Regulatory pressure, sustainability innovation, and the effectiveness of CSR contracting: Evidence from large French firms

This study investigates how the dynamic interplay of CSR contracting, which is a governance initiative that ties executive compensation to the CSR performance of the firm, and environmental regulatory pressure influences the environmental performance of the firm. The result reveals that there is a substitution effect between CSR contracting and regulatory pressure. This means that, for firms that provide CSR contracting to their executive, the probability of reaching a superior environmental performance decreases as the environmental regulatory pressure in the organizational field increases. However, firms that have a superior capability in sustainability innovation are not affected by this substitution effect. I argue that this phenomenon could be explained by the fact that regulatory pressure pertaining to the environment may devalue CSR as a strategic tool for firms’ competitiveness, which would decrease the attractiveness of CSR compensation incentives. However, because sustainability innovation allows firms to differentiate themselves, firms with strong sustainability innovation capabilities will overcome the institutional isomorphism and the devaluation of CSR.