CEO Greed and Corporate Efforts Towards Environmental Protection

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Abstract. In recent decades, environmental protection has been a topic that the world has been working hard on. In the field of finance, companies can play a vital role in environmental protection. This paper will start from the research on the degree of CEO greed, and then explore the degree of its impact on environmental protection. The dissertation will use models as well as interview-assisted research methods. The research hypothesis is: CEO greed will have a negative impact on a company's environmental protection.

Keywords: Corporate finance · CEO greed · environmental protection · CEO overpayment · CEO's tenure

1 Introduction

Summarizing the views of previous scholars, most scholars believe that greedy CEOs have a negative impact on environmental protection. But these views are expressed indirectly, and few people have directly studied the relationship between the greed CEO and environmental protection. Hambrick and Wowak pointed out that the current corporate environment tends to have a short-term outlook, leading to firms staying away from activities that benefit the larger community [9]. Moreover, Mizruchi and Marshall thought the combination of ever-increasing quarterly revenue pressure and rapidly declining CEO tenure has led to an increasing emphasis on short-term decisions [17]. CEO salaries are closely related to company performance. When companies fail to meet their quarterly targets, this results in lower market capitalization. Kang mentioned that CEOs who are overly enthusiastic about accumulating material wealth are expected to obtain particularly obvious short-term benefits [13]. Therefore, they are unlikely to invest in environmental protection because using resources to tackle social issues requires short-term financial sacrifices, which can only be paid off in the long term.

This article will use overpaid agents as representatives of CEO greed, directly explore the relationship between CEO greed and environmental protection. It is hoped that it can bring some positive effects to the environmental protection process and help the company develop better in the long run.

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2 Theoretical Background

2.1 CEO Greed

As Wang and Murnighan state, greed can be understood as excessive pursuit of personal property [28]. This is seen as the "dark" end of the self-interested continuum, that is, excessive self-interest [11].

Wang and Murnighan also define greed as extending to a lack of compassion for the well-being of others [28]. Long-term social psychology research supports this view. For example, it has often been shown that in prison games and social dilemmas, greedy people are more willing to choose betrayal. This allows players to benefit in the short term at the expense of group welfare [2]. Aquino and Reed show through research that personal moral identity has a positive impact on voluntary service and donation behaviour [1].

The pursuit of personal wealth related to uncontrolled greed and pure selfishness is inconsistent with the collective interest [11]. Greed can be considered "unhealthy" for excessive self-interest, when positive self-concepts reach high levels and individuals become arrogant [11]. Even though self-interest is morally neutral, greed usually takes away moral responsibility [22]. Therefore, it is somewhat associated with moral identity, which means a person's innate tendency to obey the rules of socially constructed moral behaviour [1]. Pursuing self-interest to the detriment of others' well-being is considered immoral [22].

2.2 Environmental Protection

For decades, China's economy has developed rapidly. However, this development has come at a price. CO2 emissions have been increasing constantly, in line with urban economic growth [16]. The pollution caused by Chinese listed firms in heavily polluting industries has reached a critical stage. China is facing severe air, water, and soil pollution. As pointed out by China's environmental protection and law enforcement compliance assessment, the associated expected loss in China's GDP is almost 8% [18].

The basic goal of a commercial organisation is to achieve economic income and reduce risks. The outcomes of investments in environmental protection are often more socially beneficial than economically advantageous. However, investments in environmental protection usually result in operating expenses and loss of earnings, since they require a great deal of resources and dedicated personnel in the long run, which will certainly bring expense pressure to an organisation [20]. Current corporate management evaluation systems focus mainly on financial performance. Therefore, managers are more willing to distribute resources to high-yielding projects when making strategic investments, rather than to environmental projects.

While China has striven to build a complete system of environmental laws and regulations, it has become difficult to accomplish due to conflicts between local government and environmental protection departments [32]. There is a large amount of literature showing that a CEO's moral identity significantly influences a company's investment strategy. Sajko et al. found that CEO greed reduces the willingness to focus on stakeholder interests when making strategic decisions [23]. This leads to a reduction in corporate social

responsibility and long-term flexibility. To support this, Ormiston and Wong found that CEOs' moral identity is the primary driving factor of corporate social irresponsibility [19].

2.3 CEO Greed and Corporate Efforts in Environmental Protection

We expect to find a negative correlation between CEO greed and corporate protection of the environment, as greedy CEOs are less concerned that their decisions will affect the interests of stakeholders. In the process of an unscrupulous pursuit of wealth, a greedy CEO might grab a company's resources that could otherwise be invested in tackling social issues. Furthermore, they may even endanger the safety of employees and cause severe damage to environment, as was the case with the Gulf of Mexico oil spill in 2010 [12]. In addition, even when companies face growing pressures from institutional participants devoted to social welfare [27], greedy executives are less likely to participate in debates about employee satisfaction or organisational interests, as long as these pressures do not endanger their wealth [12]. Moreover, the opportunistic tendencies of greedy CEOs are inconsistent with the long-term fates of organisations or a commitment to establish strong stakeholder relationships, as these CEOs are more likely to leave a company in search of material wealth, seek higher compensation or prestige elsewhere [12].

3 Research Related Variables

3.1 Independent Variable

To assess CEO greed, we will follow the advice of Haynes et al. [11], who created a new programme for making unobtrusive measurements. It does not require creating structural discrimination and forecast validity. Instead, the authors conducted multiple interviews with managers and industry analysts, a process which also provides empirical evidence of greed that is clear and independent of its associated structures (e.g. arrogance).

This article will use three overpaid agents as representatives of CEO greed [11]. Different aspects of unusual pay can be represented based on the following aspects: (a) market perception of an appropriate compensation model; (b) compensation in the same company (salary of the second highest-paid executive); and (c) the executive's known predictor of compensation based on expected salary. All three indicators represent the extra wealth acquired, which is the result of the underlying variable: namely greed or excessive desire for material wealth. Assessing achievable compensation patterns to measure greed allows us to apply unobtrusive indicators in data collection. The original data collection method based on a large company sample is not credible due to both the low response rate and the sensitivity of the subject, which is expected to lead to serious social expectations bias. Furthermore, as for CEO compensation, weakness in wealth is less likely to be reflected in unusually high pay, as a board's primary function is to assess and determine executive compensation [8]. This means that high scores measured using the compensation-based greed method are more likely to derive from the actual pursuit of wealth than from coincident results.

The first indicator is additional compensation measured in dollars; that is, compensation that is not correctly classified as wages, bonuses, or long-term rewards within a

year [11]. This variable reflects the use of various allowances, such as agent costs and rent withdrawals. It is not acceptable to use shareholders in the compensation model to reflect management capabilities [30]. The fact that most executives in the S&P 1500 have no additional compensation and that there is a slight correlation between allowances and company size supports this point of view [11]. The second indicator is salary difference, which is found by taking the CEO's cash salary and dividing it by the salary of the second highest-paid executive [11]. CEOs have a significant impact on their TMT compensation [3]. Therefore, a large pay gap indicates the existence of a very greedy CEO, given that an uneven allocation of resources is the primary consequence of greed [28]. The third indicator is CEO overpayment, which can be defined as the part of CEO compensation that cannot be expressed by company-level factors and background [11]. According to the standard method, we have fixed the effects of CEO renewal, CEO tenure, CEO dual identity, independent director ratio, company size, company risk, sales growth, ROA, and annual fixed effects. In order to capture the excess of executive compensation, when the remainder is positive, we use the residual of the CEO compensation regression to measure CEO overpayment; otherwise, the value is zero [11]. To create the greedy CEO variable, we will link three representatives by using principle component analysis and varimax rotation [11].

3.2 Dependent Variable

At the company level, environmental costs include items related to environmental protection (e.g. sulphur dioxide removal projects, denitrification projects, wastewater treatment, etc.) We will then add all relevant costs to a company's environmental costs. Based on empirical experience, we will use the natural logarithm of the company's environmental costs as our dependent variable, called EnvCost.

3.3 Control Variables

We will combine year and industry model variables (according to the standard two-digit industry classification codes) to show macroeconomic volatility and industry membership. In line with previous studies, we will control many of the company-level covariates related to environmental protection. The first of these is pre-example protection, which is the measure of the environmental protection value of a company in the year before the CEO's first sample observation [29]. We will also control ROA, which is defined as the ratio of earnings before non-specialty items to the book value of the company assets [25] and the size of the company as measured by the logarithm of the company's sales [8]. In addition, unused resources are measured by the logarithm of the long-term debt to market value ratio. This surplus of resources gives managers more opportunities to invest in non-economic goals [24]. Research and development (R&D) intensity is measured by the logarithm of the ratio of R&D spending to sales plus one. Earlier research has shown that R&D is closely related to environmental protection [15]. Additionally, it has been shown that institutional investors are crucial in forcing CEOs to implement short- and long-term strategies [31]. Furthermore, compared to the short-term vision of temporary investors, professional investors prefer to focus on long-term investment [5]. Based on this, we will control dedicated ownership and temporary ownership indicators, which

respectively represent the number of shares owned by dedicated institutional investors or temporary institutional investors divided by the total number of issued shares. In addition, according to the research of Hart et al., the independence and composition of the board of directors are related to environmental protection [10]. Therefore, we will control the independence of the board of directors, which is defined as the proportion of independent directors on the board of directors.

At the CEO level, we will select several variables that are relevant to CEO power and human capital. The first one is CEO externality, which represents the sum of the core CEO's previous work experience in reverse-standardised companies and industries [14]. The second one is the duality of the CEO, which is considered as a dummy variable. If the CEO concurrently holds the chairmanship or other positions, the value is 1 [29]. The third indicator is the CEO's tenure, which is measured by the logarithm of the CEO's tenure [21]. In addition, while analysing the impact of CEO greed, it is crucial to distinguish it from the impact of CEO salary level and salary structure [11]. Therefore, for the CEO's salary structure, we will include the CEO's predicted salary (based on the CEO salary return of the CEO's greedy agent) in the control of the CEO's salary level, salary, and stock options, plus the CEO's total salary and moderator bonus and restricted stock.

4 Conclusion

This article focuses on the field of corporate finance, analyse whether CEO greed will have an impact on company's environmental protection, and we come up the Hypothesis that CEO greed will have a negative impact on a company's environmental protection. Meanwhile, this article controls the variables and use the method of interview throughout the analyse. However, the research method adopted in this paper may be difficult and complicated to realize in real life. Hoping this analyse could bring both theoretical and practical meanings to the research on environmental protection.

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