


CEO financial distress experience and CSR: A contingency perspective

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1. Introduction

Corporate social responsibility (CSR), defined as “context-specific organizational actions and policies that take into account stakeholders’ expectations and the triple bottom line of economic, social, and environmental performance” (Aguinis, 2011: p. 855), has garnered significant attention in academic research over the past decades. A substantial volume of research has focused on understanding various drivers of CSR, which include factors at institutional- (Rathert, 2016; Yin & Zhang, 2012), firm- (Jo & Harjoto, 2011; Wickert, Scherer, & Spence, 2016), and executive-levels (Liu & Luo, 2022; Tang, Qian, Chen, & Shen, 2015). Recently, focus has shifted to the role of experiences in shaping CSR strategies and behaviors, with studies highlighting how early-life experiences can deeply influence an individual’s preferences, beliefs, and decisions related to CSR (Choi, Shin, & Kim, 2023; Han, Chi, & Zhou, 2022; O’Sullivan, Zolotoy, & Fan, 2021; Xu & Ma, 2022). For instance, O’Sullivan, Zolotoy, and Fan (2021) illustrate how traumatic early-life experiences of CEOs positively influence CSR activities.

Despite this focus on personal experiences, the impact of decision-making stemming from professional experiences on CSR remains largely unexplored, with few exceptions examining CEOs’ functional (e.g., Reimer, Van Doorn, & Heyden, 2018) and international experiences (e.g., Slater & Dixon-Fowler, 2009). Notably, financial adversity resulting from professional experiences has rarely been studied in the CSR context. Exploring the dynamics of CEOs’ adverse experiences—specifically those involving financial distress at previous firms (hereafter, financial distress experience)—in the context of CSR decision-making in their current firms is crucial for understanding the broader impact of leadership on CSR. Unlike personal experiences that are typically acquired in early life, professional experiences occur primarily during adulthood, and vary widely in nature throughout one’s career trajectory. These professional experiences provide valuable lessons from direct observation of the outcomes of leadership decisions,

informing future actions (Levinthal & March 1981; Tversky & Kahneman, 1973). Furthermore, research shows that decision-making is context-dependent, influenced by various factors that evolve over time (e.g., Kahneman & Tversky, 1984; Tversky & Simonson, 1993). This suggests that both prior professional experiences and current decision-making contexts could have distinct and intertemporal impacts on CEOs’ CSR decisions. Although prior research acknowledges the influence of executives’ past professional experiences such as international experiences on current CSR practices (Al-Shammari, Al-Shammari, Banerjee & Doty, 2022; Slater & Dixon-Fowler, 2009), the integration of these experiences within CEOs’ current roles and the aspect of adversity remains underexplored. Therefore, it is crucial to understand how past professional experiences shape current CSR practices, particularly in response to the unique challenges and constraints of the CEO’s current organizational environment, which may not be fully captured by findings in prior literature.

In our study, we utilize a contingency framework to examine how CEOs translate financial distress experiences in their previous roles into CSR decision-making in their current firms. First, we focus on the relationship between CEOs’ significant financial distress experiences—such as bankruptcy and extreme declines in credit ratings, operating cash flows, and share returns—and current firm CSR, because such experiences are likely to shape strategic priorities and risk assessments (Dittmar & Duchin, 2016; Faulkner & Garcia-Feijóo, 2022). Based on research indicating that individuals who have faced financial adversity in the workplace often develop a more conservative approach to financial management (Dittmar & Duchin, 2016), we suggest that CEOs with previous experiences of financial distress are likely to favor resource conservation, and consequently make strategic decisions that prioritize conserving their firms’ resources. Specifically, these CEOs are more attuned to the potential negative consequences of decisions that impact firm financial health and therefore exhibit heightened caution (Denrell & March 2001). Such cautiousness extends to the financial

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management of their current firms, making these CEOs reluctant to engage in expenditures where immediate financial returns are unclear and that risk the depletion of firm resources (Dovidio et al., 1997; Vollhardt, 2009). This reluctance could manifest in their conservative stance toward investments in CSR initiatives, such as environmental protection and philanthropy, which do not offer immediate financial benefits (Deckop, Merriman, & Gupta, 2006).²

Second, we introduce a contingency framework suggesting that CEOs' decisions on CSR are not only influenced by their past financial distress experiences, but also evaluated within the context of their current firms' environments, considering firm-, institutional-, and societal-level factors. Since CEOs with distress experiences eschew CSR due to its consumption of resources and less apparent benefits, we focus on factors that influence their perceptions of CSR's utility to the firm, particularly those reflecting stakeholder expectations of CSR. Specifically, we expect that CEOs leading firms with poor financial performance will face weaker stakeholder pressures for social and environmental initiatives, thereby strengthening the impact of past financial distress experience on their reluctance toward current firms' CSR. Further, CSR incentives integrated into the CEO's compensation—which reflect the expectations of the firm's investors and board members regarding CSR engagement (Flammer, Hong, & Minor, 2019)—could motivate CEOs to prioritize CSR, thus mitigating the cautious tendencies driven by past financial distress experience. Furthermore, at the industry- and societal-level, we argue that industry expectations, reflected by industry-average CSR levels, and community constituents' expectations, indicated by the political leaning of the state where the current firm is headquartered, will mitigate the influence of CEOs' past financial distress experience on their decisions to withhold CSR initiatives in their current firms.

We test our hypotheses using data covering a group of publicly listed U.S. firms between 2002 and 2016. Our analyses, based on a final sample of 2,945 firm-year observations, reveal consistent support for our hypotheses. On average, firms led by CEOs with past financial distress experience exhibit 7 percent lower CSR compared to firms led by CEOs without such experience, which is equivalent to a decrease of approximately \$13 million in expenses. Furthermore, we find that this effect is strengthened for firms with poorer financial performance and weakened by industry- and societal-level expectations to prioritize CSR.

Our paper offers two important contributions. First, we contribute to the CSR literature by identifying and clarifying the impact of CEOs' adverse professional experience (i.e., financial distress experience) on CSR engagement. Specifically, our findings indicate that financial distress experiences that occur in CEOs' professional lives influence a firm's CSR in ways that differ from the existing literature's predictions regarding adverse personal experiences (e.g., Choi et al., 2023; O'Sullivan et al., 2021; Tang, Guo, Zha, & Zheng, 2024). This enriches the existing body of knowledge on the impact of CEO experiences on CSR. Second, we contribute to the research on strategic leadership by exploring the contingencies that modify the effect of CEOs' professional experiences (Al-Shammari et al., 2022; Slater & Dixon-Fowler, 2009). By demonstrating the key role of contextual factors at the firm-, industry-, and societal-levels in shaping CEOs' focus on these experiences, we deepen our understanding of how and when prior experiences will affect CEOs' attitudes toward CSR.

² We appreciate the insightful comment from an anonymous reviewer on the differences in costs of various CSR initiatives. Thus, we acknowledge that the resource conservation attitude may also influence firms' engagement in symbolic versus substantive CSR. We discuss this point in the supplementary analyses.

2. Theory and hypotheses development

2.1. CEO experience and CSR

Research suggests that an individual's background and experiences shape decision-making in numerous ways (Nisbett & Ross, 1980). Both personal and professional life experiences influence long-term decision-making through a wide array of cognitive, affective, and motivational mechanisms (Fiske & Taylor, 1991; Guiso, Sapienza, & Zingales, 2008; Hambrick & Mason, 1984). Individuals reflect on and internalize the effects of these experiences, which contribute to the formation of cognitive models that affect subsequent decision-making and behavior (Marquis & Tilcsik, 2013; Solano, Abebe, & Acharya, 2024). Studies have explored events at various life stages and levels, including macro-societal level such as natural disasters and the Great Depression, as well as individual level such as director deaths, and how these affect diverse decisions and outcomes (Chen, Crossland, & Huang, 2020; Dittmar & Duchin, 2016; Schoar & Zuo, 2017).

The literature on adverse *personal* experiences has explored how such adversity impacts individuals' treatment of others and, relatedly, how it shapes CEOs' attitudes toward addressing the needs of multiple stakeholders. A recurring theme in this research is the notion that experiencing adversity such as wars and economic suffering fosters prosocial and altruistic motivations and helpful behaviors toward others. For example, the experience of disasters is linked to increased cooperation and solidarity (Kaniasty & Norris, 1995), and individuals' prosocial behavior increased after the 9/11 attacks (e.g., Vázquez, Pérez-Sales, & Hervás, 2008).

While these studies provide valuable insights into how CEOs' past adverse experiences influence their current decision-making, a commonality is that they focus on contexts outside of the workplace and professional settings. Surprisingly, there has been minimal research on the effect of past professional experiences on CSR with only a few exceptions. For example, Reimer, Van Doorn and Heyden (2018) investigate how functional experiences of CEOs and other executives influence different dimensions of CSR through directing their attention toward meeting specific stakeholder needs. However, there is still limited understanding of how adverse experiences at the workplace shape CEOs' attitudes toward CSR. This gap in research is essential to explore, since studies suggest that adverse professional experiences lead to attitudes distinct from those observed in personal trauma research (Carvalho, Meier, & Wang, 2016). For example, recent research indicates that financial distress at work not only directs attention to pressing issues (Hamrick & Andrews, 2016) but also leads to negative behaviors toward others, such as workplace harassment and misconduct (Narayan, 2024).

We draw attention to two key aspects of adverse professional experience that distinctively impact CEOs' decision-making. First, these experiences are generally more closely related to current professional contexts than personal experiences, rendering them highly influential in CEOs' decision-making, which is driven by the assimilation of relevant information and logical evaluations. Second, professional experiences often instill a degree of instrumentality and a narrower focus in CEOs' decision-making, contrasting with personal experiences that tend to shape broader worldviews and ethical orientations that are unrelated to work. Indeed, research on professional experiences of financial distress shows that CEOs with such experiences have a strong focus on resource-allocation decisions, increasing their tendency toward resource preservation and risk aversion (e.g., Faulkner & Garcia-Feijóo, 2022; Schoar & Zuo, 2017). For instance, Schoar and Zuo (2017) find that CEOs who experienced a recession at the start of their managerial careers adopt a more conservative style of management, characterized by lower leverage and increased cost-cutting initiatives.

Taken together, our study highlights the incomplete understanding of how adverse experiences influence CSR, particularly regarding the role of *professional* financial distress experience in CSR decisions. We contend that broadening the scope of adverse experience research to

include resource allocation considerations may illuminate a more nuanced process underlying CEOs' engagement with CSR.

2.2. CEO financial distress experience and CSR

Management literature has increasingly recognized the importance of CSR, seeking to understand its costs and benefits (Barnett & Salomon, 2006; Karnani, 2011). Firms can be motivated to engage in CSR because it can improve their legitimacy among stakeholders, which leads to higher firm value (Cochran & Wood, 1984; Flammer, 2013; Orlitzky, Schmidt, & Rynes, 2003; Wang & Qian, 2011). However, the debate over the utility of CSR engagement persists because of its associated costs. Investing in CSR may represent an inefficient use of shareholder wealth, increasing the risk of being targeted by activists (e.g., DesJardine, Marti, & Durand, 2021). From the cost perspective, CSR is perceived as a drain on firm resources that could lead to immediate resource constraints since financial returns from such initiatives are often uncertain and unlikely to yield immediate profits (Aguinis & Glavas, 2012; Deckop et al., 2006). Therefore, different factors can affect the perceived utility and costs associated with CSR.

We argue that CEOs' past financial distress experiences can significantly shape their views on CSR within their current firms. As individuals progress through their careers, they encounter various situations and associated outcomes (Crossland, Zyung, Hiller, & Hambrick, 2014), which cumulatively influence the cognitive frameworks that shape their managerial styles (Dragoni, Oh, Vankatwyk, & Tesluk, 2011). These experiences in previous work environments can prompt individuals to modify their approaches to future career situations. Prior research, supporting this notion, finds that CEOs who experience corporate distress in their careers tend to adopt conservative corporate policies after transitioning to new positions and organizations (Dittmar & Duchin, 2016; Faulkner & Garcia-Feijóo, 2022).

Studies on professional experiences of financial distress suggest that encountering financial adversity tends to foster a more conservative and risk-averse approach in individuals (Dittmar & Duchin, 2016; Faulkner & Garcia-Feijóo, 2022). Expanding on this research, we propose that CEOs who have experienced financial adversity in their professional careers are predisposed to conserve resources. This predisposition leads them to prioritize strategic decisions that support the preservation of firm resources. Specifically, CEOs with financial distress experiences tend to place greater emphasis on the potential negative impacts of their decisions on financial performance (Denrell & March 2001). They may also overemphasize potential costs relative to benefits. As a result, these CEOs demonstrate increased caution regarding the financial health of their current firms and exhibit reluctance toward decisions that could deplete financial resources (Dovidio et al., 1997; Vollhardt, 2009). Consequently, they may be hesitant to invest in CSR initiatives where immediate financial benefits are not readily apparent (Deckop et al., 2006).

Relatedly, CEOs who have experienced financial distress in prior roles connect the highlight of their past experiences—being victims of poor financial conditions in their previous firms—to the primacy of financial needs in their current firm. Such salience of financial concerns frames CEOs' approach to broader CSR activities and increases the likelihood that these CEOs prioritize financial stability over other considerations, such as environmental and societal performance. In summary, we argue that CEOs who have experienced financial distress in their careers prior to assuming their CEO role will adopt a more conservative approach to resource allocation, which reduces firm CSR engagement.

Therefore, we propose the following hypothesis:

Hypothesis 1. CEOs' past financial distress experience is negatively associated with their firms' CSR.

2.3. A contingency framework of CEO financial distress experience: Characteristics of the current context

Our argument posits that CEOs who have faced financial adversity in their previous roles are inclined to emphasize efficient resource utilization, shaping strategic decisions around resource preservation. Their engagement in CSR is likely to be influenced by prevailing conditions that emphasize conserving resources vis-à-vis meeting stakeholders' CSR expectations. Research has shown that although CSR investments are costly, a misalignment between stakeholders' expectations and actual CSR practices can lead to long-term disadvantages to firms (Hart & Zingales, 2017). Thus, we consider two firm-level factors and two industry- and state-level factors that capture investors' and other stakeholders' expectations of firm CSR initiatives. At the firm-level, a firm's financial performance shapes stakeholder expectations, influencing how CEOs with financial distress experiences perceive the utility of CSR. In addition, CSR incentives in CEO compensation reflect the firm and its stakeholders' (e.g., investors and board members) emphasis on social responsibility, potentially motivating the CEO to prioritize CSR initiatives, thus mitigating the influence of their previous financial distress experiences. Furthermore, CEOs' evaluations of CSR expenses are likely influenced by external stakeholders' expectations and pressures for CSR at both the industry- and societal-levels—as indicated by the industry average CSR and state political leaning respectively (Khoo, Lim, Lu, & Monroe, 2022). CEOs are more likely to engage in CSR when they feel increased pressure from the external environment, mitigating the influence of their financial distress experiences.

2.3.1. Firm financial conditions

The prior professional experiences of CEOs, particularly those characterized by poor financial conditions, prime them to be particularly sensitive to similar conditions in their current contexts. Firm performance serves as a direct indicator of a firm's ability to meet the financial needs of its stakeholders. When a firm's profits decline, it faces increased resource constraints, prompting various actions, from limiting pay raises and bonuses to downsizing. It may even extend to affecting the firm's ability to pay dividends, engage in philanthropy (Wang & Qian, 2011), or pursue competitive strategies and innovation (Connelly, Lee, Tihanyi, Certo, & Johnson, 2019). Additionally, poor profitability directly impacts shareholder returns, thereby increasing the pressures for CEOs to prioritize shareholder needs over other stakeholder expectations. For example, a recent study demonstrated that under financial pressure from the capital markets, firms tend to reallocate resources toward improving immediate financial performance, which can lead to reduced expenditures in socially-responsible avenues such as employee safety (Qian, Crilly, Lin, Zhang, & Zhang, 2023).

Upper-echelons research has shown that CEOs tend to focus on relevant information during times of uncertainty and complexity, interpreting information through the lens of their past experiences (Chen & Hambrick, 2012; Carpenter, Geletkanycz, & Sanders, 2004). CEOs with prior financial distress experiences are likely to draw parallels between their past roles and current positions, rendering them more attuned to the financial needs of stakeholders. At the same time, these CEOs are less likely to experience significant stakeholder pressures for CSR during periods of financial distress (Ayuso, Rodríguez, García-Castro, & Ariño 2014; Wang & Qian, 2011). In periods of poor firm performance, stakeholders often recognize that resources are better allocated to core business operations to restore profitability rather than to discretionary activities such as CSR, and therefore tend not to penalize poor-performing firms for reduced CSR (Wang & Qian, 2011). While CEOs without financial distress experiences may also reduce CSR during low profitability, they lack the amplified resource scarcity mindset of those with past financial distress experiences. Thus, relative to their peers without similar experiences, CEOs with experiences of financial distress are more prone to respond to changes in stakeholder pressures during firm underperformance, prioritizing resource

conservation to stabilize the firm's financial standing. In line with this argument, we propose the following hypothesis:

Hypothesis 2.. The negative effect of CEOs' past financial distress experience on their firms' CSR is stronger when firm performance is poorer.

2.3.2. CSR incentives in CEO compensation

CEOs' decision-making processes are subject to influence by factors indicating financial gains from engaging in CSR. Recent research shows that executive compensation structures incorporating incentives for social and environmental performance impact CSR (Cohen, Kadach, Ormazabal, & Reichelstein, 2023; Flammer et al., 2019). For example, firms that adopt CSR contracting—providing incentives for CSR activities—are associated with increases in social initiatives and green innovations (Flammer et al., 2019). Despite CEOs with past financial distress experiences tending to adopt short-term approaches due to resource conservation attitudes, aligning compensation incentives with non-financial performance goals such as CSR can redirect their attention away from strict resource conservation. Research shows that including CSR-related objectives in executive compensation aligns management's priorities with those of multiple stakeholders, reflecting the importance shareholders and other stakeholders place on environmental and social initiatives for the firm's long-term welfare (Cohen et al., 2023; Servaes & Tamayo, 2013). Such incentives reward CEOs for addressing concerns such as environmental pollution, labor conditions and other social issues, because these shareholders consider CSR as a strategic investment despite its costs. CSR-related incentives signal the broader beliefs of multiple stakeholders that CSR is beneficial to the firm.

For CEOs with financial distress experiences, CSR-related compensation incentives may reduce their cautious stance on CSR for two reasons. First, and most importantly, such incentives signal that the firm stands to benefit financially from CSR engagement, modifying these CEOs' perceptions of CSR utility to the firm. Second, they may recognize that non-engagement could result in decreased personal wealth and lower performance evaluations (Qin & Yang, 2022). Consequently, such incentives can mitigate the impact of past financial distress experiences on CEOs' negative attitudes toward CSR. Thus, we propose the following hypothesis:

Hypothesis 3.. The negative effect of CEOs' past financial distress experience on their firms' CSR is weaker when CEO compensation is linked to CSR-based incentives.

2.3.3. Industry average CSR

We examine the extent to which pressure from a firm's external environment affects the relationship proposed in [Hypothesis 1](#). CEOs may reassess their evaluation of CSR expenditure under increased external pressure to engage in CSR. Trends in socially responsible actions vary across industries, influenced by factors such as customer demand and industry characteristics, including being classified as a "dirty industry" (Flammer, 2015; Dupire & M' Zali, 2018). For instance, industries reliant on consumers face significant pressure to meet their demands for social responsibility to avoid losing customers (Dupire & M' Zali, 2018).

The institutional perspective suggests that CSR standards are developed with the involvement of key stakeholders corresponding to the firm's business environment, with CSR issues and expectations often being industry-specific (Marquis & Tilcsik, 2016). Industry norms serve as a guide for CSR behavior, building normative pressures to adopt CSR practices consistent with industry standards (Gupta, Briscoe, & Hambrick, 2017). For example, research indicates that CSR and labor practices have been increasingly important in the automotive industry (Russo-Spena, Tregua, & De Chiara, 2016). Therefore, high levels of CSR engagement within an industry indicate increased stakeholder demands for CSR.

In industries with high CSR expectations, CEOs may perceive CSR as

less wasteful despite their past financial distress experiences. Meeting or exceeding these expectations can confer firms with competitive advantages, positioning them favorably in the market (Doh, Howton, Howton, & Siegel, 2010; Flammer, 2015; Hull & Rothenberg, 2008; Wang, Qureshi, Guo, & Zhang, 2022). Conversely, insufficient CSR engagement can lead to legitimacy concerns and competitive disadvantages (Doh et al., 2010; Jeong & Kim, 2019). Moreover, actions perceived as socially irresponsible can undermine a firm's legitimacy as they violate societal expectations and neglect stakeholder needs (Dharwadkar, Guo, Shi, & Yang, 2021; Hadani, 2023). This perspective suggests that external demand for CSR can mitigate the negative influence of CEOs' past financial adversities on current CSR practices, particularly in sectors where social responsibility is highly valued. Therefore, we propose the following hypothesis:

Hypothesis 4.. The negative effect of CEOs' past financial distress experience on their firms' CSR is weaker for firms in industries with higher average CSR.

2.3.4. State political leaning

We examine the influence of the political leaning in the state where a firm is headquartered, acknowledging that stakeholders' political views often converge geographically, typically aligning with either Democratic or Republican ideologies (Porter, 2000). Research has demonstrated that the local political climate substantially affects CEOs' decision-making, with firms in Democratic states generally exhibiting stronger CSR practices (Attig & Brockman, 2017; Di Giuli & Kostovetsky, 2014; Fatemi, Fooladi, Sy, & Zaman, 2024). For example, Fatemi and colleagues (2024) find that firms relocating their headquarters to Democratic states showed greater increases in CSR activities compared to those moving to Republican states. Democratic-leaning electorates place a higher value on CSR issues, prompting firms in these states to invest more in CSR to address stakeholder concerns. Conversely, individuals with Republican views prioritize shareholder interests and are less supportive of CSR initiatives, such as investing in energy-efficient technologies (Costa & Kahn, 2013).

These findings indicate that CEOs encounter differing stakeholder expectations and weigh the potential value of CSR differently, depending on whether their firms are located in a Democratic or Republican state. CEOs evaluate the utility of CSR not only based on their own experiences, but also based on the norms and preferences of key stakeholders crucial for their firms' survival and success (Gupta et al., 2017). In Democratic-leaning states, where a large proportion of employees and customers likely hold pro-CSR beliefs, CEOs with financial distress experiences face greater pressure to avoid cost-cutting measures in CSR to avoid stakeholder misalignment and social activism risks (Baron, 2001). CEOs' negative evaluation of CSR as a superfluous cost, arising from their financially conservative attitudes, is mitigated by the prevailing judgements of CSR by their Democratic-leaning stakeholders. Specifically, CEOs with past financial distress experiences are less likely to reduce CSR in Democratic states, where CSR is more highly valued and where stakeholders expectations about firms' CSR are greater.

In contrast, CEOs with past financial distress experiences in firms located in Republican states may feel more pressure to decrease CSR investments due to lower CSR expectations and a preference for market-based principles (Di Giuli & Kostovetsky, 2014). These attitudes among key stakeholders reinforce the tendency of CEOs with financial distress experiences to view CSR as a non-essential expense. Consequently, we posit that the negative impact of prior financial distress experiences on CSR is attenuated when CEO's current firm is located in a Democratic state. Therefore, we propose the following hypothesis:

Hypothesis 5.. The negative effect of CEOs' past financial distress experience on firms' CSR is weaker for firms located in Democratic states.

3. Methods

3.1. Sample and data

We gathered data for our study from various secondary sources. Our starting population included all US firms in COMPUSTAT from 2002 to 2016. We began our sample from 2002 because the CSR data from ASSET4 was available starting from that year. In line with previous research (e.g., Petrenko, Aime, Ridge, & Hill, 2016), we excluded firms in highly regulated industries, such as the financial and utilities industries, because they are subjected to different oversight regulations that restrict CEOs' discretion about CSR activities (Hawawini, Subramanian, & Verdin, 2003; McGahan & Porter, 1997). We collected firm financial information and other characteristics from COMPUSTAT. Next, we obtained data on CEO characteristics and employment from the BoardEx database. Consistent with Dittmar and Duchin (2016), we required the CEO to have past employment records in one or more firms with non-missing data in COMPUSTAT. This dataset was then merged with CSR data from the Thompson Reuters ASSET4 database. The ASSET4 database is extensively validated and considered a superior source for structured and standardized environmental, social, and governance data (e.g., Cheng, Ioannou, & Serafeim, 2014; Dyck, Lins, Roth, & Wagner, 2019; Hawn & Ioannou, 2016). Finally, we obtained share returns data from the Center for Research in Security Prices, bankruptcy data from the UCLA-LoPucki Bankruptcy Research Database, compensation data from Execucomp, and political donations data from the Federal Election Commission website (<https://www.fec.gov>). After excluding observations that were missing data on the variables that were used in our analyses, our final sample comprised 2,945 firm-year observations (554 firms and 685 CEOs).

3.2. Measures

3.2.1. CSR

The Thompson Reuters ASSET4 database provides scores ranging from 0 to 1 across three pillars: environmental, social, and governance. ASSET4 evaluates a firm's environmental performance across three dimensions: emissions reduction, product innovation, and resource reduction. Social performance is evaluated across seven areas, including diversity and opportunity, community, employment quality, human rights, health and safety, product responsibility, and training and development. Governance performance is assessed across board structure, compensation policy, board functions, shareholders' rights, and vision and strategy.

Our CSR measure was derived from ASSET4 that included the social and environmental factors but excluded the governance factor, because it does not represent socially oriented issues but instead directly impacts the firm. In line with prior studies (Dyck et al., 2019; Flammer & Kacperczyk, 2019), focusing on social and environmental factors allowed us to capture CEOs' decision-making on social investments benefiting society as a whole. Accordingly, we computed CSR as an equally weighted average of social and environmental scores.

3.2.2. CEO financial distress experience

To capture CEOs' financial distress experiences, we traced the CEOs' employment histories using data from BoardEx to identify the CEOs who had been employed at financially distressed firms. To disentangle CEO effects from firm effects, we focused on employment at firms other than the CEO's current firm. To alleviate the possibility that the CEO was hired at the focal firm because of their experience in leading financially distressed firms, we limited our attention to prior distress experiences in non-CEO roles.

In line with Dittmar and Duchin (2016), we used four indicators of distress experience: a firm's bankruptcy filings, credit ratings, operating cash flows, and annual share returns. The first indicator uses all bankruptcy filings under Chapter 7 or Chapter 11 of the bankruptcy code. We

considered that a CEO had experienced bankruptcy if they had worked at a firm that filed for bankruptcy during their employment. The second indicator is adverse shocks to a firm's credit rating. We obtained data on credit ratings from COMPUSTAT and sorted all firm-year observations into annual deciles according to the change in credit ratings. Firms that were in the lowest decile each year were classified as experiencing distress, on the condition that their ratings were downgraded. The third indicator is negative shocks to a firm's operating cash flows. We sorted all firm-year observations into annual deciles according to the change in annual operating cash flows. For each year, firms that were in the lowest decile were defined as distressed as long as there was a decrease in cash flows. The final indicator is the occurrence of negative shocks to a firm's annual share returns. Firms were categorized as experiencing distress if they belonged to the lowest decile that year and if their share returns were negative. When determining adverse shocks to credit ratings, operating cash flows, and share returns, we ranked all the firm-year observations that were available in COMPUSTAT and not just our sample observations. Similar to Dittmar and Duchin (2016), about 1, 5, 10, and 14 percent of the CEOs in our sample had prior experience of bankruptcy and negative shocks to credit ratings, operating cash flows, and share returns, respectively.

Finally, we constructed a composite measure of CEO financial distress experience. *CEO financial distress experience* is a dummy variable that is coded 1 if the CEO experienced one or more forms of distress according to the four distress indicators in their previous employment and 0 otherwise. Approximately 22 percent of CEOs in our sample experienced financial distress. On average, CEOs in our sample had 21 years of previous employment across four firms. For the subset of CEOs who had experienced distress according to the four indicators, they experienced distress approximately two times, with an average of 12 years since their last distress experience.

3.2.3. Moderating variables

Firm financial conditions were measured using Return on Assets (ROA), calculated as net income divided by total assets. *CEO CSR incentive* was defined as a dummy variable that equaled 1 if the CEO's compensation was linked to CSR-related performance targets, and 0 otherwise (Flammer et al., 2019). This variable, obtained from ASSET4, evaluates the governance dimension of a firm. As it does not measure the social or environmental aspects, it is independent of our CSR measure. It is well-established that CSR expectations and pressures from stakeholders vary across industry, as consumers often generalize firm-level behaviors to the entire industry, and regulatory agencies tend to focus more on industries with greater environmental impact (Cordeiro & Tewari, 2014). To capture industry-level stakeholder expectations, we use *Industry average CSR*, computed by taking the mean CSR performance of all other firms within the industry, excluding the focal firm (Jiraporn & Chintrakarn, 2013). In addition, we use state voting patterns to capture community constituents' expectations of CSR, as voting behavior reflects broader societal values that can shape the pressure stakeholders may exert on firms to engage in socially responsible practices (Di Giuli & Kostovetsky, 2014). We indicate *Democratic state* using a dummy variable that equaled 1 for firms headquartered in a Democratic-leaning states and 0 otherwise, determined based on majority voter support for the Democratic Party in the last presidential election (Di Giuli & Kostovetsky, 2014).

3.2.4. Control variables

We incorporated several control variables to account for factors that could influence firms' decisions about CSR engagement. We controlled for various CEO characteristics that may affect a firm's CSR. First, we controlled for CEO gender (defined as a dummy variable that equaled 1 if the CEO was female and 0 otherwise) because prior studies have found that CEO gender has an impact on firms' CSR (e.g., Bear, Rahman, & Post, 2010). Second, we controlled for CEO incentives by using *CEO equity compensation*, defined as the ratio of stock and option grants to

Table 1
Descriptive statistics and correlations.

Variables	Mean	S.D.	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	
1 CSR	0.509	0.194	1.00																			
2 CEO financial distress experience	0.223	0.416	-0.05	1.00																		
3 CEO gender	0.026	0.159	0.02	-0.06	1.00																	
4 CEO equity compensation	0.564	0.240	0.10	-0.06	0.07	1.00																
5 CEO CSR incentive	0.300	0.458	0.18	0.02	0.04	0.05	1.00															
6 CEO age	56.589	6.400	0.07	-0.06	-0.07	-0.02	0.04	1.00														
7 CEO political ideology	0.245	0.753	-0.04	0.05	-0.07	-0.02	0.06	1.00														
8 CEO overconfidence	0.296	0.290	0.05	-0.07	-0.00	0.04	-0.05	-0.06	-0.01	1.00												
9 CEO insider status	0.531	0.499	0.14	-0.08	-0.02	0.02	0.01	-0.11	-0.02	0.04	1.00											
10 Firm size	2.596	1.461	0.45	-0.05	-0.01	0.01	0.06	0.03	-0.02	0.05	0.14	1.00										
11 ROA	0.053	0.094	0.07	0.02	0.02	-0.07	0.02	0.00	-0.04	0.21	0.02	0.05	1.00									
12 Cash holdings	0.105	0.072	0.07	0.02	0.00	-0.02	-0.01	0.01	0.00	0.18	0.00	0.05	0.76	1.00								
13 Debt ratio	0.237	0.171	-0.05	-0.04	-0.03	-0.05	0.04	0.09	-0.02	-0.08	-0.06	-0.02	-0.19	1.00								
14 Market-to-book ratio	3.727	6.712	-0.02	-0.03	0.02	-0.02	-0.02	-0.04	-0.05	0.08	-0.04	-0.03	0.10	0.15	1.00							
15 R&D intensity	0.045	0.088	0.06	0.02	0.02	0.14	-0.07	-0.06	-0.08	0.08	-0.04	-0.23	-0.11	-0.07	-0.21	1.00						
16 Corporate governance	0.531	0.195	0.32	-0.03	0.05	0.07	0.17	0.03	-0.01	-0.02	0.08	0.06	0.03	0.02	-0.02	-0.00	1.00					
17 Industry average CSR	0.479	0.068	0.04	-0.06	0.08	0.08	0.07	0.01	-0.05	0.05	-0.09	0.04	0.07	0.06	0.01	0.06	0.06	0.02	1.00			
18 Democratic state	0.629	0.483	0.04	-0.03	0.02	-0.02	-0.04	-0.03	-0.25	0.10	-0.10	-0.03	0.05	0.05	-0.09	0.04	0.27	0.02	0.03	1.00		
19 GDP per capita	10.596	0.145	0.06	0.00	0.01	-0.00	-0.00	-0.00	-0.25	0.01	-0.04	-0.05	-0.01	-0.03	-0.03	0.04	0.17	0.06	0.02	0.65	1.00	

Note. N = 2,945 firm-year observations. Correlations in bold are significant below the 5 % level (two-tailed).

total compensation, which may influence CEOs' incentives to take risks or engage in CSR (e.g., Deckop et al., 2006; Fabrizi, Mallin, & Michelon, 2014). Third, we controlled for CEO age because the likelihood of having had a distress experience increases with a CEO's age.

Fourth, to capture CEO preferences about CSR (Chin, Hambrick, & Treviño, 2013), we controlled for CEO political ideology, calculated as the difference between donations to the Republican and Democratic Parties divided by the total donation to both parties (Hutton, Jiang, & Kumar, 2015), yielding a normalized variable ranging from -1 (strong Democrat) to +1 (strong Republican). Fifth, as overconfident CEOs may be less willing to engage in CSR (Tang et al., 2015), we controlled for CEO overconfidence, measured as the extent to which the CEO holds unexercised exercisable options, with higher values indicating greater overconfidence (Li, Minnis, Nagar, & Rajan, 2014). Finally, we controlled for CEO insider status, defined as a dummy variable that equaled 1 if the CEO was hired from within the organization, accounting for potential differences in CSR commitment between externally hired and insider CEOs.

Next, we controlled for various firm characteristics that influence its CSR, in line with prior studies (e.g., Petrenko et al., 2016; Tang et al., 2015). Given that larger firms have greater pressure to engage in CSR activities, we controlled for Firm size, defined as the natural logarithm of the total number of employees. Further, because firms with greater resources can afford to engage in CSR activities, we controlled for Cash holdings (cash and short-term investments scaled by total assets). We included Debt ratio and Market-to-book ratio because stable firms that have lower risks are more likely to engage in CSR. Further, we included R&D intensity, measured as research and development (R&D) expenses scaled by total sales, because firms that have higher R&D expenses invest more in CSR-related activities. Given that corporate governance is associated with the scope and effectiveness of CSR (Johnson and Greening, 1999), we controlled for Corporate governance using the corporate governance score from ASSET4. Finally, we controlled for the natural logarithm of state-level gross domestic product (GDP) per capita, capturing the level of economic development and the degree of stakeholder influence faced by the firm (Kassinis & Vafeas, 2006; Soleimani, Schaefer, & Newbury, 2014).

3.2.5. Estimation method

Given the limited within-firm variation in our CEO financial distress experience measure—only about 22 percent of firms in our sample experienced CEO changes during our sample period—we focused on comparing firms to examine the effect of CEO financial distress experience on CSR. This comparison necessitates a random effects regression model, which can better accommodate between-firm variation (Certo, Withers, & Semadeni, 2017). To account for unobservable industry characteristics and market-wide effects, we included industry- and year-fixed effects in the model. To mitigate the effect of outliers, we winsorized all continuous variables at the 1st and 99th percentiles. We clustered standard errors by firm to address serial correlation in the residuals.

3.3. Results

Table 1 shows the descriptive statistics and the correlations of the variables. The pairwise correlations among the predictor variables were not particularly high. The variance inflation factors for all the variables in the models were less than three, which suggests that multicollinearity was not an issue (Cohen, Cohen, West, & Aiken, 2003).

Our main results are reported in Table 2. In Model 1, CEO financial distress experience was negatively associated with CSR ($\beta = -0.036, p = 0.002$; 95 % CI = [-0.059, -0.014]); thus, Hypothesis 1 was supported. In terms of control variables, CEO CSR incentive, Firm size, and Corporate governance showed a consistent and positive impact on CSR, aligning with the existing literature. In terms of effect size, firms led by CEOs with financial distress experience exhibit, on average, 7 percent lower CSR compared to firms led by CEOs who had no professional experiences of

Table 2
Regression analysis of CEOs' financial distress experience on firm CSR.

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
<i>CEO financial distress experience</i>	-0.036** (0.012)	-0.045*** (0.012)	-0.041** (0.014)	-0.153** (0.057)	-0.075*** (0.013)	-0.201*** (0.054)
<i>CEO financial distress experience</i> × <i>ROA</i>		0.156* (0.073)				0.144* (0.071)
<i>CEO financial distress experience</i> × <i>CEO CSR incentive</i>			0.015 (0.020)			0.015 (0.020)
<i>CEO financial distress experience</i> × <i>Industry average CSR</i>				0.249* (0.119)		0.240* (0.117)
<i>CEO financial distress experience</i> × <i>Democratic state</i>					0.061** (0.020)	0.062** (0.020)
<i>CEO gender</i>	-0.049† (0.029)	-0.046 (0.030)	-0.048† (0.028)	-0.048 (0.029)	-0.044 (0.027)	-0.039 (0.027)
<i>CEO equity compensation</i>	0.008 (0.011)	0.007 (0.011)	0.009 (0.011)	0.008 (0.010)	0.008 (0.010)	0.009 (0.011)
<i>CEO CSR incentive</i>	0.027** (0.008)	0.027** (0.008)	0.024** (0.009)	0.027** (0.008)	0.027** (0.008)	0.024** (0.009)
<i>CEO age</i>	0.001 (0.001)	0.001 (0.001)	0.001 (0.001)	0.001 (0.001)	0.001 (0.001)	0.001 (0.001)
<i>CEO political ideology</i>	-0.007 (0.007)	-0.006 (0.007)	-0.007 (0.007)	-0.007 (0.007)	-0.007 (0.007)	-0.007 (0.007)
<i>CEO overconfidence</i>	0.011 (0.011)	0.011 (0.011)	0.011 (0.011)	0.011 (0.011)	0.010 (0.011)	0.010 (0.011)
<i>CEO insider status</i>	-0.008 (0.011)	-0.008 (0.011)	-0.008 (0.011)	-0.008 (0.011)	-0.010 (0.011)	-0.010 (0.011)
<i>Firm size</i>	0.064*** (0.005)	0.065*** (0.005)	0.064*** (0.005)	0.065*** (0.005)	0.065*** (0.005)	0.065*** (0.005)
<i>ROA</i>	0.012 (0.034)	-0.022 (0.038)	0.010 (0.034)	0.010 (0.033)	0.006 (0.033)	-0.029 (0.037)
<i>Cash holdings</i>	0.024 (0.059)	0.029 (0.058)	0.026 (0.059)	0.027 (0.058)	0.027 (0.058)	0.037 (0.057)
<i>Debt-to-equity ratio</i>	0.008 (0.026)	0.006 (0.025)	0.008 (0.026)	0.008 (0.026)	0.007 (0.026)	0.006 (0.025)
<i>Market-to-book ratio</i>	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)
<i>R&D intensity</i>	0.096 (0.061)	0.092 (0.062)	0.095 (0.061)	0.097 (0.062)	0.092 (0.061)	0.089 (0.062)
<i>Corporate governance</i>	0.108*** (0.018)	0.109*** (0.018)	0.108*** (0.018)	0.109*** (0.018)	0.108*** (0.018)	0.110*** (0.018)
<i>Industry average CSR</i>	-0.056 (0.065)	-0.055 (0.065)	-0.057 (0.065)	-0.104 (0.069)	-0.058 (0.064)	-0.103 (0.068)
<i>Democratic state</i>	0.019 (0.018)	0.019 (0.018)	0.019 (0.018)	0.019 (0.018)	0.005 (0.019)	0.004 (0.019)
<i>GDP per capita</i>	-0.010 (0.073)	-0.008 (0.072)	-0.009 (0.073)	-0.013 (0.073)	-0.011 (0.073)	-0.011 (0.073)
Constant	0.241 (0.777)	0.223 (0.772)	0.232 (0.779)	0.290 (0.778)	0.254 (0.776)	0.278 (0.775)
Year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Industry fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Between R-squared	0.365	0.368	0.365	0.363	0.361	0.361
Observations	2,945	2,945	2,945	2,945	2,945	2,945

Note. Standard errors clustered by firm are in parentheses. † $p < 0.10$, * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$.

financial distress.

To further evaluate the economic significance of our results, we estimate the cost implications of reduced CSR. CSR initiatives require firms to allocate resources, which are reflected in Selling, General, and Administrative (SG&A) expenses. To quantify this relationship, we regressed SG&A expenses on CSR, controlling for industry, firm, and CEO characteristics (factors included in Model 1 of Table 2). The coefficient on CSR was positive and significant ($\beta = 0.176$, $p = 0.025$, 95 % CI = [0.022, 0.331]), suggesting that higher CSR scores are associated with increased SG&A spending. Using this result, we calculated the SG&A expense reduction associated with lower CSR among firms led by CEOs with financial distress experience. From Model 1 of Table 2, these CEOs are associated with a 0.036 decrease in CSR, relative to their counterparts. This decrease translates to an estimated \$13 million reduction in SG&A expenses ($-0.036 \times 0.176 \times \2 billion, where \$2 billion is the mean SG&A expenses in our sample).

We present the results of the moderation hypotheses in Models 2 to 6. In Model 2, the interaction between *CEO financial distress experience* and

ROA was positive and significant ($\beta = 0.156$, $p = 0.033$, 95 % CI = [0.013, 0.300]). This indicates that when firms have higher (lower) financial performance, the effect of *CEO financial distress experience* on CSR weakens (strengthens), which supports Hypothesis 2. In Model 3, the interaction between *CEO financial distress experience* and *CEO CSR incentive* showed a positive coefficient but was not statistically significant ($\beta = 0.015$, $p = 0.460$, 95 % CI = [-0.024, 0.054]), indicating that Hypothesis 3 is not supported. This result suggests that *CEO CSR incentive* does not moderate the effect of *CEO financial distress experience* on CSR. In Model 4, we find support for H4 as the interaction between *CEO financial distress experience* and *Industry average CSR* was positive and significant ($\beta = 0.249$, $p = 0.036$, 95 % CI = [0.016, 0.482]), indicating that when industry-level CSR performance is higher (lower), the effect of *CEO financial distress experience* on CSR weakens (strengthens). In Model 5, the interaction between *CEO financial distress experience* and *Democratic state* was positive and significant ($\beta = 0.061$, $p = 0.002$, 95 % CI = [0.022, 0.101]), consistent with Hypothesis 5, which suggests that the effect of *CEO financial distress experience* on CSR is

mitigated (strengthened) for firms headquartered in Democratic (Republican) states. Results of the full model are presented in Model 6 and align with the hypotheses tested in the individual models.

To demonstrate the interacting effects, we plotted Figs. 1 to 4. We describe the effect sizes at low (one standard deviation below the mean) and high (one standard deviation above the mean) values of the continuous moderating variables. Fig. 1 depicts that CEOs with financial distress experiences were less inclined to engage in CSR than those without such experiences, particularly when firm performance was lower. We observed that firms led by CEOs who experienced financial distress exhibited a 4 percent decrease in CSR relative to those led by CEOs without such experience, under conditions of higher firm performance. This effect was more pronounced during periods of lower firm performance, with an 11 percent difference in CSR between firms led by CEOs with and without financial distress experience. Fig. 2 illustrates that both CEOs with and without CSR incentives exhibited reduced CSR engagement when they had experienced professional financial distress, in contrast to their counterparts without such experience.

Figs. 3 and 4 demonstrate that CEOs who experienced distress were less inclined to engage in CSR compared to their counterparts without such experience, more so when industry-level CSR performance was lower and when the firm was headquartered in a Republican state, respectively. At higher levels of industry-level CSR, firms led by CEOs with financial distress experience exhibited 4 percent lower CSR levels compared to those led by CEOs without such experience. When industry-level CSR was lower, the difference in CSR was more pronounced, with 11 percent lower CSR for firms led by CEOs with financial distress experience. For firms headquartered in Democratic states, those led by CEOs with financial distress experience exhibited 2 percent lower CSR compared to those led by CEOs without such experience, compared to an 18 percent difference in CSR between firms led by CEOs with and without financial distress experience in Republican states.

3.4. Supplementary analyses

3.4.1. Endogeneity

The observed negative relationship between CEOs' financial distress experience and CSR could stem from firms selectively hiring CEOs with certain experiences. Thus, instead of CEOs influencing firms' CSR, it is

possible that firms with low CSR preferences choose to hire CEOs with professional experiences of financial distress. We conducted various tests to address potential endogeneity issues (Busenbark, Yoon, Gamache, & Withers, 2022; Chen, Luo, Tang, & Tong, 2023) and presented our results in Table 3.

First, we conducted a difference-in-differences (DiD) analysis, comparing differences in CSR performance for firms replacing a CEO without financial distress experience with one possessing such experience, against firms hiring a CEO who was not exposed to financial distress experience. To ensure incoming CEOs can influence CSR, we required that they remain in the position for at least five consecutive years. Our sample thus comprises firm-year observations five years before and after CEO turnover, excluding the turnover year. We coded dummy variable, *Post*, as 1 for firm-year observations after CEO turnover and 0 for observations before the turnover. *Treatment* was a dummy variable that equaled 1 for incoming CEOs with financial distress experiences and 0 for those without such experience. In Model 1, the coefficient of *Treatment* × *Post* is negative and significant in predicting firms' CSR ($\beta = -0.080, p = 0.033, 95\% \text{ CI} = [-0.154, -0.006]$), suggesting a significant decline in firms' CSR when replacing a CEO without financial distress experience with one possessing such experience.

Second, to mitigate selection bias, we employed the propensity score matching (PSM) analysis, which rebalances treated and control groups to align with the population, ensuring no differences in observable covariates between firms of CEOs with and without financial distress experience. Using a probit regression, we first estimated a firm's propensity to have a CEO with financial distress experience, using the same set of control variables in our main analysis. We then used PSM to reweight firms with *CEO financial distress experience* = 1 and firms with *CEO financial distress experience* = 0 to create a reweighted sample within a caliper range of 0.005. In Model 2, the coefficient of *CEO financial distress experience* remains negative ($\beta = -0.029, p = 0.010, 95\% \text{ CI} = [-0.051, -0.007]$), consistent with our main results.

Third, CEOs' financial distress experiences can be associated with many factors that also affect CSR. To address this endogeneity concern, we first regressed CEO financial distress experience on all control variables used in the main analysis. We then used the residuals from this regression (defined as *Residuals*) as a proxy for CEO financial distress

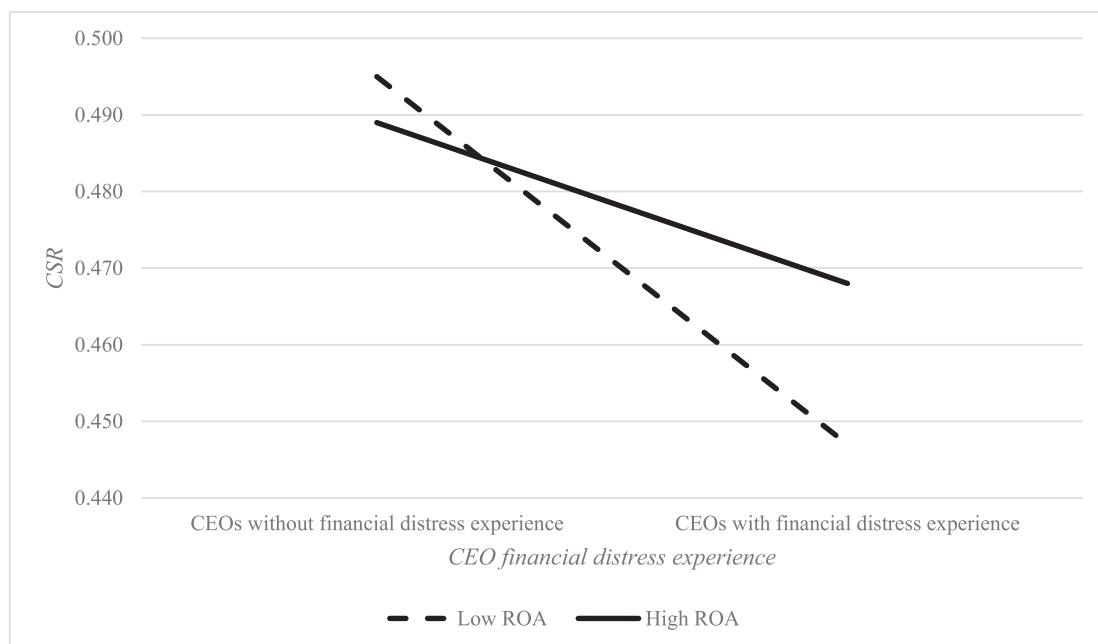


Fig. 1. Moderating effect between CEO financial distress experience and firm financial condition on CSR.

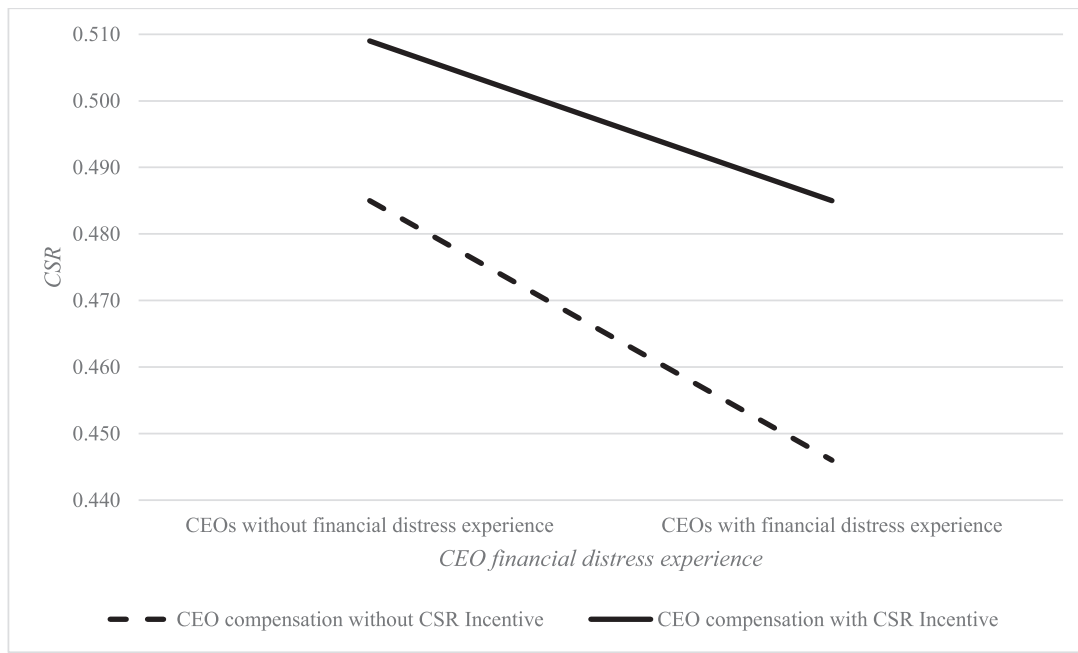


Fig. 2. Moderating effect between CEO financial distress experience and CSR incentive in CEO compensation on CSR.

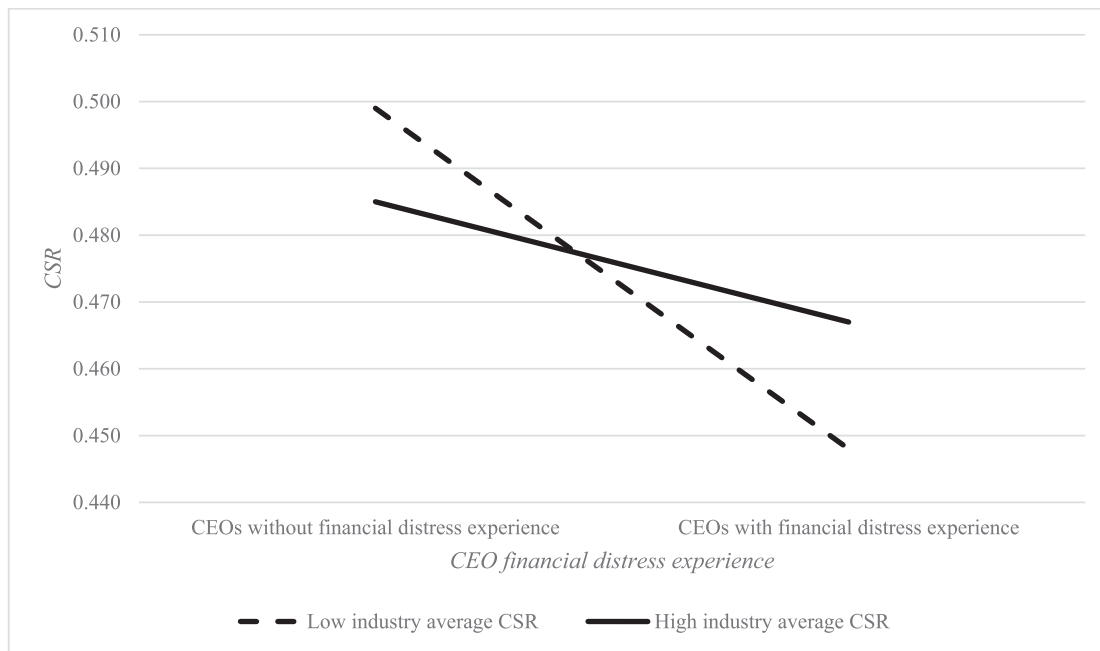


Fig. 3. Moderating effect between CEO financial distress experience and industry average CSR on CSR.

experience and re-estimated our baseline model. In Model 3, the coefficient of *Residuals* remains significant and negative ($\beta = -0.036, p = 0.002, 95\% \text{ CI} = [-0.059, -0.014]$). Fourth, recognizing that financially constrained firms may be more inclined to select CEOs with financial distress experiences, we excluded financially distressed focal firms identified by the four distress measures. Further, because the duration and gaps in CEOs' employment histories may correlate with CEO and firm characteristics, we excluded CEOs with short or incomplete employment histories. Specifically, we excluded CEOs with fewer than eight years of employment before joining the focal firm and those with any gaps in employment within a decade before their tenure at the focal firm. The coefficient of *CEO financial distress experience* in Model 4

remains negative ($\beta = -0.034, p = 0.008, 95\% \text{ CI} = [-0.058, -0.009]$), consistent with our main analysis.

Fifth, despite the inclusion of several control variables, there remains the possibility of unknown omitted variables influencing both CEO financial distress experience and CSR. Therefore, we tested for the Impact Threshold of a Confounding Variable (ITCV), which enabled us to assess the correlation required for an omitted variable to overturn our results. The findings revealed that an omitted variable would need a correlation of -0.032 with both our independent and dependent variables to invalidate our findings. Given the substantial magnitude of ITCV compared to the impact of each control variable, it is highly unlikely for an omitted variable to invalidate our main results (Gamache &

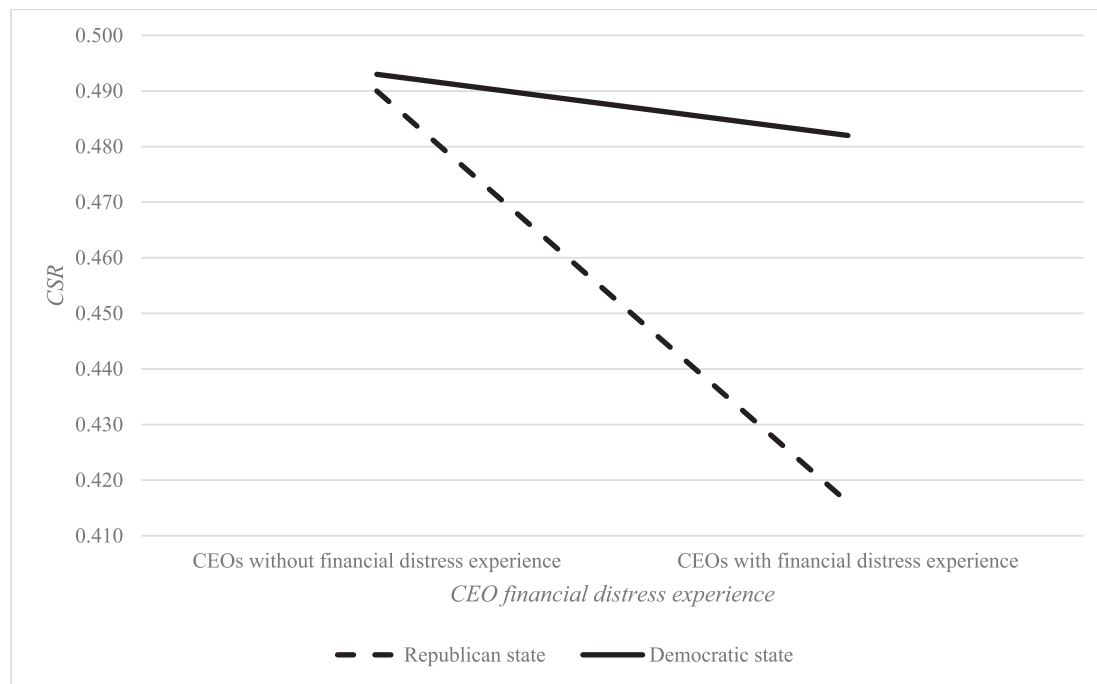


Fig. 4. Moderating effect between CEO financial distress experience and state political leaning on CSR.

McNamara, 2019).

Finally, we re-estimated our main analyses using firm-fixed effects regression model to account for unobservable time-invariant firm attributes. We obtained consistent results, as shown in Table 4.

3.4.2. Other robustness tests

To assess the robustness of our findings, we conducted several robustness checks using alternative measures, reported in Table 5. We first examined the persistence of financial distress by assessing declines over a two-year period, covering both the current (year t) and the previous year (year $t-1$). We redefined our measure of CEO financial distress experience to capture instances where the CEO's former firms experienced bankruptcy, or significant adverse changes in credit ratings, operating cash flows or annual share returns during their tenure for two consecutive years (years t and $t-1$). Using this alternative measure in Model 1, our results remain consistent ($\beta = -0.051, p = 0.033, 95\% \text{ CI} = [-0.097, -0.004]$). Next, we incorporated Altman's Z bankruptcy score as an additional financial distress indicator in defining CEO financial distress experience (Altman, 1968). A CEO was considered to have distress experience if he/she had worked in a firm with an Altman's Z score below 0. In Model 2, our results remain consistent ($\beta = -0.034, p = 0.003, 95\% \text{ CI} = [-0.056, -0.012]$). In Model 3, we calculated standardized social and environmental scores and averaged them to obtain the CSR measure. The results remain consistent ($\beta = -0.178, p = 0.002, 95\% \text{ CI} = [-0.289, -0.067]$). We also computed industry-adjusted CSR using the average of industry-adjusted social and environmental scores. In Model 4, our results remain consistent ($\beta = -0.033, p = 0.002, 95\% \text{ CI} = [-0.054, -0.012]$).

3.4.3. Substantive versus symbolic CSR

Although we propose that CEO financial distress experience negatively affects overall CSR engagement, it is possible that CEOs distinguish between more costly and less resource-intensive CSR initiatives. To explore this further, we examine whether CEO financial distress experience has differing impacts on substantive versus symbolic CSR initiatives (Schons & Steinmeier, 2016). Substantive CSR involves genuine, cost-intensive initiatives that lead to measurable changes, such as adopting renewable energy or investing in employee development. In

contrast, symbolic CSR involves actions that signal conformity to stakeholder expectations without necessarily implementing significant operational changes, such as reporting or making claims about CSR activities (Bothello, Ioannou, Porumb, Zengin-Karaibrahimoglu, 2023). CEOs with financial distress experiences may be more inclined to reduce substantive CSR but not symbolic CSR, as the latter typically involves lower costs (Nardi, 2022).

Consistent with prior research (Bothello et al., 2023; Hawn & Ioannou, 2016; Surroca, Aguilera, Desender, & Tribó, 2020), we measure *Substantive CSR* and *Symbolic CSR* using a set of indicators from the ASSET4 database. These measures are aggregated with equal weights and standardized to compute the final variables for *Substantive CSR* and *Symbolic CSR*. The results, presented in Table 6, reveal that CEO financial distress experience is negatively associated with both substantive and symbolic CSR. In Model 1, where *Substantive CSR* is the dependent variable, the coefficient of *CEO financial distress experience* is negative and significant ($\beta = -0.161, p = 0.004, 95\% \text{ CI} = [-0.271, -0.051]$). In Model 2, where *Symbolic CSR* is the dependent variable, the coefficient is also negative and marginally significant ($\beta = -0.123, p = 0.099, 95\% \text{ CI} = [-0.270, 0.023]$). The difference between these two coefficients is not statistically significant. These results indicate that, overall, CEOs with financial distress experiences tend to reduce CSR compared to those without such experiences, regardless of the type. One possible explanation is that, although symbolic CSR typically involves lower cost, it does not always yield positive outcomes for firms (Graafland & Smid, 2019; Khanchel, Lassoued, & Gargouri, 2024). Therefore, for CEOs with financial distress experiences, distinguishing between these two types of CSR may be less relevant, as both involve expenditures associated with uncertain returns, which they are inclined to avoid.

4. Discussion

Our study aims to address the question of how CEOs' past adverse professional experiences shape their decisions regarding socially responsible activities. We focus on a specific type of professional adversity—CEOs' financial distress experience. We find that CEOs with past financial distress experience are less likely to engage in CSR because

Table 3
Endogeneity tests.

	DiD analysis	PSM analysis	Residual in the 2nd stage	Including exclusion criteria
	Model 1	Model 2	Model 3	Model 4
Treatment × Post	0.072 (0.047)			
Treatment	0.074** (0.025)			
Post	-0.080* (0.038)			
CEO financial distress experience		-0.029* (0.011)		-0.034** (0.013)
Residuals			-0.036** (0.012)	
CEO gender	-0.034 (0.040)	-0.072 (0.045)	-0.044 (0.029)	-0.029 (0.029)
CEO equity compensation	0.029† (0.017)	0.000 (0.017)	0.012 (0.010)	0.010 (0.011)
CEO CSR incentive	0.020 (0.015)	0.037** (0.013)	0.026** (0.008)	0.026** (0.009)
CEO age	0.003† (0.002)	0.001 (0.001)	0.001 (0.001)	0.001 (0.001)
CEO political ideology	0.026† (0.015)	0.002 (0.009)	-0.007 (0.007)	-0.008 (0.008)
CEO overconfidence	0.005 (0.020)	0.043** (0.016)	0.012 (0.011)	0.015 (0.012)
CEO insider status	-0.046† (0.026)	0.009 (0.010)	-0.006 (0.011)	-0.008 (0.012)
Firm size	0.060*** (0.015)	0.068*** (0.006)	0.065*** (0.005)	0.062*** (0.006)
ROA	-0.026 (0.070)	0.095* (0.047)	0.008 (0.034)	0.001 (0.044)
Cash holdings	0.060 (0.103)	-0.047 (0.083)	0.013 (0.059)	0.075 (0.074)
Debt-to-equity ratio	0.053 (0.041)	-0.004 (0.037)	0.012 (0.026)	-0.001 (0.030)
Market-to-book ratio	-0.000 (0.000)	-0.000 (0.000)	0.000 (0.000)	0.000 (0.000)
R&D intensity	0.031 (0.097)	0.202† (0.108)	0.083 (0.061)	0.121 (0.079)
Corporate governance	0.050 (0.039)	0.116*** (0.024)	0.109*** (0.018)	0.114*** (0.020)
Industry average CSR	-0.041 (0.156)	-0.040 (0.149)	-0.050 (0.065)	-0.063 (0.070)
Democratic state	0.092† (0.051)	0.009 (0.021)	0.022 (0.018)	0.017 (0.021)
GDP per capita	-0.028 (0.165)	0.026 (0.075)	-0.014 (0.073)	0.001 (0.078)
Constant	0.447 (1.758)	-0.437 (0.834)	0.286 (0.778)	0.114 (0.833)
Year fixed effects	Yes	Yes	Yes	Yes
Industry fixed effects	Yes	Yes	Yes	Yes
Between R-squared	0.431	0.407	0.365	0.357
Observations	609	1,216	2,945	2,372

Note. Standard errors clustered by firm are in parentheses. † $p < 0.10$, * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$.

they tend to have a resource conservation mindset in their decision-making. Further, our contingency framework reveals that the impact of CEOs' past financial distress experience is significantly shaped by the characteristics of the current context in which they operate, which are captured by factors such as the current firm's financial condition, CEO compensation linked to CSR, and industry- and societal-level CSR expectations. Our study underscores the need for a nuanced understanding of how various forms of adversity can uniquely affect CSR engagement.

Our study contributes to the literature in two important ways. First, it advances CSR research by identifying professional experiences of

financial distress as a critical antecedent shaping CEOs' attitudes toward CSR. While studies have found that CEOs' early-life adversities can influence a firm's social responsibility (e.g., O'Sullivan et al., 2021), they have mainly focused on *personal* traumatic events that foster prosocial attitudes. We note that understanding adversity stemming from professional contexts is equally critical, given evidence that workplace distress, instead of fostering empathy, may lead to negative outcomes such as workplace misconduct (Narayan, 2024). In addition, CSR is a multifaceted phenomenon that involves not only altruistic considerations (Choi et al., 2023; Xu & Ma, 2022), but also the strategic deployment of a firm's resources into initiatives with uncertain and long-term returns (Orlitzky et al., 2003; Qian, Lu, & Yu, 2019). Our study highlights that financial distress experiences occurring within professional contexts shift focus toward these latter aspects, suggesting that such experiences lead to outcomes that diverge from those predicted by existing research.

Second, our study contributes to strategic leadership research by developing a contingency framework exploring the nuanced interplay between past professional experiences and the current work context. Strategic leadership research has suggested that a CEO's psychological traits, beliefs, and biases, such as hubris (Tang et al., 2015), overconfidence (Hsieh, Wang, & Demirkan, 2018), and political orientation (Chin et al., 2013), are pivotal in strategic decision-making related to CSR (Petrenko et al., 2016). While this research has identified various motives associated with stakeholder strategies, it remains unclear how these factors affect the way CEOs balance competing priorities, such as socially responsible initiatives and financial conservatism. Our study addresses this gap by utilizing a contingency framework to show that past experiences of financial distress are less salient when strong stakeholder pressures justify resource utilization for such initiatives over resource conservation.

By incorporating firm financial performance as a contingency factor, we provide additional evidence supporting the notion that the salience of financial concerns, accompanied by reduced stakeholder pressures, strengthens CEOs' motivations to prevent recurring adverse outcomes. However, we do not find evidence suggesting that CSR incentives in CEO compensation dampen the negative effect of prior financial distress experience on CSR. One possible explanation is that CEOs who are averse to loss, such as those who have experienced financial distress in their professional roles (Dittmar & Duchin, 2016), may not perceive positive incentives as salient as other direct factors that signal stakeholder preferences. Further, while CEO incentives for CSR may benefit the CEO personally, they do not directly demonstrate the value of CSR to the firm. On the other hand, clear expectations from stakeholders in the form of industry average CSR and state political orientation, are shown to impact the perception of CEOs with distress experience and thereby their CSR-related decision-making.

Our study also holds practical implications. Given CEOs' substantial influence on firm strategies (Hambrick & Mason, 1984; Quigley & Hambrick, 2015), it is imperative for firms to devise countermeasures if their CEOs' experiences predispose them to implement strategies that may not be beneficial to the firm and its stakeholders. For example, firms led by CEOs with prior financial distress experiences may appoint a formal position on the board such as chief sustainability officer to oversee CSR initiatives (Fu, Tang, & Chen, 2020). During the CEO hiring process, board members may also be more scrutinize the different types of CEO experiences and their impact on CEOs' decision-making and strategies within the firm. Our results also suggest that it might be beneficial for firms facing financial difficulties or in decline to hire CEOs with such experiences, as their focus on conserving financial resources and achieving financial goals may facilitate a successful turnaround (Chen & Hambrick, 2012).

Our study has limitations that open potential avenues for future research. While our study focuses on financial distress experience, we acknowledge that it represents only one type of adverse experience at work. Indeed, various other forms of negative experiences occur in

Table 4
Firm-fixed effects regression of CEOs' financial distress experience on firm CSR.

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
<i>CEO financial distress experience</i>	-0.037* (0.015)	-0.046** (0.016)	-0.043* (0.018)	-0.164** (0.063)	-0.097*** (0.017)	-0.239*** (0.059)
<i>CEO financial distress experience</i> × ROA		0.135† (0.076)				0.123† (0.074)
<i>CEO financial distress experience</i> × <i>CEO CSR incentive</i>			0.014 (0.021)			0.017 (0.020)
<i>CEO financial distress experience</i> × <i>Industry average CSR</i>				0.271* (0.128)		0.273* (0.123)
<i>CEO financial distress experience</i> × <i>Democratic state</i>					0.094*** (0.025)	0.096*** (0.025)
<i>CEO gender</i>	-0.055 (0.046)	-0.052 (0.047)	-0.054 (0.044)	-0.055 (0.046)	-0.044 (0.038)	-0.038 (0.037)
<i>CEO equity compensation</i>	0.005 (0.011)	0.004 (0.011)	0.006 (0.011)	0.005 (0.011)	0.005 (0.011)	0.006 (0.011)
<i>CEO CSR incentive</i>	0.021* (0.009)	0.021* (0.009)	0.018† (0.009)	0.021* (0.009)	0.021* (0.009)	0.017† (0.009)
<i>CEO age</i>	0.001 (0.001)	0.001 (0.001)	0.001 (0.001)	0.001 (0.001)	0.001 (0.001)	0.001 (0.001)
<i>CEO political ideology</i>	0.004 (0.010)	0.004 (0.010)	0.003 (0.010)	0.003 (0.010)	0.004 (0.010)	0.004 (0.010)
<i>CEO overconfidence</i>	0.009 (0.012)	0.008 (0.012)	0.009 (0.012)	0.009 (0.012)	0.007 (0.012)	0.007 (0.012)
<i>CEO insider status</i>	-0.029† (0.016)	-0.029† (0.016)	-0.029† (0.016)	-0.028† (0.016)	-0.033* (0.015)	-0.033* (0.016)
<i>Firm size</i>	0.035** (0.012)	0.036** (0.012)	0.036** (0.012)	0.036** (0.012)	0.035** (0.012)	0.036** (0.012)
<i>ROA</i>	0.006 (0.034)	-0.025 (0.038)	0.003 (0.034)	0.003 (0.034)	-0.005 (0.033)	-0.038 (0.036)
<i>Cash holdings</i>	0.030 (0.061)	0.034 (0.060)	0.032 (0.061)	0.034 (0.060)	0.036 (0.060)	0.048 (0.059)
<i>Debt-to-equity ratio</i>	0.032 (0.028)	0.032 (0.027)	0.032 (0.028)	0.032 (0.027)	0.031 (0.028)	0.030 (0.028)
<i>Market-to-book ratio</i>	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)
<i>R&D intensity</i>	0.026 (0.055)	0.020 (0.055)	0.025 (0.055)	0.028 (0.056)	0.022 (0.056)	0.016 (0.055)
<i>Corporate governance</i>	0.074*** (0.019)	0.075*** (0.019)	0.074*** (0.019)	0.075*** (0.019)	0.075*** (0.019)	0.077*** (0.019)
<i>Industry average CSR</i>	-0.022 (0.066)	-0.021 (0.066)	-0.023 (0.066)	-0.074 (0.070)	-0.024 (0.065)	-0.076 (0.069)
<i>GDP per capita</i>	-0.070 (0.133)	-0.069 (0.132)	-0.069 (0.133)	-0.076 (0.132)	-0.090 (0.132)	-0.094 (0.131)
Constant	0.969 (1.437)	0.957 (1.428)	0.958 (1.438)	1.053 (1.436)	1.192 (1.430)	1.260 (1.424)
Year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Firm fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Within R-squared	0.336	0.338	0.337	0.339	0.343	0.348
Observations	2,945	2,945	2,945	2,945	2,945	2,945

Note. Standard errors clustered by firm are in parentheses. †*p* < 0.10, **p* < 0.05, ***p* < 0.01, ****p* < 0.001.

professional settings, such as product recalls, scandals, crises, and trauma experiences such as supervisor abuse. Future research can explore the differential effects that these types of experiences may have on CSR. In addition, even though we follow previous studies in capturing CEOs' financial distress experience, we did not directly assess CEOs' actual attitudes toward resource conservation due to data constraints. Future research could employ surveys and experimental methods to explore these mechanisms more deeply, thereby enhancing our understanding of how financial distress experiences influence CSR decision-making. Finally, our supplementary analyses provide some evidence that CEO financial distress experience may have varying effects on different categories of CSR, such as symbolic and substantive CSR. We encourage future research to explore these nuances.

5. Conclusion

We find that CEOs with professional experiences of financial distress engage in lower levels of CSR. This effect is strengthened during periods of poor firm performance and mitigated when industry and societal expectations to prioritize CSR are high. Our contingency framework

provides a nuanced understanding of how CEOs' professional experiences impact CSR. We hope our study spurs more research investigating CEO experiences and firm strategies.

CRedit authorship contribution statement

Pavithra Balaji: Writing – review & editing, Writing – original draft, Methodology, Conceptualization. **Cuili Qian:** Writing – review & editing, Writing – original draft, Supervision, Resources, Methodology, Investigation, Conceptualization. **Eunice S. Khoo:** Writing – review & editing, Writing – original draft, Methodology, Formal analysis, Data curation, Conceptualization. **Louise Y. Lu:** Writing – review & editing, Writing – original draft, Supervision, Resources, Methodology, Investigation, Conceptualization.

Declaration of competing interest

The authors declare that they have no known competing financial interests or personal relationships that could have appeared to influence the work reported in this paper.

Table 5
Robustness checks using alternative measures.

	Persistence of distress indicators	Altman's Z bankruptcy score	Standardized CSR measure	Industry-adjusted CSR measure
	CSR		Standardized CSR	Industry-adjusted CSR
	Model 1	Model 2	Model 3	Model 4
CEO financial distress experience (Persistence of distress indicators)	-0.051* (0.024)			
CEO financial distress experience (Altman's Z bankruptcy score)		-0.034** (0.011)		
CEO financial distress experience			-0.178** (0.057)	-0.033** (0.011)
CEO gender	-0.040 (0.026)	-0.041 (0.031)	-0.237† (0.141)	-0.050† (0.028)
CEO equity compensation	0.010 (0.010)	0.008 (0.011)	0.041 (0.052)	0.007 (0.010)
CEO CSR incentive	0.026** (0.009)	0.027** (0.008)	0.135** (0.042)	0.025** (0.008)
CEO age	0.001 (0.001)	0.001 (0.001)	0.005 (0.004)	0.001 (0.001)
CEO political ideology	-0.005 (0.007)	-0.007 (0.007)	-0.032 (0.036)	-0.006 (0.007)
CEO overconfidence	0.011 (0.011)	0.011 (0.011)	0.057 (0.055)	0.010 (0.010)
CEO insider status	-0.005 (0.011)	-0.008 (0.011)	-0.041 (0.053)	-0.007 (0.010)
Firm size	0.064*** (0.005)	0.064*** (0.005)	0.317*** (0.026)	0.059*** (0.005)
ROA	0.003 (0.033)	0.014 (0.034)	0.062 (0.167)	0.016 (0.029)
Cash holdings	0.031 (0.059)	0.022 (0.059)	0.116 (0.289)	0.016 (0.052)
Debt-to-equity ratio	0.012 (0.026)	0.009 (0.026)	0.043 (0.128)	0.011 (0.024)
Market-to-book ratio	0.000 (0.000)	0.000 (0.000)	0.001 (0.001)	0.000 (0.000)
R&D intensity	0.088 (0.060)	0.096 (0.061)	0.470 (0.302)	0.083 (0.056)
Corporate governance	0.107*** (0.018)	0.108*** (0.018)	0.531*** (0.088)	0.092*** (0.016)
Industry average CSR	-0.052 (0.064)	-0.056 (0.065)	-0.286 (0.319)	-0.842*** (0.058)
Democratic state	0.019 (0.018)	0.019 (0.018)	0.096 (0.090)	0.011 (0.017)
GDP per capita	-0.002 (0.073)	-0.008 (0.073)	-0.052 (0.356)	0.022 (0.068)
Constant	0.159 (0.781)	0.225 (0.777)	-1.078 (3.809)	-0.239 (0.732)
Year fixed effects	Yes	Yes	Yes	Yes
Industry fixed effects	Yes	Yes	Yes	Yes
Between R-squared	0.362	0.364	0.368	0.340
Observations	2,945	2,945	2,945	2,945

Note. Standard errors cluster by firm are in parentheses. †p < 0.10, *p < 0.05, **p < 0.01, ***p < 0.001.

Table 6
Substantive versus Symbolic CSR.

	Substantive CSR	Symbolic CSR
	Model 1	Model 2
CEO financial distress experience	-0.161** (0.056)	-0.123† (0.075)
CEO gender	-0.150 (0.092)	-0.037 (0.143)
CEO equity compensation	0.097* (0.045)	-0.026 (0.053)
CEO CSR incentive	0.112* (0.046)	0.162** (0.053)
CEO age	0.009** (0.003)	0.007† (0.004)
CEO political ideology	-0.031 (0.030)	-0.055 (0.038)
CEO overconfidence	-0.018 (0.056)	0.115† (0.066)
CEO insider status	0.049 (0.044)	0.019 (0.054)
Firm size	0.315*** (0.022)	0.333*** (0.028)
ROA	-0.061 (0.141)	0.057 (0.176)
Cash holdings	0.340 (0.276)	-0.066 (0.315)
Debt-to-equity ratio	0.152 (0.116)	-0.069 (0.125)
Market-to-book ratio	-0.001 (0.001)	0.000 (0.001)
R&D intensity	0.062 (0.254)	0.189 (0.278)
Corporate governance	1.010*** (0.082)	0.607*** (0.103)
Industry average CSR	-0.347 (0.321)	-0.989* (0.385)
Democratic state	0.007 (0.075)	0.075 (0.088)
GDP per capita	0.028 (0.287)	0.017 (0.370)
Constant	-2.925 (3.106)	-1.777 (3.946)
Year fixed effects	Yes	Yes
Industry fixed effects	Yes	Yes
Between R-squared	0.529	0.420
Observations	2,944	2,944

Note. Standard errors clustered by firm are in parentheses. †p < 0.10, *p < 0.05, **p < 0.01, ***p < 0.001.

Data availability

Data will be made available on request.

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