When do Appointments of Corporate Sustainability Executives affect Shareholder Value?

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Over the last two decades, firms have been appointing corporate sustainability executives (CSEs) to be part of their top management teams. Although there is a vast literature on sustainable practices and their relationships with various measures of firm performance, little is known about the nature of the empirical link between CSE appointments and financial performance. We add to the understanding of this link by estimating the stock market reactions to a sample of 116 announcements of CSE appointments made during the period 2000–2018. Our findings using event study methodology, followed by regression analyses, suggest that although the stock market reaction to CSE appointments is overall value neutral, the stock market reacts more, or less positively under certain firm- and industry-specific factors. We collect additional data on prior adverse sustainability-related incidents (from news sources), sustainability performance (from Kinder, Lydenberg, Domini (KLD) Research & Analytics, Inc.), and regulatory sanctions (from the US EPA), and find that the stock market reaction is more positive in instances where the announcing firms faced a prior adverse sustainability-related incident, and less positive when announcing firms operate in industries that face relatively greater levels of regulatory sanctions. Also, we find that the stock market reaction is more positive when firms announce CSE appointments with focused as compared to broad responsibilities. Our findings therefore demonstrate specific nuances in the market reactions to CSE appointments depending on various firm- and industry-specific factors and enable executives and stakeholders to better understand the shareholder value effects of appointing CSEs to top management teams.