

CEO Characteristics and Environmental Decoupling: Does Personality Matter?

Since the outbreak of COVID-19 in 2019, sustainability, social value, and ethical behavior have become major government priorities and, as part of the UN Sustainable Development Goals, the social responsibility of firms and investors has become a main concern [1]. Consequently, firms face increased pressure to make their operations more socially responsible and prioritize environmental well-being. Nevertheless, some companies resort to false communication with stakeholders to gain legitimacy and maximize short-term profits, which has resulted in the phenomenon of environmental decoupling [2]. Environmental decoupling occurs when firms overstate their environmental performance to gain social legitimacy [2][3].

The motivation for firms to engage in environmental decoupling can stem from external as well as internal pressures [4]. For instance, the *Volkswagen Dieselgate scandal*, in which the automaker misreported vehicle emissions to meet regulatory standards, is a classic example of environmental decoupling in response to external pressures [5]. Research suggests that engaging in decoupling practices can also be triggered by internal stakeholders, particularly executive management. This can be the case, when a portion of CEOs' pay is tied to environmental performance, creating an incentive for CEOs to engage in environmental decoupling to maximize their pay. Extant literature shows that overconfident and more powerful CEOs are more likely to engage in environmental decoupling [4][2]. This indicates that the CEO's characteristics and personality traits may play a critical role in shaping the level of environmental decoupling within the organization.

This paper explores how CEO characteristics, specifically, the Big-Five personality traits, affect the level of environmental decoupling for publicly traded Canadian firms listed on the TSX Composite Index during 2010 – 2022. The Big-Five personality model incorporates five broad personality constructs: Conscientiousness, Emotional Stability, Agreeableness, Extraversion, and Openness to Experience. It is a widely accepted model for assessing personality and offers a strong framework to grasp essential distinctions in the personalities of high-level executives [6][7]. In the corporate governance literature, the model has been employed to study the effects of CEO personality on organizational culture [8], ethical misconduct [9], and firm performance [7].

The presence of environmental decoupling raises questions on the legitimacy of organizational claims to be socially responsible and challenges the effectiveness of corporate governance. Environmental decoupling undermines transparency, and, accountability, thereby weakening the principles of good governance [10]. Given the influence of executive management on environmental decoupling within an organization, it is important to explore how CEO characteristics affect the level of environmental decoupling. This research will provide unique insights into how CEO characteristics shape the environmental decoupling practices in Canada and inform stakeholders about the leadership traits that tend to be associated with higher instances of environmental decoupling. By linking leadership traits to environmental decoupling, the research will assist boards in selecting CEOs with strong ethical values and a genuine commitment to sustainability.

Using content analysis of earnings conference calls and a personality recognizer model [11][12][13], I will create a novel database of personality insights for Canadian CEOs. Environmental decoupling will be operationalized using the difference between the environmental disclosure score and the environmental performance score (as reported by the Bloomberg and Refinitiv databases) of sample firms [2]. Taking TSX Composite index as a sample and adopting a multiple linear regression approach, this will be the first study to explore the relationship between CEO characteristics and environmental decoupling in the Canadian context. Other CEO characteristics such as gender and education will also be examined.

References

- [1] UN General Assembly, Transforming our world: the 2030 Agenda for Sustainable Development, 21 October 2015, A/RES/70/1, available at: <https://www.refworld.org/docid/57b6e3e44.html> [accessed 9 May 2023]
- [2] Gull, A. A., Hussain, N., Khan, S. A., Mushtaq, R., & Orij, R. (2023). The power of CEO and environmental decoupling. *Business, Strategy and the Environment*, 1-14.
- [3] Marquis, C., Toeffel, M. W., & Zhou, Y. (2016). Scrutiny, norms, and selective disclosure: a global study of greenwashing. *Organization Science*, 27(2), 483-504.
- [4] Sauerwald, S., & Su, W. (2019). CEO overconfidence and CSR decoupling. *Corporate Governance: An International Review*, 27, 283-300.
- [5] Bouzzine, Y. D., & Lueg, R. (2020). The contagion effect of environmental violations: The case of Dieselgate in Germany. *Business, Strategy, and the Environment*, 29, 3187-3202.
- [6] Peterson, R. S., Smith, S. B., Martorana, P. V., & Owens, P. D. (2003). The impact of chief executive officer on top management team dynamics: One mechanism by which leadership affects organizational performance. *Journal of Applied Psychology*, 88(5), 795-808.
- [7] Nadkarni, S., & Herrmann, P. (2010). CEO personality, strategic flexibility, and firm performance: The case of the Indian business process outsourcing industry. *Academy of Management Journal*, 53(5), 1050-1073.
- [8] O'Reilly, C. A., Caldwell, D. F., Chatman, J. A., & Doerr, B. (2014). The promise and problems of organizational culture: CEO personality, culture, and firm performance. *Group & Organization Management*, 39(6), 595-625.
- [9] Scotter, J. R., & Roglio, K. D. (2020). CEO bright and dark personality: Effects on ethical misconduct. *Journal of Business Ethics*, 164, 451-475.
- [10] Delmas, M. A., & Burbano, V. C. (2011). The drivers of greenwashing. *California Management Review*, 54(1), 64-87.
- [11] Mairesse, F., Walker, M. A., Mehl, M. R., & Moore, R. K. (2007). Using linguistic cues for the automatic recognition of personality in conversation and text. *Journal of Artificial Intelligence Research*, 30, 457-500.
- [12] Malhotra, S., Winny, S., & Zhu, P. C. (2021). What is s(he) worth? Exploring mechanisms and boundary conditions of the relationship between CEO extraversion and pay. *British Journal of Management*, 32, 529-547.
- [13] Harrison, J. S., Thurgood, G. R., Boivie, S., & Pfarrer, M. D. (2019). Measuring CEO personality: Developing, validating, and testing a linguistic tool. *Strategic Management Journal*, 40, 1316-1330.