Leadership Succession and ESG Performance: Evidence from Board Chairperson Turnover in China

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Abstract

➢ **Materials**

The analysis draws on a panel of **13,336 firm-year observations** from Chinese A-share listed firms **between 2015 and 2022**.

➢ **Main Finding**

Chairperson succession significantly **undermines** a firm's ESG performance.

➢ **Underlying Mechanisms**

Internal Stability: Executive Team Stability
Strategic Resource Allocation: Green Investment

➢ **Moderating Conditions**

Leadership Structure: When the chairperson also serves as the CEO.
External Institutional Context: In regions with higher institutional quality and lower dialect diversity.
Successor Characteristics: When the successor is male.

Introduction

- ESG performance has become a strategic imperative for corporate financing, reputation and competitiveness
- Existing studies focus predominantly on CEOs, neglecting board chairpersons' crucial role
- China's institutional context confers chairpersons greater strategic authority than CEOs

Legal Framework:
- Company Law designates chairperson as legal representative
- No clear separation between board and management powers

Cultural-Political Dimensions:
- High power-distance culture reinforces chairperson dominance
- Political embeddedness through state networks affects resource access
- Chairperson serves as de facto first-in-command

Table 1. Regression, Mediation and Moderating Effect Test

Variables	Regression	Executive Team Stability	Green Investment	Dual Leadership
	ESG(1)	*STMT*(2)	*GI*(3)	*ESG*(4)
Turnover	-0.0690*** (0.0203)	-0.1756*** (0.0044)	-0.0060** (0.0203)	-0.0577** (0.0217)
DualxTurnover				-0.1091* (0.0642)
Dual				0.0269 (0.0355)
Cons	3.6427** (1.1361)	1.1079*** (0.1287)	-0.0101 (0.1699)	3.6316*** (1.1402)
Firm FE	Y	Y	Y	Y
Year FE	Y	Y	Y	Y
Controls	Y	Y	Y	Y
N	13336	13336	13336	13336
R^2	0.6079	0.3863	0.3029	0.6081

Results

- Chairperson turnover reduces ESG scores by an average of 6.9%.

Upper-echelons Theory

Leadership turnover may disrupt the continuity of ESG strategies, weaken team coordination, and hinder long-term investment in sustainability initiatives.

Signaling Perspective

Turnover, especially when associated with ESG-related incidents, may convey instability in internal governance, thereby reducing stakeholder confidence and prompting rating agencies to downgrade ESG assessments.

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Discussion 1-Mediation Effect

Weakening Executive Team Stability

Chairperson turnover **triggers management reshuffling**, leading to loss of key personnel and undermining team cohesion.

Reducing Green Investment

Strategic uncertainty **shifts focus to short-term performance**, diminishing long-term green investments.

Discussion 2-Moderating Effect

Dual Leadership Deficiencies
- Concentrates power & weakens checks and balances
- Raises agency costs & short-term bias
- Undermines sustained ESG performance

Amplifying Chairperson Turnover Impact
- Impairs new chair's strategic-executive balance
- Disrupts ESG continuity & implementation
- Intensifies leadership transition risks

Table 2. Heterogeneity Test

Variables	Business Environment		Dialect Diversity		Gender of the Board Chairperson	
	High (1)	Low (2)	High (3)	Low (4)	Male (5)	Female (6)
Turnover	-0.1094** (0.0353))	-0.0439* (0.0265)	-0.0429 (0.0306)	-0.1048*** (0.0269)	-0.0656** (0.0209)	-0.0829 (0.1170)
Cons	3.3801* (2.0330)	4.4823** (1.3968)	2.0062 (1.6160)	5.4482* (1.5008)	3.6392** (1.1619)	3.4775 (5.0594)
Firm FE	Y	Y	Y	Y	Y	Y
Year FE	Y	Y	Y	Y	Y	Y
Controls	Y	Y	Y	Y	Y	Y
N	5414	7702	6024	7297	12661	640
R^2	0.6693	0.6459	0.6166	0.6166	0.6111	0.6852

Discussion 3-Heterogeneity Effect

Business Environment Amplifies Turnover Impact
- Strong environments increase stakeholder sensitivity to ESG signals
- Turnover triggers investor exit, regulatory scrutiny, and public attention
- Formalized ESG systems raise adjustment costs during leadership transitions

Dialect Diversity Buffers Leadership Shocks
- Low-diversity regions suffer steeper ESG declines after turnover
- Homogeneous networks limit talent pools and strategic adaptability
- High-diversity areas provide cognitive buffers through complementary perspectives

Female Chair Departure Deepens ESG Disruption
- Female chairs build broader networks and focus on long-term values
- Excel in stakeholder engagement and ESG internalization
- Their exit causes more severe strategy discontinuity than male chairs

Practical Implications

Internal Governance Measures
- Implement robust succession planning with balanced mobility
- Optimize TMT composition and separate Chair/CEO roles
- Provide targeted support for new female chairs
- Embed green investment in strategic framework
- Cultivate diverse and inclusive culture

External Governance Initiatives
- Strengthen ESG disclosure systems and standards
- Implement differentiated regional policies
- Promote cultural integration in low-diversity areas
- Guide inclusive organizational culture development
- Establish female chair support and incentive programs