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AGING CEOS LEGACY: STRATEGIC CSR OR EMPIRE BUILDING? CELEBRITY STATUS AND BOARD INDEPENDENCE CONTINGENCIES

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ABSTRACT

This work examines the effect of the CEOs' age on the likelihood of pursuing legacy enhancing activities. The premise is that aging CEOs, who have a high level of entrenchment, are more likely to invest in legacy enhancing activities. While some aging CEOs cement their legacy by pursuing empire building activities, others choose to focus on corporate social responsibility (CSR) that also benefits the firm financially. The presence of an independent board can influence the type of legacy the CEOs may pursue, especially if the chairman of the board is not the CEO themselves. Celebrity CEOs, who have been awarded various honors for their perceived accomplishments, have a high level of power, overconfidence and hubris, and are thus more likely to invest heavily into building their legacy.

Key words: CEO legacy, board independence, strategic CSR, celebrity CEO, empire building.

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1. INTRODUCTION

Do older CEOs focus more on legacy building than young ones? In their legacy pursuit will they hurt shareholders by pursuing empire building, or benefit them by investing in strategic corporate social responsibility (CSR)? How is this relationship moderated by celebrity CEO status and by an independent board of directors? Our research focuses on the motivation behind the actions of older CEOs, trying to determine whether they are more interested in firm performance or their own legacy, as they progress through their career. Empire building would entail expensive mergers and acquisitions (M&As), the willingness to pay higher than the going market rate, in order to build one's legacy. Alternatively, CEOs can invest in strategic CSR, which has been shown to be beneficial to the firm's financial performance.

Board independence from the CEO moderates the likelihood of older CEOs to enhance their legacy. A strong, independent board, especially one where the CEO is not the chairman, is able to control and influence CEO actions. As such the independent board will weaken empire building tendencies, and instead shift organizational focus towards financially beneficial strategies, such as strategic CSR.

The likelihood of older CEOs to build their legacy may be moderated by CEO celebrity status. Celebrity CEOs have won prestigious business awards bestowed by the media. They have been shown to subsequently underperform compared to their own previous performance, as well as against other non-award-winning CEOs. Given their increased media exposure and monitoring, celebrity CEOs may focus both on extracting superior pay from their companies and on building their legacy.

1.1. Corporate Governance

The board of directors (BOD) is one of the main monitoring instruments of the actions of the CEO, and plays an important role in reducing the problems created by agency issues between management and shareholders. The monitoring can be achieved by linking CEO pay to shareholders' wealth and by firing them if the firm underperforms. This threat of dismissal when the firm is performing bad, and of keeping and rewarding them when performance is good aligns shareholders' and managers' interests (Geddes & Vinod, 1997).

The agency problem is addressed by separating decision management from residual risk bearing, by creating a division of labor between the CEO, who is charged with decision management, and the board who undertakes decision control. Board members are incentivized to efficiently monitor the CEO, and by accurately doing so, they enhance their human capital. The greatest incentive to monitor the CEO is placed on the outside directors, who are more likely to pursue this mission and thus signal to both internal as well as external markets for decision makers that they are decision experts, who understand and can work with the diffuse and separate control system (Fama & Jensen, 1983).

The opposing perspective maintains that the director nomination process is dominated by CEOs, who would probably nominate directors who are likely to support the CEOs decisions, and that even when their perspectives differ, newly appointed outsides directors would fear retribution and thus avoid confrontation. In addition, if the outside directors' area of expertise is narrow, it would be unlikely that they would challenge the CEOs in other areas (Lorsch & Maclver, 1989). Board members which are selected by the CEO, enjoy good pay and high prestige, so their likelihood to "rock the boat" is small, except in cases of obvious problems that could not be tolerated as being too flagrant (Dominguez et al., 2008). An example of the cozy relationship that may exist between the board and the CEO is the reluctance of board members to approach controversial topics, such as CEO succession plans (Freeman, 2004) (See Figure 1).

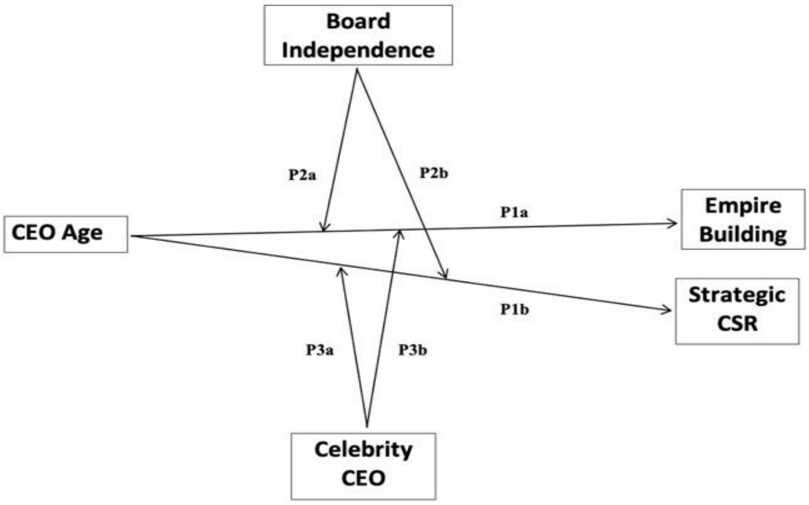

Figure 1 Theoretical Framework

2. THEORY BUIDLING / DEVELOPMENT

2.1. Empire Building

According to agency theory managers sometimes do not act in the best interest of shareholders (Jensen & Meckling, 1976). At times managers can make self-maximizing decisions that are suboptimal from the shareholders' perspective. One such decision is empire building, which reduces firm value by decreasing the focus on operating performance (Jensen, 1986), representing an attempt by executives and the CEO to increase the scope and size of the organization in order to increase their status, power, and influence. Growth for growth's sake may be a consequence, and this may be detrimental to shareholders. The board is intended as a safeguard to prevent the CEO from taking control, and focus on pursuing actions, such as economically unjustified acquisitions, whose main purpose is to increase the CEO's power, compensation, status, and potentially also enhancing their legacy. Extant literature has showed an apparent prevalence of value destruction due to mergers and acquisitions (M&As) over the last few decades mainly addressed through an agency perspective (Andrade et al., 2001).

From one perspective CEOs engage in M&As due to the benefits they will accrue as a result: large bonus grants, new stocks and option grants, and large bonuses (Harford & Li, 2007). Because acquisitions result in an increase in firm size, which is one of the primary determinants of CEO compensation, CEOs are likely to receive permanent increases in compensation (Yim, 2013). By engaging in M&As, CEOs in fact have the opportunity to renegotiate their compensation, based on the enlarged size of their firm.

Young unexperienced CEOs may face higher job risks in regard to pursuing M&As, facing the likelihood of being fired for a potentially bad acquisition, thus in turn taking fewer risks. The motivation for M&As differs among young and aging CEOs: while young executives focus mainly on increasing their compensation permanently by pursuing acquisitions early on in their careers (Yim, 2013), aging ones pursue these likely value destroying actions, mainly to improve their legacy.

As CEOs age, their changing psychological characteristics can influence their propensity to engage in legacy improving M&As. Many CEOs exhibit overconfidence thus overestimating their ability to create value and instead pursuing value destroying acquisitions (Malmendier & Tate, 2009). Prior literature noted that overconfidence has been observed typically in younger individuals (Forbes, 2005). Given the lower level of overconfidence characterizing aging CEOs, due in part to the higher level of experience regarding the firm and its industry, we argue that aging CEOs engage in empire building to enhance their reputation, compensation and legacy much more than younger ones. Other CEO psychological characteristics such as increased wisdom and even-temperedness that come with age, as well as life and industry experience are also likely to positively influence the propensity of older CEOs to engage in empire building activities.

As CEOs progress in their career within the firm they typically accumulate stocks and option-based compensation, thus having a higher ownership stake within the firm, and overall larger wealth overall. As aging executives amass larger amounts of wealth, they are more likely to pursue larger acquisitions, and instead of focusing on increasing firm performance, they are likely to engage in empire building, in order to increase their long-term reputation and legacy. CEOs who have large amounts of their wealth tied into company stocks may seek to increase their personal worth by engaging in certain empire building strategies. Similarly, holding options, which typically encourage risk-taking because of the convexity of the payoffs may drive aging CEOs towards riskier M&As.

The topic of empire building has been approached by Xuan (2009) from the perspective of the choices made by a new CEO that was promoted from within the firm, regarding resource allocation towards the department from which he emerged, his in-group. The corresponding term, bridge-building, represents the investment in other departments, the out-group, which may prove more valuable to the CEO, as he does not have knowledge and power in the particular area. He finds that newly appointed CEOs tend to do more bridge building than empire building. Conversely our study focuses on the latter part of a CEO's career, and we propose therefore that in that stage, CEOs will more likely build their legacy, and one of its components is represented by empire building.

According to both managerial as well as agency theories, managers maximize their utility function, which impacts their income, status, power and security (Hoskisson et al., 2002). By maximizing their utility, managers engage in empire building either by reducing R&D expenditures, or by pursuing product diversification (Hoskisson and Hitt, 1988). The reason for empire building is related to the structure of the managerial compensation model, the degree of uncertainty as well as the decision makers' preference for risk aversion or prudence (Kanniainen, 2000). According to Jensen's influential 1986 article "*Managers have incentives to cause their firms to grow beyond the optimal size.*" While extracting higher rents is not the overriding goal of aging CEOs, their focus may be on leaving behind a larger firm, and therefore would attempt to grow it mainly to increase their power, prestige, and legacy. We propose:

Proposition 1a. Aging CEOs will focus on empire building to improve their legacy.

2.2. Strategic CSR

While aging CEOs who seek to enhance their legacy may pursue on the one hand empire building through M&As, an action often perceived as a shareholder value destroying activity, on the other hand they could build they legacy by investing in CSR, which can result in positive outcomes towards multiple organizational stakeholders.

Originally, CSR literature sought to determine whether firms have a responsibility to seek social betterment beyond their legal and economic obligations (Matten et al., 2003). The discussion advanced towards explaining how CSR activities have a strategic justification for positively impacting corporate financial performance, not only social beneficial outcomes (Rowley & Berman, 2000). The resulting concept of strategic CSR represents activities that positively contribute to firm financial performance, thus excluding some activities that merely engage in pursuing social good (Baron, 2001). A recent meta-analysis presented four empirical mechanisms through which strategic CSR positively impacts corporate financial performance:

(1) increasing firm reputation, (2) enhanced shareholder reciprocation, (3) firm risk mitigation, and (4) improved innovation capacity (Vishwanathan et al., 2020). We shall address them next.

-*Enhanced firm reputation.* Firms that invest in CSR benefit from a reputation enhancement, with multiple organizational stakeholders identifying the firm as an attractive business partner (Boyd et al., 2010). Extant research has showed that a high CSR rating is helpful in attracting prospective employees (Jones et al., 2014). Philanthropic donations are also strategically useful forms of CSR as they draw attention and induce positive attributions by stakeholders (Groza et al., 2011). Customers are attracted to CSR firms, being more willing to purchase from them, as well as accepting to pay higher prices. Investors are interpreting CSR initiatives as a positive sign of the firm's future profitability, and thus are more interested in CSR firms. Reputational enhancements form the perspective of multiple stakeholders are highly relevant to aging CEOs seeking to improve their legacy. Philanthropic donations are made in the name of the firm but are delivered by the CEO, who shares some of the reputational benefits. Having clients more likely to purchase and pay more is likely to result in increased profitability for CEOs personally, especially if they are heavily invested in firm stocks and options. Similarly, attracting more investors, as a result of a positive CSR reputation, is likely to raise stock prices, leading to greater wealth for an aging CEO holding company stock. Overall, an enhanced firm reputation solidifies further the legacy of an aging CEO.

-*Enhanced shareholder reciprocation*. The CSR actions undertaken by firms benefit certain stakeholder groups that can reciprocate by endorsing the firm thus resulting in more productive and enduring relationships (Bosse & Coughlan, 2016). Employees exhibit greater job satisfaction as a result of safe work conditions, and fair pay it can lead to a more motivated, productive, and organizationally committed workforce. Government bodies and local communities can endorse the organization, potentially leading to increased government procurement and favorable enforcement conditions. Such endorsements, accumulating over a CEOs tenure, are highly beneficial to their reputation, as they accrue over time, solidifying their legacy over time. While the organization benefits, and pays the cost of the CSR activities, the CEOs' reputation and legacy are also improved.

-*Firm risk mitigation.* Firms engaged in CSR face a wider set of issues and more diverse stakeholders when compared to non-CSR participating firms, therefore being exposed to novel information that can help them in mitigating risk. Firms can directly reduce risk exposure by engaging in activities designed specifically to protect stakeholders: employee health and safety, fair trade, or pollution prevention. By developing close relationships with various stakeholders, firms can indirectly identify, anticipate, and prevent potential threats, thus reducing risk. As CEOs age and increase their tenure, they build on previous working relationships with various stakeholders, leading to improved communication and risk mitigation, by strengthening the volume and quality of the information conveyed. Risk propensity decreases with age, thus older CEOs are likely to desire a lower level of risk, and to actively engage multiple stakeholders in identifying and preventing threats, by exploiting the beneficial results of strategic CSR activities.

-*Strengthened innovation capacity.* CSR can be an avenue for firm differentiation and innovation, as firms develop stronger relationships with their stakeholders that can lead to a broader perspective that allows them to identify novel opportunities (Tantalo & Priem, 2016). Good relationships with external stakeholders, such as customers or local and environmental groups, may open access to new pools of information that may lead to innovation. Similarly, internal stakeholders i.e. employees are crucial in the process, as they are more likely to share information if they are not facing the short termism that tends to hamper innovation (Flamer & Kacperczyk, 2016). In order to develop certain CSR actions firms often need to develop or further extend existing capabilities, thus increasing the firm's absorptive capacity. By pursuing radical process innovations firms may reduce not only their production costs but also waste. New business models may result as firms improve their absorptive capacity while pursuing CSR initiatives, thus leading to novel sources of value creation (Vishwanathan et al., 2020).

Increased firm differentiation and innovation leaps based on strategic CSR can lead to improved corporate financial performance, and in turn to higher profitability. Innovation is a source of long-term stability and can lead to sustainable competitive advantage, thus solidifying the aging CEO's legacy as they progress in their tenure. As this process is path dependent, long term investment in CSR may be required, thus leading to improved absorptive capacity and higher R&D capabilities. Such improvements to the organization would likely improve the personal legacy of the CEOs. Therefore, we propose:

Proposition 1b. Aging CEOs will focus on strategic CSR to improve their legacy.

2.3. Board Independence

Independent directors are not employees of the firm and have no relationship in any capacity with the firm, beyond that of serving on the board (Finkelstein et al., 2009). Management literature studies board independence through two important theoretical perspectives. Agency theory (AT) assumes that managers are individualistic, self-serving, and opportunistic, and argues that a higher percentage of independent board members will control the executives' tendency for self-serving and instead shift their focus to shareholder interests (Fama & Jensen, 1983). Independent board members are unlikely to pursue their own private interests and are more effective than insiders in performing their monitoring duties over the CEO and executive team. Agency theory predicts that a larger proportion of independent board members will lead to improved firm performance. Stewardship theory takes an opposing approach, considering that insider board members are actually preferred, as they are trustworthy, pro-organization oriented, and are better informed in regard to their own firms. The assumption is that managers are good stewards of the organization, who will act in the shareholders best interest, thus boards that have a higher number of insiders would lead to improved firm performance (Donaldson & Davis, 1991). CEO duality, where the board chairman and CEO is one and the same is: (1) discouraged under agency theory, as it doesn't allow for a clear separation between the organizational and control function, while it is (2) encouraged under stewardship theory, as this would enable strong and clear leadership (Ramdani & van Witteloostuijn, 2010).

The relevance of the board's monitoring function can be noted when considering issues such as Volkswagen's emission scandal, where a lack of an independent board was noted as one of the contributing factors that may have prevented the situation from escalating. While acknowledging the contributions of stewardship theory, we follow the prescriptions of agency theory and argue that board independence is crucial in mitigating issues arising from the separation of ownership and control, and argue that it can lead to good governance, thus moderating the CEOs legacy plans. Independent boards who serve as channels for advice, linking the focal firm to external organizations, were shown to improve retention rates, have a lower likelihood of CEO dismissal, and by monitoring the CEO, lead to overall improved firm performance (Zhang, 2008).

A recent meta-analysis found that higher board independence leads to a lower level of corporate misconduct, emphasizing the positive effect of its control over organizational corporate governance (Neville et al., 2019). Consistent to prior management literature, we consider independence as represented by: (1) the percent of board members that are independent, or outsiders, (2) the presence of CEO duality, when the CEO is also the chairman of the board.

2.3.1. Board independence – Empire building

An independent board has the ability and the motivation to curb firm misconduct and control the actions of an aging CEO that may be interested in pursuing legacy enhancing activities. Outside members are better able than insiders to monitor management policies and financials and, when required, to challenge and punish executives. Independence may be required to monitor in the way an influential and unbiased shareholder would (Hambrick et al., 2015). If independent board members are incentivized with firm stock ownership, they are more likely to have vested interest in firm performance, resulting in increased scrutiny over CEO actions that may be detrimental to shareholder value, such as engaging in unrelated diversification, through M&As, in their legacy building pursuit.

The unity of execution and control that is subsumed in the CEO in the case of CEO duality results in a high level of discretion over organizational actions. By leading the board of directors, the CEO is assuming the control function over their own executive decisions, thus being better able to influence organizational actions. If empire building actions are their focus in their legacy enhancing goals, by holding both positions they are better able to implement their self-serving strategies. However, if the function of chairman of the board is separated from the CEO, a higher level of control results, entailing more diligent and independent oversight, thus lowering the likelihood that empire building strategies may be approved. As CEO tenure and especially age has a positive relation to CEO duality (Linck et al., 2008), we argue that aging CEOs, who are more likely to attain CEO duality, have a higher likelihood to approve their own empire building plans. Conversely, younger CEOs who are less likely to hold both positions, are less likely to achieve such discretion over firm actions. Given that board independence is reduced in the case of CEO duality, we propose:

Proposition 2a. Board independence will weaken the relationship between CEO age and empire building.

2.3.2 Board independence – Strategic CSR

Board members that are not executives, and have no other affiliation to the firm, are better able to observe and control the activities of the CEO, by directing them towards actions that are in the best interest of the shareholders. According to stakeholder theory independent boards are beneficial from multiple perspectives: (1) improving organizational legitimacy, (2) protecting multiple organizational stakeholders, (3) building trust in customers, resulting in improved brand loyalty, (4) improved employee organizational commitment. Thus, firms that have independent boards are prone to engage in stakeholder engagement and CSR issues (Ortas et al., 2017).

Strategic CSR is typically considered beneficial to corporate financial performance, and an independent board, that is interested to acting in the interest of shareholders, is likely to go along with this type of legacy building actions by CEOs. The reputation enhancements that result from strategic CSR bring along the benefits of a more attractive partner and employer, which align with the agency theory prescriptions of curbing opportunistic behavior and focus on shareholder value. As CEOs advance in age, and are more interested in both 'doing good'(firm performance) and being well remembered (legacy building), outside board members whose fiduciary duty is to guard the shareholders' interests are likely to approve of these actions. Similarly, in the case of philanthropic donations made by the aging CEOs on behalf of the firm, which result in positive attitudes towards the organization from the perspective of customers and investors.

CEO actions that build strong relationships with various organizational stakeholders who are likely to reciprocate for the mutual benefit, are likely to be approved by an independent board, as they align the interests of the agents with those of the principals. Aging CEOs that have built relationships with local communities as well as with governmental bodies are likely to benefit their organization with increased government procurement and improved enforcement condition. An independent board, focused on increasing firm performance, is likely to encourage such stakeholder engagement, which does increase the CEO's personal reputation, but also improves the firm's bottom line.

Risk mitigation strategies that focus on protecting various stakeholder groups such as fair trade (suppliers), employee safety, and pollution prevention (local community) make the firm a better corporate citizen and are conducive to good governance, one of the principal goals of independent boards. As CEOs tenure and age increase, they pursue a lower level of risk and are likely to focus on further developing their relationships with various stakeholders that will provide them information that will help identify, anticipate, and prevent risk. This cultivation of relationships by the aging CEO entails strategic CSR actions that are benefic to long term firm performance, therefore to the goals of an independent board. Similarly, an increased innovation capacity, another benefit of strategic CSR, can result in differentiation that may lead to a competitive advantage and sustained performance. As aging CEO seek to cement their legacy by strengthening the relationships with key stakeholders, which may lead to access to novel sources of information, they also strengthen their firms' financial performance and improve their own legacy. The improved innovation capacity and increased absorptive capacity that are a byproduct of the CEOs legacy enhancement plan through strategic CSR is beneficial to shareholders and will likely win the approval of an independent board. Therefore, we propose:

Proposition 2b. Board independence will strengthen the relationship between CEO age and strategic CSR.

2.4. Celebrity CEOs

Journalists play an influential role in shaping the public's perceptions regarding firm outcomes, such as organizational performance. Firm actions and outcomes are credited by journalists largely to the will of its leader, recognizing and celebrating some CEOs by over-attributing their firms' outcomes and performance directly to the CEO rather than to broader situational factors (Hayward et al., 2004). Thus, the performance of the whole organization is explained by a sole individual, its CEO (Ranft et al., 2006). A small number of CEOs achieve fame and fortune as a result of receiving awards from magazines such as Business Week, Fortune, Forbes, or Time. Such CEOs subsequently derive higher status, increased compensation as well as higher press coverage. A celebrity system exhibits skewed distribution of public attention, market share and income. Celebrity CEOs, also labeled superstar CEOs, have been showed to on the one hand, underperform following the receipt of awards, both when compared to their own previous performance as well as to their non-award-winning peers, but on the other hand to extract higher compensation, both in absolute amounts as well as relative to their peers (Malmendier & Tate, 2009). Such CEOs spend more time on private as well as public activities outside of work, including joining other firms' boards or writing books. Such behavior is more prevalent in firms with weak corporate governance, such as those that lack independent directors, and suggest that firms should increase their CEO monitoring following awards.

Shareholders don't get to decide who becomes a celebrity CEO based on their contribution to firm performance, as this prerogative is assumed by mass media. Neither is the receipt of such a status a recognition or an incentive for CEOs from the shareholders and boards who hired them, but instead may help the CEOs further increase their own power and entrench their positions within the firm. Therefore, a perverse effect occurs, where CEOs receive higher pay, as they are better able to extract rents due to their increased power (Bebchuck & Fried, 2003) resulting from their higher status, but at the same time their firms tend to underperform compared to their own previous performance, as well as their peers'. One explanation of the lowered company performance is related to the greater amounts of rents extracted as well as the higher perks consumed by the CEOs.

2.4.1. Empire Building – Celebrity CEOs

Executives who are internal members of the board, have incentives to work for celebrity CEOs as they are likely to receive higher pay than their peers due to this association. Another benefit of working for a celebrity CEO is the higher likelihood of such firm executives to be promoted to the CEO position themselves, whether inside the firm or externally (Graffin et al, 2008). This diffusion of status can create an incentive for internal board members to go along with the CEOs decisions unless their interests, or those of their firm are drastically contradicted, as it is in their own benefit in the long run. As such, if aging CEOs are interested in building their legacy by pursuing empire building, the benefits of working in a larger firm would also extend to the internal board members. Therefore, their incentive to "rock the boat" and counteract CEO empire building actions would be reduced.

Celebrity CEOs often become overconfident in their abilities, due to journalists' over-attribution of past firm performance mainly to the top executives (Hayward et al., 2004). The resulting hubris can lead to unrelated an empire building tactic. In addition, the increased power the CEOs gain coupled with the higher latitude of action over firm strategy allows them the discretion to deviate from performance focused organizational goals and instead focus on their legacy, regardless of cost. As younger CEOs are less likely to be entrenched in the organization and to have accumulated a high level of power and discretion, they are less likely to be allowed by the board to engage in empire building.

Older celebrity CEOs will have a higher level of mobility across firms, given their increased status, thus posing a credible threat to the board, who would like to maintain the positive association due to the celebrity status. This results in a relaxation of organizational norms, with the aging celebrity CEO facing a lower level of accountability to the board. The reduced monitoring will permit the refocusing of the organizational goals from profitability to growth for growth's sake, to the benefit of the aging CEOs legacy.

When pursuing acquisitions older celebrity CEOs pay smaller premiums for acquiring target firms than younger ones (Cho et al., 2016). Given their lower level of power and control over the board, young celebrity CEOs' acquisitions would cost the firm more, and are thus likely to be controlled by the board. We propose:

Proposition 3a. Celebrity CEOs status will strengthen the relationship between CEO age and empire building.

2.4.2. Strategic CSR – celebrity CEOs

A portion of the increased compensation that celebrity CEOs can extract due to their status, is offered in stock options. Firm financial performance thus becomes crucial in order to increase CEO long-term wealth. Thus, instead of building their legacy by focusing on potentially value destroying empire building, aging CEOs, who are more likely than young ones to hold more options, will shift focus to strategic CSR. CSR has been shown by extant literature to increase a firm's reputation, as well as the CEOs reputation, and can be a good avenue, both to increase shareholder wealth as well as to solidify their reputation. Strategic CSR specifically, does more than doing good for society, but is also financially beneficial for the firm. While younger CEOs would focus more on strategies that focus specifically on performance, aging CEOs also would consider their image, from the perspective of what they leave behind for future generations. Investing in strategic CSR results in win-win from both financial and social perspectives.

Older celebrity CEOs that invest in strategic CSR to increase their firm's reputation, are likely to benefit themselves personally, maintaining and improving their reputation. As they get older, celebrity CEOs seek philanthropic activities to boost their legacy, given their life stage. Developing personal connection within their community and government may suit their potential political aspirations. The appetite for risk decreases with age so mitigating risk will also help them maintain their celebrity status, relevant especially under intense media scrutiny. Strategic CSR actions would thus face intense media exposure and benefit the CEOs reputation and improve their legacy.

Proposition 3b. Celebrity CEOs status will strengthen the relationship between CEO age and CSR.

3. DISCUSSION

3.1. Managerial Implications

Aging CEOs that are interested in improving their legacy may take self-interested actions, that could prove detrimental to the firm and its shareholders. However, the presence of an independent board, and especially the separation of the chairman and CEO functions, can reduce the destruction of shareholder value. Celebrity CEOs have higher compensation than their peers, and more discretion to deviate from organizational norms and objectives. In order to control their self-serving tendencies in regard to their legacy, the presence of an independent board becomes critical.

3.2. Shareholder and Executive Implications

Shareholders need to pay attention to the actions of aging CEOs especially if corporate governance is not strong, if facing CEO duality. They should hold or even increase their investments if the CEO pursues strategic CSR activities, as this may improve financial performance. However, if unrelated diversification is noticed, divestiture may be advisable, as shareholders have the option to diversify their stock holdings themselves.

Firm executives may want to associate themselves with a successful celebrity CEO, as this would improve their pay as well as their advancement opportunities. Working for a celebrity allows executives, especially internal board members, to in fact borrow some of the celebrity themselves by association. This may help them accede to the CEO function for other firms or even potentially in the celebrity CEO's own succession.

3.3. Future Research Directions

While we seek to test the two proposed legacy building avenues, we acknowledge that there may be other ways for CEO to solidify their long-term reputation, such as writing books, or having buildings named for them or their firm. We will accordingly control for such activities. We aim to empirically test our model, by collecting celebrity CEO data from multiple sources, such as Forbes and Bloomberg BusinessWeek.

4. CONCLUSION

We articulate two of the mechanisms through which aging CEOs build their legacy. We consider both the potentially shareholder value: (1) destroying empire building, as well as (2) enhancing strategic CSR. Further, we show how an independent board can control the actions of the CEOs by reducing their propensity to engage in unrelated M&As and instead, direct them towards strategic CSR, thus doing good for the firm, their own legacy, as well as societal stakeholders. Additionally, we also consider the contingency of celebrity CEO status, bestowed on some executives by media organizations, showing how their increased power and latitude of action influences their pursuit of legacy enhancing activities.

As CEOs advance in age and tenure, they start considering what they leave behind, and one of the aspects where they can have the greatest impact is on their firm and its long-term future. One path they may take is to maximize the size of the firm by pursuing expensive unrelated diversification, to leave behind a business empire. Alternatively, they may focus on incorporating strategic CSR activities into the firm's strategy, and as such leaving behind a reputable and sustainable firm. While newly appointed CEOs need to build their reputation by impressing board members and firm's shareholders, entrenched, older CEOs having already proven themselves, and having developed a better understanding of the intricacies of their firm and industries, due to their high tenure in the industry and the firm, are in a better position to integrate CSR into their strategy, or alternatively, they are better at growing their firm, potentially through empire building strategies.

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