Passion of Executives and Financial Salvation

Changmin Lee
Hanyang University Business School
222 Wangsimni-ro, Seongdong-gu
Seoul, Korea, 133-791
changmin74@hanyang.ac.kr

Hansoo Choi
Korea Institute of Public Finance
1924 Hannuri-daero
Sejong, Korea, 339-007
hansoo.choi1@gmail.com

Hyoung-Goo Kang*
Department of Finance
Hanyang University Business School
222 Wangsimni-ro, Seongdong-gu
Seoul, Korea, 133-791
hyoungkang@hanyang.ac.kr

Abstract: Existing literature argues that ethical managers are valuable to firms, and ethics is an important capability of managers and organization. Then, the more the ethical capability of a manager, the more the compensation to the manager. However, we find that the managers with questionable ethics tend to be paid higher. This pattern is more salient for controlling-shareholder executives. This suggests several possibilities. First, ethical managers are less valuable to a firm than loyal ones. Second, ethical managers are less valuable to the subgroups holding the hegemony of organization. Other possibilities are corporate governance issues such as the collusion between wrongdoers and organization, corruption, and generosity. Our results suggest important implications on corporate governance, system risk, organizational corruption, the challenges to law-governed economy and the tradeoff between firm level and society level optimality.

Keyword: Financial ethics, conviction, executive compensation, corporate governance

* Correspond to hyoungkang@hanyang.ac.kr

An influential and conventional perspective is that ethical managers are valuable to firms. Many scholars even argue that ethics is an important goal of a firm (Freeman 1984; Wicks et al 2009). For example, ethical behaviors create trust, satisfaction, intangible assets or more broadly social capital with stakeholders, which enhances competitive advantage, long-term performance and legitimacy of firms (Hosmer 1994; Jones 1995; Donaldson and Preston 1995; Berman et al., 1999; Jones and Wicks 1999; Fombrun et al 2000; Berrone et al 2007). Ethical managers can be strategically important as well. They can be strategic resources or capabilities in conducting nonmarket strategies so as to create synergy with market strategies and develop integrated strategies (Baron 1995; Robertson and Crittenden 2003). Indeed, ethics is an important variable for nonmarket environment (Baron 2003). Ethical managers can also help investment decision making, risk management, opportunism, investor relations. Such perspective ("conventional view" hereafter) is especially influential in management and strategy literature (Fombrun, 1996; Waddock and Graves, 1997; Hillman and Keim, 2001; Orlitzky et al., 2003; Hummels and Timme, 2004; Sethi, 2005; Fombrun and Foss, 2004). Indeed, senior financial executives make ethical decisions under the pressure of market stakeholders such as suppliers, customers and shareholders (Stevens et al 2005). Corporate ethical identity of a firm positively influence the satisfaction of stakeholders, which in turn improves the financial performance of the firm (Berrone et al, 2007).

Let us suppose that ethical managers are strategic resources and valuable in accomplishing the goal of firms, formulating nonmarket strategies, enhancing long term performance, organizational culture and organization. Then, firms should regard ethical managers valuable as well and should pay large to them. In other words, firms should pay an executive small if she/he is questionable on business ethics. Furthermore, if an executive had been convicted, his/her compensation should be low. Thus, the conventional view implies following hypothesis which we test empirically.

> Hypothesis 1: If an executive had been convicted, her/his compensation should be lower than those without conviction history.

Data

All publicly disclosed data on the compensation to executives are collected (N = 641 samples). Then, the data about retired executives are removed so as to obtain 556 samples because the compensation to the retired includes severance pay. Severance pay is subject to years of service, which should be excluded for our analysis. Our final sample size is 545 or 546 depending on the data about independent variables.

We focus on cash compensation, the sum of base salary, bonus and other cash incentive. Bonus includes incentive pay, performance sensitive pay and special payment reported as the compensation to performance.

Stock option are excluded because of our data problem for the Korean sample. Publicly disclosed stock option value includes only the value of already exercised options, i.e. exercised payoff. Hence, it excludes the true of value of option contract, usually computed with Black Sholes formula in the Compustat Executive Compensation Database about US samples. Furthermore, we have only 24 observations that have positive values on stock option.

We retrieve the information about each executive's pay from a firm's compensation report required by the Korean government. 25.1% of all listed companies provide the information on more than one executive's pay (38.9% and 15.0% of KOSPI and KOSDAQ

listed firms). Out of total executives in our sample, 7.5% (11.5% and 4.0% of KOSPI and KOSDAQ listed firms) receive more than 500 million Korean Won. Table 1 describes variables (observation years), definitions (data source) and average (standard deviation).

******* Insert Table 1 *******

Empirical Results

Table 2 shows our main regression results. Two results are salient. First, the executives with conviction history receive significantly more. Conviction experience increases cash compensation by 380 million Korean won or 360,000 USD. This contrasts the implications of the conventional view that ethically questionable executives will receive less than ethical executives because ethical executives are valuable to a firm.

Second, once we include the interaction term between conviction and controlling shareholder, the conviction dummy becomes insignificant, but the interaction term is significant. Hence, only the executives who are also controlling shareholders receive more compensation if they have conviction experience. Professional managers without conviction do not receive more. Hence, whether executives are controlling shareholders or not, the result do not support the hypothesis that ethically questionable executives are less compensated than ethical ones.

Figure 1 demonstrate that professional executives receive similar compensation whether they have conviction experience or not. However, the compensation of controlling-shareholder executives are significantly higher when they had been convicted than when they had not. In other words, controlling-shareholder executives tend to compensate themselves if they had had hard time of conviction.

******* Insert Table 2 and Figure 1 *******

For the other variables, the compensation increases with family ownership, chairmanship in a board, firm size (market value and revenue) and market to book ratio. This result is in line with existing literature. First, this result corresponds to the research on the size of executive compensations, their sharp increase and the economics of superstars (Rosen 1981; Tervio, 2008; Cuñat and Guadalupe, 2008; Gabaix and Landier, 2008). They mainly argue: (1) The CEO's pay depends on their marginal contribution to the value of a firm; (2) These contributions are determined according to the scale of the company under the control of CEO; (3) Firms compete with each other in order to find a talented CEO, and CEOs' market value determines their pays. The increase of CEO compensation for the last 30 years occurs due to the change of their qualification and responsibility; "superstars" receive a large amount of compensation is because firms focus more towards general skills rather than firm-specific skills in the process of CEO selection (Garicano and Rossi-Hansberg, 2006; Giannetti 2006). Other studies argue that the higher compensation is a reward for more managerial uncertainties (Mueller, 2005; Dow and Raposo, 2005). Our finding that ethically questionable managers enjoy high compensation adds another view on this line of literature. Instead of the superstar view on executives, our result may suggest a supervillain view.

Second, our result extends the studies that the executive compensation relies on managerial power. Since shareholders are not able to monitor executives, executives take some profit that shareholders are supposed to receive. This is called a managerial entrenchment of rent seeking. Bebchuck and Fried (2003) argue that the compensation of

CEO is high when their power is strong in a firm. Studies indicate strong CEO power as follows: (1) when the boards of directors are comparatively weaker or they do not have monitoring capability (Core, Holthausen and Larcker, 1999; Cyert, Kang, and Kumar, 2002, Cyert, Kang, and Kumar, 2002), (2) when there is no large outside shareholder (Shleifer and Vishny, 1986; Bertrand and Mullainathan, 2001; Benz, Kucher, and Stutzer, 2001; Cyert, Kang, and Kumar, 2002), (3) when there is no or little institutional shareholder (David, Kochar and Levitas, 1998; Hartzell and Starks. 2003), (4) when a firm has anti-takeover method (Borokhovich, Brunarski and Parrio, 1997; Agrawal and Knoeber, 1998; Cheng, Nagar, and Rajan, 2001). Many studies explore the relationship between those factors and CEO pay. They find that CEO pay increases when the CEO's power is strong. In comparison, we find that ethically questionable executives who are also a powerful controlling shareholder compensate themselves on their conviction history. This result suggest a specific case about how managerial power affect compensation and whether managerial power works in ethical ways.

We also analyze whether corporate governance affects our finding. We find that affiliation in large business group, outside director ratio, executive share ratio, largest shareholder and affiliate person ratio and board size do not affect the compensation as well as its relationship with conviction.

Hermalin (2005) suggests that firms should pay more to a CEO with better corporate governance. Since CEO pay is determined by the bargaining process between a CEO and a board, a firm should compensate for the higher risk of dismissal resulting from tight monitoring. Until now, there has not been any empirical evidence about this claim. We analyze how a family CEO (controlling shareholder) compensates himself especially for the history of lawsuit.

Our finding also contribute to the optimal contracting literature in the context of business ethics. These studies include Jensen and Mackling (1979), as well as Jensen and Murphy (1990), Holmstorm and Kaplan (2001, 2003), Inderst and Cuñat and Guadalupe (2008), Gayle and Miller (2009), Edmans, Gabaix, and Landier (2009), and Gregory-Smith (2012). Those studies tend to focus on pay-to-performance sensitivity. We investigate 'pay-to-ethical performance' sensitivity. This analysis offers new insight on the optimal contracting literature and calls for further research on the relationship between ethical performance and contracting.

Interpretations and Implications

What drive our results? There are skeptics who argue that business ethics are irrelevant to firm value (Friedman 1970; Jensen 2001; Schwab 1996). Our results do not automatically support the skeptics although the results may cast doubt on the conventional view. Many explanations, albeit highly related with each other, about our results are plausible.

Organizational collusion: The collusion between wrongdoers and organization is possible. An organization can financially compensate the executives who conducted dirty missions for it. The guilt and passion of the executives may signal their loyalty to an organization or at least to powerful internal stakeholders. This may resemble the mafia culture in which the crime family offers protection and power if a soldato serves out prison terms without complaint. In our sample, the firms provide protection to convicted executives by increasing or at least not decreasing their compensations.

Organizational corruption: Our samples are all Korean firms. Thus, the Korean firms are possibly corrupt. Business ethics might be unappreciated at all. However, this conjecture does not account for why the compensation to ethically questionable executives are even higher than the others. Possibly, in a corrupt organization, everyone can be convicted; convicted executives can be regarded unlucky; thus executives will require insurance against conviction. Then, our finding suggests a shady insurance mechanism against the legal misfortune.

Self-salvation to their passion: Having been convicted, a controlling-shareholder executive may worry that the other employees believe that she/he lost prestige, dignity, honor and legitimacy to lead an organization. Then, the controlling-shareholder executive can attempt to prove himself through money; By paying large compensation to themselves, the controlling-shareholder executives may want to demonstrate that they are still powerful and even become more productive; They can intend to showcase that the loyalty to them is at least as much valuable as ethics and consciousness for internal stakeholders; They signal that they have received salvation and become clean after their passion around conviction. In analogy, the Bible argues that God saves human beings on the passion of the Christ who is innocent; our result preaches that controlling-shareholder executives may save themselves on the passion of themselves who are guilty.

Begin-again: Korean firms are maybe generous. Thus, they are willing to give a second chance to convicted executives. This can enlarge the pool of human capital available to a firm. It can even increase the organizational citizenship behavior if a formerly convicted executive becomes the model of a born-again. Nevertheless, this conjecture may not explain why convicted executives are not penalized at all in their cash compensation although possibly hurt in intangible ways.

All the explanations suggest important implications on corporate governance, system risk, organizational corruption, the challenges to law-governed economy and the tradeoff between firm level and society level optimality.

First, the empirical patterns we identified can be morally undesirable especially from the perspective of virtue ethics. They may hint the genuine attitude of firms on morality and ethics. This contradicts the Aristolean view of social institutions as the guardians against corruption and irresponsibility and as the promoters for virtues.

Second, even if it is optimal to treat financially well those ethically questionable executives, this can be suboptimal from the perspective of society. This can even create system risk, become a challenge to law-governed society, and promote vice to hurt the society in the long run. If the convicted are appreciated in organizations, this in turn systematically encourages more serious and frequent misconducts in a society.

Third, in relation to the second point, our finding demonstrates the conflict and complementarity between corporate governance and social governance as well as corporate social responsibility. In particular, the large compensation on convicted-controlling-shareholder executives hint that the system of corporate governance is not working properly. This in turn can lead to the failure on social governance. The corporate governance optimally chosen at firm level may generate negative externality to social governance. We believe this dialectics between corporate governance and social governance suggests a promising research agenda for scholars.

Conclusion and Future Research

An important question is whether the ethics of managers affect the financial performance of a firm. This paper takes an indirect approach to answer the question. It is a common view that managers should be ethical, and firms should appreciate ethical managers; Ethical managers constitute strategic resource and capability of a firm, especially in undertaking nonmarket strategy. If such conventional view is right, ethical executives should receive more compensation than ethically questionable ones. Surprisingly, we find that ethically questionable executives are better paid. Furthermore, controlling-shareholder executives are particularly more compensated if they have conviction experience. This analysis offers large implications on the interaction between corporate and social governance, top management team, human resource, and business ethics.

We analyze only Korean firms. Other countries with more individualist and less collectivist cultures can demonstrate different pattern. In addition, while the Korean legal system is civil law, many other states adopt common law system and so can show distinct phenomenon. Future research can also classify the guilt of convicted executives. Then, it can analyze how the careers of the executives are affected by the types of guilt and conviction. Qualitative studies or deeper case studies may reveal the detailed conducts and possibly minds of convicted executives.

Nevertheless, we believe this research makes important contribution to organization, law, management and business ethics. As far as we know, this is the first research on how organizations financially treats ethically questionable executives and how the power of executives moderates the relationship. This result suggest important challenges to scholars as well as to legal, business and policy people in practice.

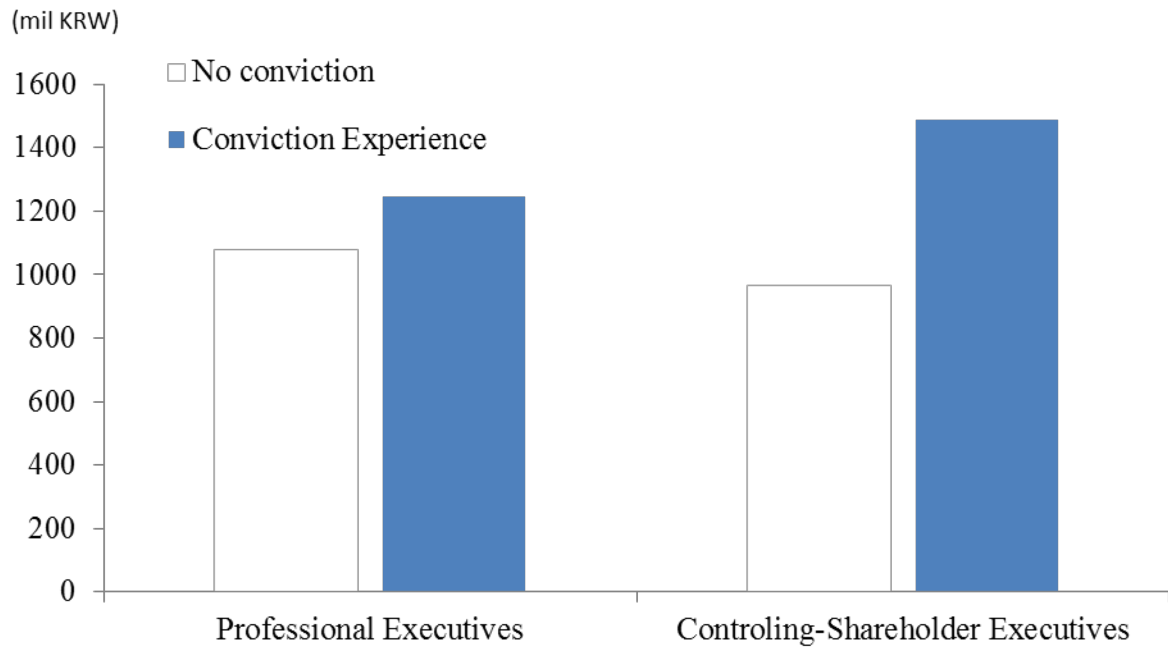
Table 1: Variable Definition and Descriptive Statistics
Table 1 describes variables (observation years), definitions (data source) and average (standard deviation).

Variables	Definition (Data Source)	Average (Stdev)
Executive Pay		
Cash Compensation (2013, in million)	Salary + Bonus + Other Incentives (Annual Report)	1116.7000 (1027.8942)
Salary (2013, in million)	Base Salary (Annual Report)	752.8400 (593.2811)
Bonus (2013, in million)	Cash Bonus (Annual Report)	195.4300 (319.5248)
Other Incentives (2013, in million)	Other Cash Incentives (Annual Report)	168.4100 (625.8312)
Others (2013, in million)	Ambiguous (Annual Report)	10.2320 (12.3877)
Lawsuit Characteristics		
Indictment	If the executive experienced any indictment for corporate crime, it takes value 1, otherwise 0. (Media)	0.1853 (0.3888)
Executives Characteristics		
Executive Age (2013, yrs)	Executive age in 2013 (Annual Report)	59.1295 (8.7367)
Family Ownership	Common shares held by family members (Annual Report)	0.5683 (0.4958)
Firm Characteristics		
Large Business Group (LBG)	If the firm is a member of a large business group, it takes value 1, otherwise 0. (Fair Trade Commission)	0.4514 (0.4987)
Total Asset (2012, in million)	Total Asset (Fnguide)	10784312.0613 (33835609.4033)
Sales (2012, in million)	Sales (Fnguide)	7664730337.7548 (22150350816.816)
Market Value of Equity (2012, in million)	Number of Shares * Price (Fnguide)	4506475.4265 (16944922.6023)
Leverage (2012)	Total Debt / Total Asset (Fnguide)	0.4998 (0.2037)
MTB (2012)	Market to Book: (Number of Shares * Price) / Book Value of Equity (Fnguide)	1.4824 (1.5838)
ROA (2012)	Net Income / Total Asset (Fnguide)	0.0465 (0.0804)
ROE (2012)	Net Income / Total Equity (Fnguide)	0.0804 (0.1717)
Stock Return (2012)	(Fnguide)	0.1551 (0.4359)
Industry Adjusted ROA (2012)	ROA - Average Industry ROA (Fnguide)	0.0369 (0.0790)
Industry Adjusted ROE (2012)	ROE - Average Industry ROE (Fnguide)	0.0780 (0.1695)
Industry Adjusted Stock Return (2012)	Stock Return - Average Industry Return (Fnguide)	0.0440 (0.3437)
Governance Characteristics		
Board Size (2012)	Inside director plus outside director (TS2000)	7.2156 (2.1135)
Outside Director Ratio (2012, %)	Ratio of Outside director within the board (TS2000)	0.3854 (0.1859)
Executive Share Ratio (2012, %)	Ratio of shares owned by the executives (Public Data)	0.0859 (0.1299)
Largest Shareholder and Affiliate Person Ratio (2012, %)	Ratio of shares owned by largest shareholder and affiliate person (Public Data)	0.3902 (0.1620)

Table 2: Cash Compensations (Base Salary+Bonus+Other Cash Incentive) Regression
Dependent variable is cash compensation. Industry fixed effects are all included. Intercepts are insignificant in all specification. Standard errors are in parenthesis. See Table 1 for the description on independent variables. *,**,*** denotes significance at 10%, 5%, 1%.

	Regression 1	Regression 2	Regression 3	Regression 4
Lawsuit Characteristics				
Conviction	381.0332*** [142.404]	380.3323*** [142.3417]	-91.61422 [147.796]	-92.6721 [147.93]
Conviction*Controlling Shareholders			707.4775*** [257.9842]	708.0253*** [258.0453]
Executives Characteristics				
Age	2.403646 [4.448966]	2.359799 [4.460258]	1.339573 [4.473657]	1.293617 [4.485977]
Family Ownership	620.452*** [112.6488]	620.5776*** [112.6208]	481.3114*** [99.99822]	481.2802*** [99.97115]
Chair	154.7827** [76.4483]	155.7088** [76.5735]	185.8918** [78.41562]	186.8117** [78.51742]
Firm Characteristics				
Market	210.1604*** [78.29863]	208.7656*** [78.30763]	200.0783*** [77.60054]	198.8912*** [77.60761]
Sales (2012, in millions KRW)	2.19e-08*** [3.96e-09]	2.19e-08*** [3.96e-09]	2.19e-08*** [3.86e-09]	2.19e-08*** [3.86e-09]
Leverage (2012)	32.61844 [193.1121]	40.79953 [189.6092]	39.9569 [190.1735]	49.31722 [186.8443]
MTB (2012)	49.62385** [24.71163]	49.39804** [24.65328]	42.77019* [24.25956]	42.49535* [24.18182]
ROA (2012)	408.698 [469.224]		415.6917 [478.5231]	
Stock Return (2012)	30.03339 [57.81838]		45.82836 [59.35209]	
Industry Adjusted ROA (2012)		435.9317 [457.3736]		453.7894 [469.0944]
Industry Adjusted Stock Return (2012)		28.29825 [57.76922]		44.13998 [59.28968]
Governance Characteristics				
Large Business Group	171.7234* [93.24325]	171.6785* [93.26886]	131.3254 [93.0327]	131.2548 [93.04517]
Outside Director Ratio (2012, %)	272.9095 [212.3572]	270.0138 [211.2116]	347.49 [219.1957]	344.3701 [218.0052]
Executive share Ratio (2012, %)	-36.54039 [468.4669]	-36.36479 [468.4643]	24.62207 [466.5068]	24.5992 [466.4813]
Largest shareholder and affiliate person ratio (2012, %)	-126.2103 [191.6525]	-128.3884 [191.8275]	-124.6171 [191.432]	-126.5383 [191.6375]
Board Size (2012)	-9.621857 [17.69723]	-9.709126 [17.76522]	-8.797374 [17.68638]	-8.826194 [17.75052]
R2	0.3752	0.3222	0.3751	0.3895
Observation	546	546	545	545

Figure 1: Interaction between Controlling Shareholders and Conviction
White and blue bars indicate the compensation to the executives without and with conviction experiences. Professional executives and controlling-shareholder executives denote the executives who are not and are controlling shareholders respectively.



References

Agrawal, A., & Knoeber, C. R. (1998). Managerial compensation and the threat of takeover. Journal of Financial Economics, 47(2), 219-239.

Baron, D. P. (1995). Integrated strategy. California management review, 37(2), 47-65.

Baron, D. P. (2003). Business and its Environment (p. 2). Englewood Cliffs, NJ: Prentice Hall.

Bebchuk, L. A., & Fried, J. M. (2003). Executive compensation as an agency problem (No. w9813). National Bureau of Economic Research.

Benz, M., Kucher, M., & Stutzer, A. (2001). Stock Options: The Managers' Blessing: Institutional Restrictions and Executive Compensation. University of Zurich Institute for Empirical Research in Economics. WorkingPaper.

Berman, S. L., Wicks, A. C., Kotha, S., & Jones, T. M. (1999). Does stakeholder orientation matter? The relationship between stakeholder management models and firm financial performance. Academy of Management journal, 42(5), 488-506.

Berrone, P., Surroca, J., & Tribo, J. A. (2007). Corporate ethical identity as a determinant of firm performance: a test of the mediating role of stakeholder satisfaction. Journal of Business Ethics, 76(1), 35-53.

Bertrand, M., & Mullainathan, S. (2001). Are CEOs rewarded for luck? The ones without principals are. Quarterly Journal of Economics, 901-932.

Borokhovich, K. A., Brunarski, K. R., & Parrino, R. (1997). CEO contracting and antitakeover amendments. The Journal of Finance, 52(4), 1495-1517.

Cheng, S., Nagar, V., & Rajan, M. V. (2001). Control versus risk in stock-based incentives: evidence from antitakeover regulation. Working Paper, University of Michigan Business School.

Core, J. E., Holthausen, R. W., & Larcker, D. F. (1999). Corporate governance, chief executive officer compensation, and firm performance. Journal of financial economics, 51(3), 371-406.

Cuñat, V., & Guadalupe, M. (2008). Globalization and the Provision of Incentives Inside the Firm. Journal of Labor Economics, forthcoming.

Cyert, R. M., Kang, S. H., & Kumar, P. (2002). Corporate governance, takeovers, and top-management compensation: Theory and evidence. Management Science, 48(4), 453-469.

David, P., Kochar, R., & Levitas, E. (1998). The effect of institutional investors on the level and mix of CEO compensation. Academy of Management Journal, 41(2), 200-208.

Donaldson, T., & Preston, L. E. (1995). The stakeholder theory of the corporation: Concepts, evidence, and implications. Academy of management Review, 20(1), 65-91.

Dow, J., & Raposo, C. C. (2005). CEO compensation, change, and corporate strategy. The Journal of Finance, 60(6), 2701-2727.

Edmans, A., Gabaix, X., & Landier, A. (2009). A multiplicative model of optimal CEO incentives in market equilibrium. Review of Financial Studies, 22(12), 4881-4917.

Fombrun, C. (1996). Reputation. Boston: Harvard Business School Press.

Fombrun, C. J., Gardberg, N. A., & Barnett, M. L. (2000). Opportunity platforms and safety nets: Corporate citizenship and reputational risk. Business and society review, 105(1), 85-106.

Fombrun, C., & Foss, C. (2004). Business ethics: corporate responses to scandal. Corporate Reputation Review, 7(3), 284-288.

Freeman, R. E. (1984). Strategic Management: A stakeholder Approach. Cambridge

University Press.
Friedman, M. 1970. The Social Responsibility of Business is to Increase its Profits. New York Times Magazine 13, 32-33.
Gabaix, X., & Landier, A. (2008). Why has CEO Pay Increased So Much?. The Quarterly Journal of Economics, 123(1), 49-100.
Garicano, L., & Rossi-Hansberg, E. (2006). Organization and inequality in a knowledge economy. Quarterly Journal of Economics, 121(4), 1383-1435.
Gayle, G. L., & Miller, R. A. (2009). Has moral hazard become a more important factor in managerial compensation?. The American Economic Review, 1740-1769.
Giannetti, M. (2006). Serial CEOs' Incentives and the Shape of Managerial Contracts. mimeo, Stockholm School of Economics.
Gregory-Smith, I. (2012). Chief Executive Pay and Remuneration Committee Independence. Oxford Bulletin of Economics and Statistics, 74(4), 510-531.
Hartzell, J. C., & Starks, L. T. (2003). Institutional investors and executive compensation. The Journal of Finance, 58(6), 2351-2374.
Hermalin, B. E. (2005). Trends in corporate governance. The Journal of Finance, 60(5), 2351-2384.
Hillman, A. J., & Keim, G. D. (2001). Shareholder value, stakeholder management, and social issues: what's the bottom line?. Strategic management journal, 22(2), 125-139.
Holmstrom, B., & Kaplan, S. N. (2001). Corporate Governance and Merger Activity in the US: Making Sense of the 1980s and 1990s (No. w8220). National bureau of economic research.
Holmstrom, B., & Kaplan, S. N. (2003). The state of US corporate governance: what's right and what's wrong?. Journal of Applied Corporate Finance, 15(3), 8-20.
Hosmer, L. T. (1994). Strategic planning as if ethics mattered. Strategic Management Journal, 15(S2), 17-34.
Hummels, H., & Timmer, D. (2004). Investors in need of social, ethical, and environmental information. Journal of Business Ethics, 52(1), 73-84.
Inderst, R., & Mueller, H. M. (2005). Keeping the board in the dark: CEO compensation and entrenchment.
Jensen, M. C. 2001. Value Maximization, Stakeholder Theory, and the Corporate Objective Function. Journal of Applied Corporate Finance 14(3), 8-21.
Jensen, M. C., & Mackling, W. H. (1979). Theory of the firm: Managerial behavior, agency costs, and ownership structure (pp. 163-231). Springer Netherlands.
Jensen, M. C., & Murphy, K. J. (1990). Performance pay and top-management incentives. Journal of political economy, 225-264.
Jones, T. M., & Wicks, A. C. (1999). Convergent stakeholder theory. Academy of management review, 24(2), 206-221.
Jones, T. M.: 1995, Instrumental Stakeholder Theory: A Synthesis of Ethics and Economics, Academy of Management Review 20(2), 404–437.
Orlitzky, M., Schmidt, F. L., & Rynes, S. L. (2003). Corporate social and financial performance: A meta-analysis. Organization studies, 24(3), 403-441.
Robertson, C. J., & Crittenden, W. F. (2003). Mapping moral philosophies: Strategic implications for multinational firms. Strategic Management Journal, 24(4), 385-392.
Rosen, S. (1981). The economics of superstars. The American economic review, 845-858.
Schwab, B. 1996, Note on Ethics and Strategy: Do Good Ethics Always Make for Good Business? Strategic Management Journal 17, 499-500.
Sethi, S. P. (2005). Investing in socially responsible companies is a must for public pension funds–because there is no better alternative. Journal of Business Ethics, 56(2), 99-

129.
Shleifer, A., & Vishny, R. W. (1986). Large shareholders and corporate control. The Journal of Political Economy, 461-488.
Stevens, J. M., Kevin Steensma, H., Harrison, D. A., & Cochran, P. L. (2005). Symbolic or substantive document? The influence of ethics codes on financial executives' decisions. Strategic Management Journal, 26(2), 181-195.
Terviö, M. (2008). The difference that CEOs make: An assignment model approach. The American Economic Review, 642-668.
Waddock, S. A., & Graves, S. B. (1997). The corporate social performance. Strategic management journal, 8(4), 303-319.
Wicks, A. C., Freeman, R. E., Werhane, P. H., Martin, K. E. (2009). Business Ethics: A Managerial Approach. Prentice Hall.