies using current year slack vs. lag of previous years, this study only controlled for 2009 company SLACK (2009 current assets / 2009 current liabilities).

5. Data Collection

As Nielsen and Nielsen (2013) outline, the TMT team is referred to the list of executives stated in the company Annual Report. To capture the entire TMT composition in 2009, we had to find and review each annual report for each of the 98 firms for that year. The information provided on company annual reports differed from a full biographical description of the executives, to simple listing of name and position.

The first step in the data collection process was to find as many of the annual reports as possible, with each respective company website as our starting point, collecting as many annual reports from there as were available. All the annual reports that could not be sourced from the company website were downloaded from Sedar.

Sedar is the System for Electronic Document Analysis and Retrieval and serves "as electronic filing system for the disclosure documents of mostly all public companies and investment funds across Canada" (SEDAR, FAQ, 2014). These public documents are legally required by the Canadian Securities Administrators and filed with the Canadian exchanges, and Sedar provides access to the basic profile of information about any publicly traded company. These documents are predominantly annual reports, but also include other filings such as CEO turnover changes or amendments to previously filed reports.

As stated in the research design section, it was expected that WRDS would prove an invaluable resource and provide most the TMT composition and the specific variables that were to be investigated. In actuality, this was not the case. WRDS was able to provide a detailed composition of company Board of Directors, and since most of the firms that were analyzed had CEO-BOD duality, WRDS provided some insight into the

composition of the company CEO. This however, was only a snippet of the TMT composition. It was expected that supplemental searches were only going to be necessary for smaller TMT members (read: executive EVPs, corporate secretaries, comptrollers, etc.), however the lack of results from WRDS made individual searches the main source for attaining TMT composition.

The majority of annual reports listed the names of the TMT, while including a small biography on their Board of Directors. Some annual reports had a bio on the TMT as well, which included most of the positions that an individual had severed in the organization, and therefore, also on the TMT r. However, to find the majority of people required an independent Google search of each person listed in the 2009 annual report. For the most part, the name and current role of the individual was included, which did not provide the history of their tenure with the organization or on the TMT. The tenure of these individuals was found via four websites: ZoomInfo; Forbes; Bloomberg; and LinkedIn. Each of these was valued for their credible information, ability to cross-reference to validate the authenticity of the information, and in some cases, their unique information that the other web sources did not have.

5.1 Bloomberg

Bloomberg Market Data provides insight and analytics to the S&P/TSX Composite and other markets, with a variety of financial performance measures (Bloomberg, 2014). It addition to providing a snapshot of stock performance information on most North American publicly listed companies, it provided an overview of the company’s core businesses and links to recent articles related to the company’s key

developments, such as declarations of quarterly dividends. Another key aspect of Bloomberg is that it provides a current snapshot of the top corporate officers. These biographies of chief executives are in depth, and provided most of historical tenure that every TMT member was searched for. The biographies outlined the past experience of the individual, and provided a glimpse of their functional experiences, when they brought those experiences and started to serve the current company, and any prior experience.

5.2 Forbes

Similar to Bloomberg BusinessWeek, Forbes lists a profile of executives providing insight to their functional and employment experience. These profiles are not as in depth as Bloomberg or ZoomInfo; they do however, list some individuals that were on the 2009 annual report, but for whom no other source had information for, and also served as a cross-reference to other web sources.

5.3 ZoomInfo

ZoomInfo is a vertical search engine that focuses on constantly verified information of companies and employees, collaborating information from all places B2B professionals search for business data (ZoomInfo, 2014). In addition to being user friendly and providing links to the sources of the complied information, the value of ZoomInfo came from its ability to capture some of the lesser known executives that Bloomberg and Forbes did not cover. The reliability of this information came from its 3rd party association to it – they're not authors or owners of the content, but compile a collection of sources out there in a quick snapshot.

5.4 LinkedIn

The value of LinkedIn is in its authenticity, since the individuals themselves write them. LinkedIn is the world's largest professional network with over 300 million global members (LinkedIn, 2014) and was the primary source of information for the TMT members that were not a part of the Chief Executives or had Bloomberg BusinessWeek or Forbes profiles on them. A limitation of LinkedIn stemmed from the variability in public profiles – some individuals completed their profiles with significant information including their university, program and graduating year, while others provided very limited information.

6. Results

For environmental performance (H1), the model for tenure on environment score performance was not significant (F: .530; R^2: .005; B: -.196; p = .468).

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.074[a]	.005	-.005	9.81649	.005	.530	1	96	.468

a. Predictors: (Constant), TMT_Tenure

b. Dependent Variable: Environment_Score

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	47.309	2.288		20.677	.000
	TMT_Tenure	-.196	.269	-.074	-.728	.468

a. Dependent Variable: Environment_Score

When the control variables were stepped in, the model improved and was significant (F: 5.777; R^2: .199; p = .468), though TMT tenure predictability was not (B: -.196; SE: .247; p=.562). The Pearson Correlation table below shows how firm- age, size, and slack were all positively related to environmental performance, but that TMT tenure was slightly negatively correlated. The coefficient table demonstrates how the model effects for environmental performance were driven by each of the control variables but not by TMT tenure. Thus, hypothesis 1 was not supported.

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.446[a]	.199	.165	8.95071	.199	5.777	4	93	.000

a. Predictors: (Constant), C3_Ln_Assets_proxy_size, TMT_Tenure, C1_FIRM_SLACK_2009, C2_FIRM_AGE

b. Dependent Variable: Environment_Score

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1851.278	4	462.820	5.777	.000[b]
	Residual	7450.707	93	80.115		
	Total	9301.985	97			

a. Dependent Variable: Environment_Score

b. Predictors: (Constant), C3_Ln_Assets_proxy_size, TMT_Tenure, C1_FIRM_SLACK_2009, C2_FIRM_AGE

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.036	16.221		.064	.949
	TMT_Tenure	-.144	.247	-.054	-.581	.562
	C1_FIRM_SLACK_2009	.649	.334	.189	1.942	.055
	C2_FIRM_AGE	.090	.037	.248	2.422	.017
	C3_Ln_Assets_proxy_size	1.922	.744	.275	2.582	.011

a. Dependent Variable: Environment_Score

Correlations

		Environment_Score	TMT_Tenure	C1_FIRM_SLACK_2009	C2_FIRM_AGE	C3_Ln_Assets_proxy_size
Pearson Correlation	Environment_Score	1.000	-.074	.097	.347	.329
	TMT_Tenure	-.074	1.000	-.068	.031	-.053
	C1_FIRM_SLACK_2009	.097	-.068	1.000	-.075	-.279
	C2_FIRM_AGE	.347	.031	-.075	1.000	.417
	C3_Ln_Assets_proxy_size	.329	-.053	-.279	.417	1.000
Sig. (1-tailed)	Environment_Score	.	.234	.172	.000	.000
	TMT_Tenure	.234	.	.254	.382	.301
	C1_FIRM_SLACK_2009	.172	.254	.	.230	.003
	C2_FIRM_AGE	.000	.382	.230	.	.000
	C3_Ln_Assets_proxy_size	.000	.301	.003	.000	.
N	Environment_Score	98	98	98	98	98
	TMT_Tenure	98	98	98	98	98
	C1_FIRM_SLACK_2009	98	98	98	98	98
	C2_FIRM_AGE	98	98	98	98	98
	C3_Ln_Assets_proxy_size	98	98	98	98	98

For society performance (H2), the model for tenure on society score performance was not significant (F: 1.319; R^2: .014; B: .269; p = .254).

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.116[a]	.014	.003	8.54691	.014	1.319	1	96	.254

a. Predictors: (Constant), TMT_Tenure

b. Dependent Variable: Society_Score

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	46.963	1.992		23.575	.000
	TMT_Tenure	.269	.234	.116	1.149	.254

a. Dependent Variable: Society_Score

When the control variables were stepped in, the model improved and was significant (F: 3.857; R^2: .142; p = .006), though TMT tenure predictability was not (B:

.279; SE: .224; p=.216). The Pearson Correlation table below shows how firm- age, slack and its TMT tenure were all positively related to society performance, but that firm size was slightly negatively correlated. The significance values the coefficient table demonstrates how the model effects for society score was driven by the size of the firm (B: 1.636; SE: .673; p=.017) and not by firm- slack resources, age, or tenure of their management team. Thus, hypothesis 2 was not supported.

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.377[a]	.142	.105	8.09722	.142	3.857	4	93	.006

a. Predictors: (Constant), C3_Ln_Assets_proxy_size, TMT_Tenure, C1_FIRM_SLACK_2009, C2_FIRM_AGE

b. Dependent Variable: Society_Score

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1011.607	4	252.902	3.857	.006[b]
	Residual	6097.539	93	65.565		
	Total	7109.146	97			

a. Dependent Variable: Society_Score

b. Predictors: (Constant), C3_Ln_Assets_proxy_size, TMT_Tenure, C1_FIRM_SLACK_2009, C2_FIRM_AGE

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	11.548	14.674		.787	.433
	TMT_Tenure	.279	.224	.121	1.246	.216
	C1_FIRM_SLACK_2009	-.338	.302	-.112	-1.119	.266
	C2_FIRM_AGE	.027	.034	.084	.794	.429
	C3_Ln_Assets_proxy_size	1.636	.673	.268	2.429	.017

a. Dependent Variable: Society_Score

Correlations

		Society_Score	TMT_Tenure	C1_FIRM_SLACK_2009	C2_FIRM_AGE	C3_Ln_Assets_proxy_size
Pearson Correlation	Society_Score	1.000	.116	-.202	.208	.328
	TMT_Tenure	.116	1.000	-.068	.031	-.053
	C1_FIRM_SLACK_2009	-.202	-.068	1.000	-.075	-.279
	C2_FIRM_AGE	.208	.031	-.075	1.000	.417
	C3_Ln_Assets_proxy_size	.328	-.053	-.279	.417	1.000
Sig. (1-tailed)	Society_Score	.	.127	.023	.020	.000
	TMT_Tenure	.127	.	.254	.382	.301
	C1_FIRM_SLACK_2009	.023	.254	.	.230	.003
	C2_FIRM_AGE	.020	.382	.230	.	.000
	C3_Ln_Assets_proxy_size	.000	.301	.003	.000	.
N	Society_Score	98	98	98	98	98
	TMT_Tenure	98	98	98	98	98
	C1_FIRM_SLACK_2009	98	98	98	98	98
	C2_FIRM_AGE	98	98	98	98	98
	C3_Ln_Assets_proxy_size	98	98	98	98	98

For governance performance (H3), the model for tenure on governance score performance was not significant (F: 1.079; R^2: .011; B: -.248; p = .302).

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.105[a]	.011	.001	8.70737	.011	1.079	1	96	.302

a. Predictors: (Constant), TMT_Tenure

b. Dependent Variable: Governance_Score

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	62.168	2.030		30.632	.000
	TMT_Tenure	-.248	.239	-.105	-1.039	.302

a. Dependent Variable: Governance_Score

When the control variables were stepped in, the model improved and was significant (F: 2.535; R^2: .098; p = .045), though TMT tenure predictability was not (B: -.234; SE: .233; p=.318). The Pearson Correlation table below shows how firm- age and size were positively related to governance performance, but that tenure and slack resources was slightly negatively correlated. The coefficient value table and demonstrate how the model effects for governance score was driven by the size of the firm (B: 1.494; SE: .703; p=.036) and not firm- slack resources, age, or tenure of their management team. Thus, hypothesis 3 was also not supported.

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.314[a]	.098	.060	8.44767	.098	2.535	4	93	.045

a. Predictors: (Constant), C3_Ln_Assets_proxy_size, TMT_Tenure, C1_FIRM_SLACK_2009, C2_FIRM_AGE

b. Dependent Variable: Governance_Score

Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	29.942	15.309		1.956	.053
	TMT_Tenure	-.234	.233	-.100	-1.003	.318
	C1_FIRM_SLACK_2009	-.251	.315	-.082	-.796	.428
	C2_FIRM_AGE	.014	.035	.045	.411	.682
	C3_Ln_Assets_proxy_size	1.494	.703	.241	2.127	.036

a. Dependent Variable: Governance_Score

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	723.582	4	180.895	2.535	.045[b]
	Residual	6636.770	93	71.363		
	Total	7360.352	97			

a. Dependent Variable: Governance_Score

b. Predictors: (Constant), C3_Ln_Assets_proxy_size, TMT_Tenure, C1_FIRM_SLACK_2009, C2_FIRM_AGE

Correlations

		Governance_Score	TMT_Tenure	C1_FIRM_SLACK_2009	C2_FIRM_AGE	C3_Ln_Assets_proxy_size
Pearson Correlation	Governance_Score	1.000	-.105	-.146	.148	.288
	TMT_Tenure	-.105	1.000	-.068	.031	-.053
	C1_FIRM_SLACK_2009	-.146	-.068	1.000	-.075	-.279
	C2_FIRM_AGE	.148	.031	-.075	1.000	.417
	C3_Ln_Assets_proxy_size	.288	-.053	-.279	.417	1.000
Sig. (1-tailed)	Governance_Score	.	.151	.076	.073	.002
	TMT_Tenure	.151	.	.254	.382	.301
	C1_FIRM_SLACK_2009	.076	.254	.	.230	.003
	C2_FIRM_AGE	.073	.382	.230	.	.000
	C3_Ln_Assets_proxy_size	.002	.301	.003	.000	.
N	Governance_Score	98	98	98	98	98
	TMT_Tenure	98	98	98	98	98
	C1_FIRM_SLACK_2009	98	98	98	98	98
	C2_FIRM_AGE	98	98	98	98	98
	C3_Ln_Assets_proxy_size	98	98	98	98	98

. Similar to the regression steps in hypothesis 1-3, the first steps in assessing hypotheses 4-6 (the effects of CSP on CFP) was to assess the results without control variables. Overall, the model was significant (F: 4.019; R^2: .114; $p < 0.05$) (see below).

	Profitability (2009 NIBT)
(Constant)	-6.244
	SE: 1.903
	Sig:..001
Environment Score	.002
	SE: .026
	.948
Society Score	.025
	SE: .028
	.378
Governance Score	.082
	SE: .028
	.005
Model Summary / ANOVA Results	R2 = .114
	Sig. = .010
	F-Ratio 4.019

Of the environment, society and governance scores, only hypothesis 3c, that a better governance score would lead to better corporate financial performance was significant (B: 0.082; SE: .028; $p < 0.05$) would have been supported under these conditions. Hypothesis 3a (environment score) and 3b (society score) would both have been rejected.

Again, similar to the steps in hypothesis 2, it was necessary to add control variables that would factor into the analysis, and in this case, that was previous year financial performance (2008 NIBT). The results showed that when accounted for previous year's financial performance, the model itself was significant (F: 60.815; R^2: .712; $p < 0.05$), but the impact of environment, society, and governance scores were all essentially washed and became insignificant; in instance, governance score changed (B: 0.006; SE: .017; $p = 0.714$). Thus, hypotheses 4, 5, and 6 were not supported.

	Profitability (2009 NIBT)
(Constant)	.294
	SE: 1.162
	Sig:.801
Environment Score	-.004
	SE: .014
	.785
Society Score	-.017
	SE: .016
	.294
Governance Score	.006
	SE: .017
	.714
Control: 2008 NIBT	.851
	SE: .059
	.000
Model Summary / ANOVA Results	R2 = .712
	Sig. = .000
	F-Ratio 60.815

7. Discussion

The goal of this study was to assess the effects of TMT tenure on corporate social performance, and if this had an effect on CFP, to further add to the literature of a correlational link between CSP-CFP. The results of all six hypotheses were not supported, since TMT tenure did not have a significant impact on environmental, social, or governance scores when the control variables were added, and when the 2008 NIBT control was added to hypotheses 4-6, environmental, social, and governance scores had no effect on 2009 NIBT.

Addressed in the next section is how the possibility of having too small a sample size, and the effect of having too many explanatory and control variables for the number of companies, could have contributed to the inconclusive nature of the results. Appendix 3 shows the histograms for environment, society, and governance score and how each of them is not evenly distributed. With a mean score of 45.81 (SD 9.793), the Environment chart was the closest to an even distribution yet is tailed to the right, indicating that most of the companies that do fall short of the mean score of 45.81 fall within the first standard deviation, or an environment score of at least 36 out of 100. The tail to the right indicates that there is more variance with the companies that performed better than average; with some fairly close to the mean, while others well out performing the other companies in the dataset. This shows that while most companies will be somewhat close to one another in environmental performance, very few companies will be comparatively far worse than their peer average, and the ones who do perform better environmentally differ considerably in how much better they are than the peer average.

The society score chart (appendix 3) is less clear. With a mean of 49.03 (SD=8.561), the distribution has some characteristics of a binomial distribution around two means. The histogram shows that though the average is 49.03, very few companies score close to that mean, but most fit within the first standard deviation (score between 40.47 and 57.59). Similar to the environment score, the number of companies that do fall outside the first standard deviation scored above 57.59 which shows that few companies will fall far behind their peers on society measures - employee relations, supply chains, customer relations, and community & philanthropy. Interestingly, all the companies were within two standard deviations (31.91 - 66.15) except for Trinidad Drilling Ltd., which had a society score of 76.3 out of 100.

The Governance histogram indicates that companies clustered somewhat close to the mean of 60.27 (SD= 8.711) and that the ones who fell -1SD from the mean were much closer to mean than those that were +1SD above the mean. This graph shows that while most companies fall close to the mean score, there was more variance in companies, with more companies that were -2SD from the mean than on environment and society scores. The selection of companies differed most on governance score and was the score with the widest variance between the minimum [with Vermilion Energy Trust (33.30) falling -3SD from the mean] and maximum [with Talisman Energy Inc. (84.50) nearly +3SD from the mean].

As mentioned, the limitations of having a large number of explanatory and control variables for the size of the sample (N=98) lack of significant result findings. The one commonality that was seen however was that the most support for these models came from firm size and firm age. This alludes to Orlitzky and Benjamin (2001) findings that

as firms grow, so too does their ethical awareness; as well as to McGuire et al (1988) and Waddock & Graves (1997) findings that larger firms, and as firms grow, so too does their obligations to be socially responsible since they are more recognized and scrutinized by different stakeholders. Therefore, it could be that for Environment performance, it does not matter, for firms in the dirtiest sectors of the economy, who is running the organization or what their compositions are, the reason that they perform better environmentally is because firm age and firm size transcend any effect that the management team's tenure would have on shaping environmental initiatives.

The results of hypotheses 4-6 allude to the inherent capitalistic nature of the link CSP-CFP in the finding with these companies. In the first model, when previous year's profitability was not controlled for, the model was significant (F: 4.019; R^2: .114; $p < 0.05$) and governance score had a significant impact on the model (B: .082; SE: .028; $p < .05$). However, when previous year's financial results were taken into account and controlled for, the model actually became more predictive (F: 60.815; R^2: .712; $p < 0.05$) and the results showed that the previous year's financial results was the most significant (B: .851; SE: .059; $p < 0.05$) and essentially washed any effects that ESG scores had on the model, as seen in the large jump in R^2. Again, these results show that above all else, irrespective of McGuire et al (1988) and Waddock & Graves (1997) findings that larger firms tend to be more socially responsible, previous year's financial performance was more indicative of present financial success than any part of a firm's ESG performance.

8. Implications

8.1 Theoretical Implications

The main research objective of this study was to assess how the effect of TMT tenure steers, firm social and financial performance. The results of hypothesis 1-3 showed that TMT tenure did not have a significant impact on the environmental, society, and governance scores for this selection of companies from the energy, materials and utilities sectors. This counters the results of Thomas & Simerly (1995) that found tenure to have a significant impact, at least for these sectors and list of companies. Though, as outlined in the limitations section, the drawbacks of this particular dataset could be why tenure was not shown to be significant.

The results of hypothesis six seems to provide some insight into the financial benefit of good governance performance - business ethics, corporate governance, and strong public policy - leads to better financial performance, and adds to the literature that Waddock and Graves (2003) outlined - that there is a correlational link between CSP and CFP and that there is an inherent value proposition involved with being a good social performer on the company's bottom line. Caution has to be taken with this implication because of the resounding impact that previous year financial results had on the study.

8.2 Managerial Implications

There are several managerial implications that can be derived from this study. First, the link in hypothesis 3 that shows a significant relationship with governance performance adds to the correlational link between CSP-CFP in the literature, and should help guide management decision making to not disregard performance measures on

business ethics, corporate governance, and public policy, which may not be directly attributed to shareholders. This highlights the underscored value proposition inherent in good firm social governance, and that management recognizing more stakeholders will consequently lead to more profitable firms.

Second, the results of firm social performance leading to better financial performance outlines has marketing implications for management teams. It was noted that consumers trust companies that perform better socially, and as consumers continue to expect more from companies that operate in society, incorporating actual social performance measures into marketing and strategic efforts might be fruitful. This is meant to go above “Greenwashing” which is more a matter of spinning the narrative that a company is a strong corporate social performer. As government mandates and legislations of more transparency grow, marketing efforts that incorporate these performance scores and highlight how a company is better than their peers in terms of CSP should also increase in prevalence. It will not be sufficient to have a “greenwashed” narrative to marketing communications, backing these up with comparative performance scores will resonate with consumers as these government mandates take hold and companies must report on all performance measures and not just the ones they choose to report at their discretion.

9. Limitations and Suggestions for Future Research

Several important limitations to this study deserve consideration, especially given the lackluster results. The first is a fallacy of research of using a continuous variable for correlational data - that just because two things perfectly correlate, it does not necessarily mean that it indicates direction. That is, it could be that better CSP leads to better long term CFP, and this is how companies ought to operate, but could also be that performing worse than industry average peers has a similar negative effect on CFP. So it is not that being outstanding CSP will lead to better CFP, but that the market reacts real negatively if a company is a very bad CSP and punishes them financially, which is the same correlation. While the logic of this study is sound, that longer tenured teams leads to more impact of TMT personal reflections in decisions and that this leads to better CSP and CFP, there is a limitation in using a continuous variable to infer that more (read: better CSP) is better, when it could very be that less (read: worse CSP) is actually much worse.

Another limitation was the inability to create an index value of TMT composition that could be more illuminating of the overall effects of TMT composition on CSP. The logic of using tenure to test hypothesis 1, 2, and 3 is sound, but it would have been much stronger to test TMT as one value, using more latent measures than just TMT tenure to comprise it.

The next limitation is related to the interpretation of TMT tenure. The logic is sound for the data that was accessible – that if they spent any time on the TMT that year, they would have had some influence on the strategic direction of the company. However, it is conceivable that had an individual who had spent 12 months of a year on the TMT

versus another who only spent a single month would have had a greater impact on the company's strategic direction, yet both individuals were recorded as serving the same year. The limitation was due to most sources only providing the year in which the individual started, and in some cases finished, with the company. An ability to parse out tenure by months of service could potentially provide a much clearer picture of the impact of tenure.

Another variable related limitation is related to the control variable of industry differences and the inability to operationalize these in the dataset. While it is discussed in the literature review, and regarded as a necessary control in management and economic literature, the codes to do this were missing from this dataset and therefore restricted our ability to parse out these differences and control for them.

In line with the limitation in Finkelstein and Hambrick (1990), this study is also limited by concerns of causality. In their study, the authors outline that while their theory and logic imply that executive tenure 'causes' organizational outcomes, it is impossible to draw decisive conclusions regarding the causal direction. This study follows a similar temporal ordering of the seven TMT composition factors on corporate social and financial performance, and since it does so in a specific time (i.e. 2009), it is not offside to say that TMT composition for a company and its organizational outcomes mutually reinforce one another. In line with this notion, TMT comprised of long-tenured members tend to follow stable corporate strategies and rarely change their executive leadership, highlighting the reinforcement loop between composition and corporate outcomes (Finkelstein and Hambrick, 1990).

The final and most important limitation is related to its restricted focus. This data set was provided so the study made the best of what was there. A more expansive dataset of more companies from these sectors, as well as from other sectors would certainly have improved the results and made the implications much stronger. And while though choosing to test these sectors was based on sound theoretical reasoning, the inconclusive results do not help that much with helping create a much more definitive CSP-CFP correlational link that was initially intended. While the sectors focused on would be the most scrutinized for their corporate social performance, especially environmental scores, it still is only a small snippet of three sectors; this restricted focus and limited sample size therefore raises problematic questions of power and effect sizes, in addition to having such a large number of explanatory and control variables relative to the size of the data set (N=98). The driving factors that distinguish TMT compositions in these sectors could perhaps be different in other industries and sectors, or show greater significance when compared to more. Therefore, extending this study to media, banking, consumer retail, for instance, would provide more parsimony to the study's conclusions. In addition to this, the frequency distributions outlined in appendix 3 and expanded on in the discussion section may be more evenly distributed if all or more of the companies that Sustainalytics covers are included, which would incorporate more sectors and parts of the economy.

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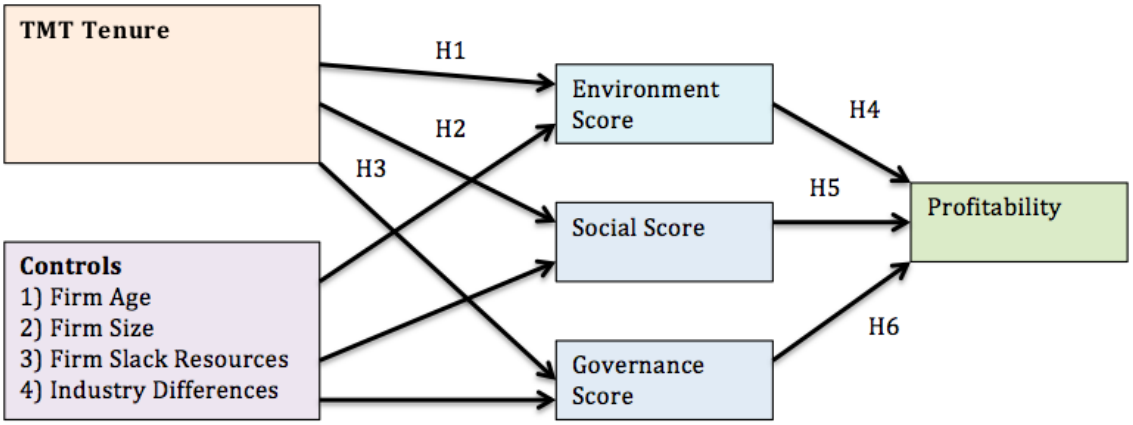
11. Appendices

11.1 Conceptual Model



11.2 Descriptive and Frequencies Statistics

Descriptive Statistics

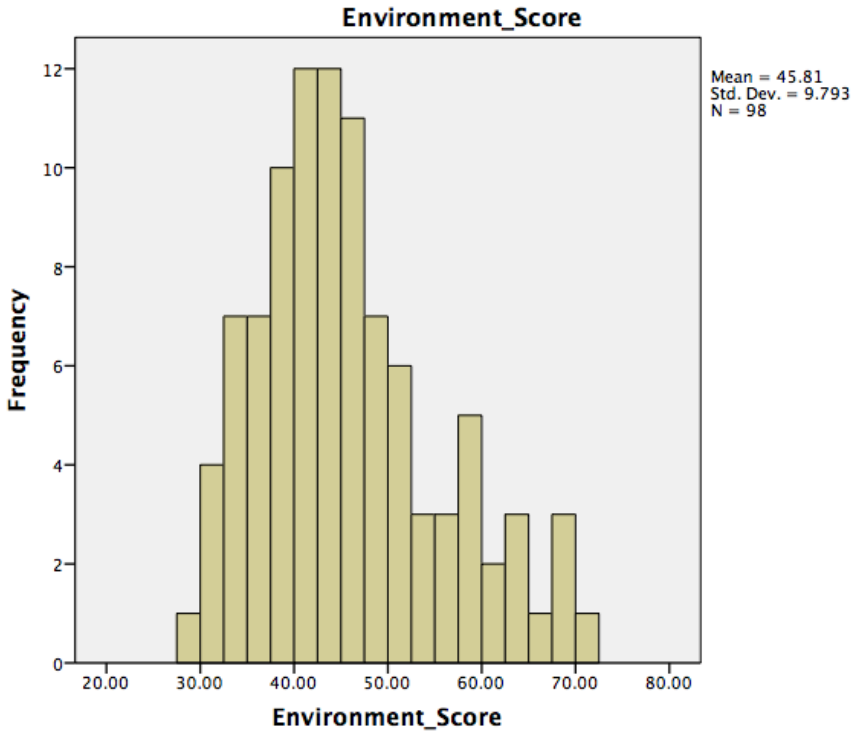
	N	Minimum	Maximum	Mean	Std. Deviation	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
TMT_Tenure	98	1.6	22.7	7.662	3.7034	1.666	.244	4.407	.483
C1_FIRM_SLACK_2009	98	.369	15.570	2.45433	2.847334	3.152	.244	11.223	.483
C2_FIRM_AGE	98	2	129	30.47	27.040	1.627	.244	2.261	.483
C3_Ln_Assets_proxy_size	98	17.19	24.97	21.6143	1.40314	.038	.244	.240	.483
Valid N (listwise)	98								

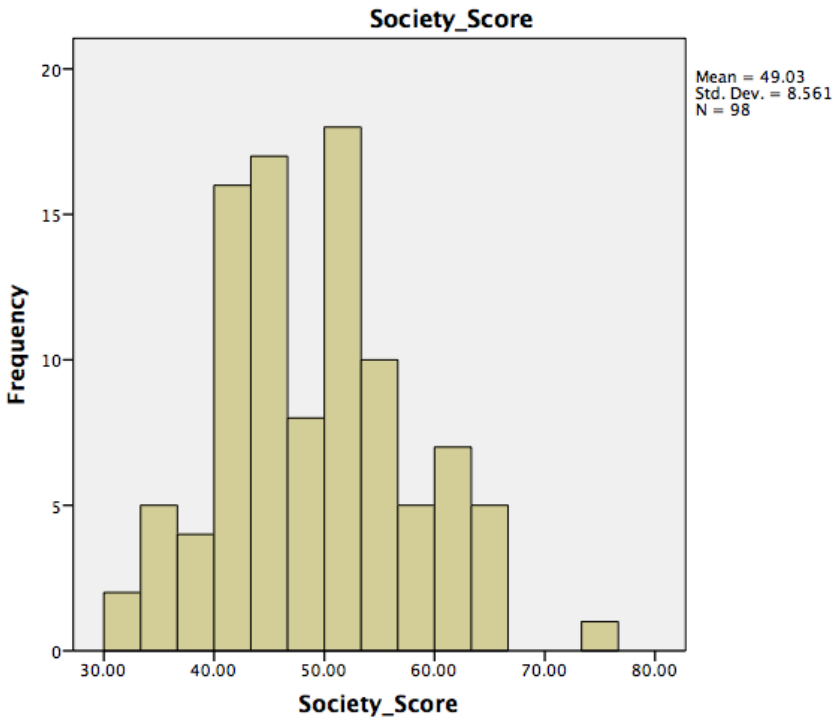
Statistics

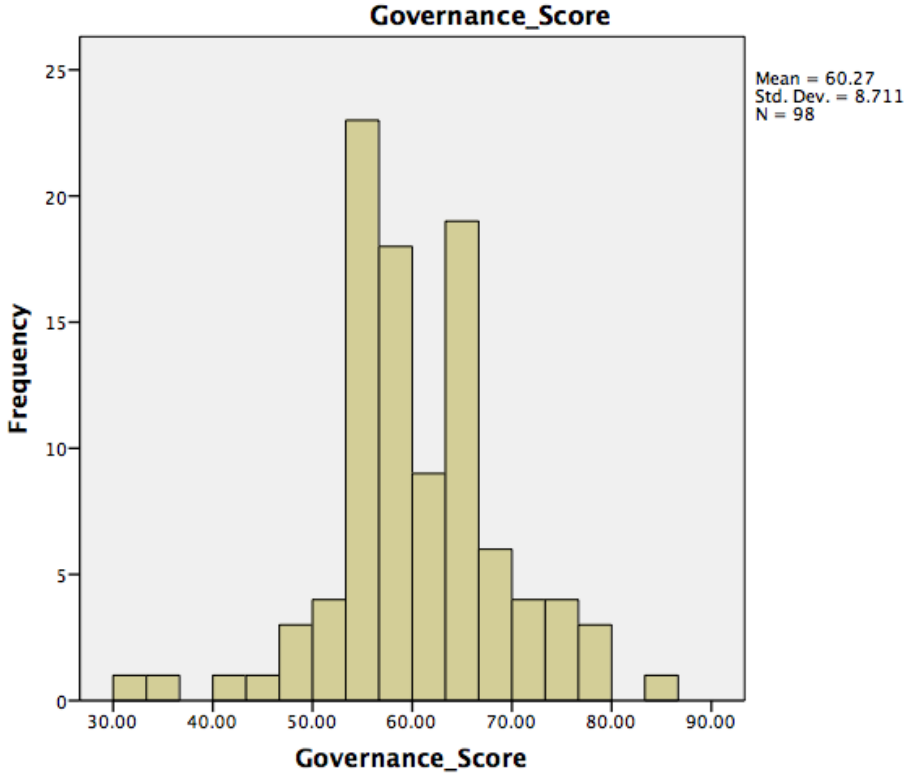
		TMT_Tenure	C1_FIRM_SLACK_2009	C2_FIRM_AGE	C3_Ln_Assets_proxy_size
N	Valid	98	98	98	98
	Missing	0	0	0	0
Mean		7.662	2.45433	30.47	21.6143
Median		7.183	1.58600	21.00	21.4593
Mode		4.0[a]	2.180[a]	15	17.19[a]
Skewness		1.666	3.152	1.627	.038
Std. Error of Skewness		.244	.244	.244	.244
Kurtosis		4.407	11.223	2.261	.240
Std. Error of Kurtosis		.483	.483	.483	.483

a. Multiple modes exist. The smallest value is shown

11.3 Hypothesis 2 – Frequency Tables






Governance_Score
Mean = 60.27
Std. Dev. = 8.711
N = 98
Frequency
25
20
15
10
5
0
30.00
40.00
50.00
60.00
70.00
80.00
90.00
Governance_Score

11.4 CSID Data Set Description

Company Name
Ticker– TSX symbol

Industries are split into three sectors
Sector: Industry

(1): Energy Equipment & Services
(1): Oil & Gas
(2): Chemicals
(2): Containers and Packaging
(2): Metals & Mining
(2): Paper and Forest Products
(3): Electric Utilities
(3): Gas Utilities
(3): Multi-Utilities & Unregulated

Rank of N – CSR ranking
O_Score – Overall Score
O_Rank – Overall Ranking
O_ind_score – Overall Indexed Score
CandS_S – Community and Society Score
CandS_R – Community and Society Ranking
CandS_PGA – Community and Society Peer Group Average
PR_S – Public Reporting Score
PR_R – Public Reporting Ranking
PR_PGA – Public Reporting Peer Group Average
CDP_S – Charitable Donations Program Score
CDP_R – Charitable Donations Program Ranking
CDP_PGA – Charitable Donations Program Peer Group Average
CR_S – Community Relations Score
CR_R – Community Relations Ranking
CR_PGA – Community Relations Peer Group Average
AR_S – Aboriginal Relations Score
AR_R – Aboriginal Relations Ranking
AR_PGA – Aboriginal Relations Peer Group Average
IS_S – Impact on Society Score
IS_R - Impact on Society Ranking
IS_PGA – Impact on Society Peer Group Average
CG_S – Corporate Governance Score
CG_R – Corporate Governance Ranking
CG_PGA – Corporate Governance Peer Group Average
CGMS_S - Corporate Governance Management Systems Score
CGMS_R - Corporate Governance Management Systems Ranking
CGMS_PGA - Corporate Governance Management Systems Peer Group Average

GD_S – Governance Data Score
GD_R – Governance Data Ranking
GD_PGA – Governance Data Peer Group Average
Em_S – Employees Score
Em_R – Employees Ranking
Em_PGA – Employee Peer Group Average
EPB_S – Employee Programs and Benefits Score
EPB_R – Employee Programs and Benefits Ranking
EPB_PGA – Employee Programs and Benefits Peer Group Average
Div_S – Diversity Score
Div_R – Diversity Ranking
Div_PGA – Diversity Peer Group Average
HS_S – Health & Safety Score
HS_R – Health & Safety Ranking
HS_PGA – Health & Safety Peer Group Average
UR_S – Union Relations Score
UR_R – Union Relations Ranking
UR_PGA – Union Relations Peer Group Average
OED_S – Other Employee Data Score
OED_R – Other Employee Data Ranking
OED_PGA – Other Employee Data Peer Group Average
En_S – Environment Score
En_R – Environment Ranking
En_PGA – Environment Peer Group Average
EMS_S – Environment Management Systems Score
EMS_R – Environment Management Systems Ranking
EMS_PGA – Environment Management Systems Peer Group Average
EPR_S – (Environment) Public Reporting Score
EPR_R – (Environment) Public Reporting Ranking
EPR_PGA – (Environment) Public Reporting Peer Group Average
II_S – Impact & Initiatives Score
II_R – Impact & Initiatives Ranking
II_PGA – Impact & Initiatives Peer Group Average
RC_S – Regulatory Compliance Score
RC_R – Regulatory Compliance Ranking
RC_PGA – Regulatory Compliance Peer Group Average
EIPS_S – Environmental Impact of Product/Service Score
EIP_R – Environmental Impact of Product/Service Ranking
EIP_PGA – Environmental Impact of Product/Service Peer Group Average
OEnD_S – Other Environmental Data Score
OEnD_R – Other Environmental Data Ranking
OEnD_PGA – Other Environmental Data Peer Group Average
HR_S - Human Right Score
HR_R - Human Right Ranking
HR_PGA - Human Right Peer Group Average

11.5 TMT Composition Collection Procedure - A snapshot of the collection process for Advantage Oil and Gas

Company + Individuals	Position	Tenure (years) at position (up until 2009) /// * indicates the earliest could find /// years do not refer to a full 12-month calendar year, but rather refers to the individual having at least some tenure in that calendar year (be it all 12 months or just 2)	Joined organization // * indicates the earliest could find // (How long have they spent with the same company?)	Tenure (years) on TMT (How long had they been a part of the TMT up to 2009)	CEO Age in 2009	Functional experience going into 2009. Assumed to be Canadian experience, unless otherwise stated. If Canada + international, Canada to be listed.	Education/Degrees and Designations //// Limitation: this represents their current education as of 2014; most just listed what the education was, not the year earrned. Limitation since if any were earned after 2009, they're moot to the data, but recorded here. Education more than likely attained prior to joining the company, so would be few cases, if any, but should be noted as a potential limitation nonetheless
Advantage Oil and Gas Ltd.							
Kelly I. Drader	President & CEO	(2001-2009) 9	2001	001-2009) 9	48	Management / Finance - 15 years	B.Comm (Canada); CA
Patrick J. Cairns	SVP	(2001-2009) 9	2001	001-2009) 9	n/a	Engineering/Operations - 15 years	P.Eng
Gary F. Bourgeois	VP, Corporate Development	(2001-2009) 9	2001	001-2009) 9	n/a	Finance	n/a
Peter A. Hanrahan	Vice President, Finance & CFO	(2003-2009) 7	2001	001-2009) 9	n/a	Finance - 10 years	B. Comm (Canada); CA
Rick P. Mazurkewich	Vice President, Operations	(1998-2009) 12	1998	98-2009) 12	n/a	Engineering/Operations - 20 years	ingeering - Petroleum) (Canada)
Weldon M. Kary	Vice President, Exploitation	(2005-2009) 5	2001	005-2009) 5	n/a	Engineering/Operations - 25 years	n/a

1) TMT International Experience: NA vs. International Experience // Measured as % of TMT memembers over the 5 years with any form of prior international experience	2) TMT Functional Diversity // Listed as the most frequent	Blau Index Calculations	Blau Index TMT functional diversity	3) TMT Education Diversity: 4 groups [(1) Undergraduate/Diploma; (2) Professional Designations; (3) Graduate/Legal/CFA; (4) PhD. / Terminal degree used for Blau index.	Blau Index Calculations	Blau Index for Education Diversity	4) CEO Age Diversity	5) TMT Tenure: Average tenure of TMTof 2009 team, irrespective of position.	6) TMT Size - 2009 team	7) Gender Diversity - % of women on 2009 TMT
0.00000	2	Finance (3/6)	0.75	2	Professional (3/4)	0.4375	48	8.833333	6	0
	3	0.5		2	0.75		n/a			
	2	0.25			0.56		n/a			
	2			2			n/a			
	3			1			n/a			
	3						n/a			