

The Impact on Firm Value from the Announcement of the Appointment of a Chief People Officer

Abraham H. Carr¹ & John R. Wingender, Jr.²

Abstract

Over the last two decades, many companies have increasingly emphasized their firm choices on management structures and task allocations across their C-suites in response to rapid changes in demands from customers, employees, and markets (Guadalupe, Li, and Wulf, 2014). Firms can deliver strong signals to both internal and external stakeholders regarding firm priorities through the creation of additional C-suite executive positions (Hopkins, 2018). As more firms create new C-suite positions to adopt new corporate strategies and to improve managerial effectiveness and efficiency, researchers are investigating whether the announcement of new C-suite positions has a significant impact on firm value through event study methods. The Chief People Officer (CPO) has recently been added to the C-Suite to bring strategic focus on hiring, training, professional development, and performance management (Charan, Barton, and Carey, 2015). This study finds that firm announcements of new CPO positions for a sample of firms between 2000 and 2020 result in significantly positive market reactions.

Keywords: Chief People Officer, Event Study, Cumulative Abnormal Return, Firm Value

JEL Classification:

G14 - Information and Market Efficiency • Event Studies.

G32 - Financial Risk and Risk Management • Value of Firms.

G41 - Role and Effects of Psychological, Emotional, Social, and Cognitive Factors on Decision Making in Financial Markets

1. Introduction

Modern corporations depend on their human resources (HR) to create value. Since the emergence of strategic HR in the 1980s, the role of human resource management has become one of the most significant positions in a company's executive team (Wright et al., 2011). Research conducted by McKinsey and the Conference Board reports that Chief Executive Officers (CEOs) consider human capital as one of the top challenges and opportunities facing their organizations (McKinsey and Company, 2012). According to Deloitte's 2016 Global Human Capital Trendsreport (Bersin et al., 2016), 92% of survey participants believe that their organizational structures need to be redesigned to improve employee engagement and retention. In addition, 82% of participants consider corporate culture to be a competitive advantage which can drive innovation and improve customer service and employee behavior (Bersin et al., 2016). To more effectively manage human resources and improve employee experiences, many companies have introduced a new C-suite executive position: the Chief People Officer (CPO).

Jack Welch, the former Chairman and CEO of General Electric, states in his book *Winning*: "Without a doubt, the head of HR should be the second most important person in any organization. From the point of view of the CEO, the director of HR should be at least equal to the CFO" (Welch and Welch, 2005). More recently, many businesses, including Apple (HRK News Bureau, 2023) and Walmart (HR Today, 2023) have followed suit by adding the CPO position to their cadre of C-suite executives. Business organizations have

¹Assistant Professor, Department of Accounting, Economics, and Finance, Paul and Virginia Engler College of Business, West Texas A&M University, 2401 4th Avenue, Canyon, TX 79016, USA.

Email: acarr@wtamu.edu

² Professor, Department of Economics and Finance, Senior Scholar, Menards Family Institute of Economic Inquiry, Heider College of Business, Creighton University, 2500 California Plz, Omaha, NE 68178, USA.

Email: johnwingender@creighton.edu

realized that the business itself does not create any value; its people do. Therefore, a CPO provides just as much value in securing and allocating human resources as does a CFO in securing and allocating financial resources (Charan, Barton, and Carey, 2015). Despite an awareness of the critical importance of the HR function, organizations still face serious challenges in human resource management. One study conducted by the Society for Human Resource Management (SHRM) Executive Network (2019) shows that one in five American workers has left a job due to a toxic corporate culture. Over the past five years, the cost of turnover caused by toxic workplace culture is estimated at \$223 billion (SHRM Executive Network, 2019). To combat these and other challenges, many companies have elevated human resources management from an administrative function to a strategic management role in supporting the success of the business (Charan, Barton, and Carey, 2015).

A CPO fulfills the administrative tasks that have traditionally been given to the director of HR, while partnering with executive management to establish firm strategies for building and retaining an exceptional team of professionals, including hiring, training, professional development, and performance management. Like other C-suite executives, a CPO is involved in forecasting firm outcomes and making strategic firm decisions. For example, a CPO supports achievement of business goals through optimizing people-centered activities. This activity requires that the CPO and the CEO work together as strategic partners (Charan, Barton, and Carey, 2015). Most importantly, a CPO serves as a company's advocate to shape the corporate culture (Anderson, 2018). Wright et al. (1995) posit that firms can lower their costs and differentiate themselves through the effective management of their human resources which can give them a competitive advantage. The announcement of the initiation of the CPO position is a clear signal of the importance of human resources in a company's culture.

Abt and Knyphausen-AufseB (2017) examine the antecedents of the presence of a Chief Human Resources Officer (CHRO) as a member of the top management team. These authors include, among other executive titles, CPOs in their sample of CHRO firms. Their study finds that CHRO presence is significantly associated with firms that have been underperforming, as measured by their Return on Assets (ROA). In their sample of firms, they find weak support that the CHRO hire is associated with improving financial performance. Thus, Abt and Knyphausen-AufseB (2017) "suggest a more careful theoretical and empirical conceptualization of firm performance from what has been employed in existing studies." Their call sets the stage for this study on the wealth effects of creating a new CPO executive position.

Shareholder reaction to the announcement of a new CPO executive position can inform our understanding of the market's view of the reasons for making such a change. One factor that might help to explain when the appointment of a new C-suite executive is likely to create value for the firm is the legitimacy of that executive as perceived by the executive management team, the board of directors, and ultimately the shareholders. For some firms, the decision to create a CPO position may be largely driven by a desire to appease perceived market demand surrounding political and social trends that extol a company that cares for its employees as more than just cogs in its value-creating machine. In such cases, the firm may hire a figure-head leader who is minimally qualified and will, therefore, create minimal disruption to the current operation of the firm. Such a CPO is not likely to be viewed as a legitimate strategic leader, and therefore any resource allocated to the CPO's activities would not likely be viewed as value-creating by the market. For other firms, a new CPO position may indicate a desire to appoint an executive who will be a strategic partner in charting the company's initiatives to attract, retain, and effectively deploy scarce human resources. Such a CPO would more likely be viewed as legitimate, and associated activities of the CPO as value-creating by the market. Results of our study demonstrate a significant positive stock price response to the announcement of a new CPO executive position. These findings are consistent with the perceived legitimacy of the newly appointed CPO as a strategic decision-maker for the firm.

2. Literature Review

Naming a specialist in human resource management to the C-suite has been a long time evolving. Over the last two decades, many companies have increasingly emphasized their firm choices on management structures and task allocations across their C-suites in response to rapid changes in demands from their customers, employees, employers, and markets (Guadalupe, Li, and Wulf, 2014). In order to address the demands of these firm stakeholders, the size of executive teams has increased dramatically (Rajan and Wulf, 2006). An executive team is composed of managers who come from various areas of the enterprise to participate in strategic decision making, coordinate activities across business units, and report directly to the CEO (Menz, 2012).

In the current environment of increased competition, firms can deliver strong signals to both their organizations and external stakeholders that they are willing to address particular needs through creating additional C-suite positions (Hopkins, 2018). If a firm needs to adopt new information strategies in its business models, the position of Chief Digital Officer or Chief Data Officer is created to ensure that the firm effectively and efficiently implements the new strategies (Nishant, Zhan, Mu, and Singhal, 2020). Firms have created other innovative C-

suite positions including Chief Customer Officer to improve customer experiences, Chief Transformation Officer to oversee mergers and acquisitions, and Chief People Officer, which is the subject of this research, to improve the employee experience (Hopkins, 2018).

As more firms create new C-suite positions to adopt new corporate strategies and improve their managerial efficiency and effectiveness, researchers are starting to investigate whether the announcement of the appointment of new C-suite positions has a significant impact on firm value and firm performance through event study methods. For example, an event study by Boyd, Chandy, and Cunha (2010) examines the impact on firm value of the announcement of the appointment of a new Chief Marketing Officer (CMO). The results of this study show no statistically significant average abnormal return on the event date using the Wilcoxon Sign-Rank Test ($p = 0.49$). According to the study, 46% of the cases in the sample have a positive impact on firm value in response to the appointment of a CMO, and 54% of the cases have a negative impact on the firm value. This study further shows the impact on the firm performance is highly contingent on the customer power of the firm. A firm with higher customer power experiences a positive abnormal return on the day in which it announced the appointment of a CMO, and a firm with lower customer power experiences a negative abnormal return (Boyd, Chandy, and Cunha, 2010). The authors of this research use the same event study approach to study the impact of the announcement of the appointment of the Chief People Office on firm value.

Several event studies examine the impact on firm value of the announcement of a Chief Digital Officer (CDO) and/or a Chief Information Officer (CIO). One study shows that firm value is improved with the appointment of a CDO under certain circumstances. The stock market has a positive reaction to the appointment of a CDO when the firm is experiencing a high growth stage, and when a CIO is absent from the firm's C-suite at the time of the appointment of a CDO (Nishant et al., 2020). Conversely, another study finds that the appointment of a CDO for firms with an existing CIO executive position leads to a negative stock market reaction. The authors of this study attribute these findings to the negative signal conveyed to investors due to overlapping duties between a CDO and a CIO, which can cause power struggles and jurisdictional issues (Drechsler, Wagner, and Reibenspiess, 2019).

Researchers have investigated whether the first-time announcement of the appointment of a newly created C-suite position is more significant than subsequent announcements in existing positions. The result of one such study shows that the stock market has a stronger positive reaction to the announcement of a newly created CIO position, especially for firms in industries experiencing IT transformation (Chatterjee, Richardson, and Zmud, 2001). Additionally, firms that are the "first movers" in their industries in announcing newly created CIO positions early relative to their competitors have been found to obtain incremental increases in firm value. While firms appointing their first CIO later than the "first movers" still create value, such value creation is less in magnitude than their "first mover" counterparts (Khallaf and Skantz, 2011).

One factor that might help to explain when the appointment of a new C-suite executive is likely to create value for the firm is the legitimacy of that executive as perceived by the executive management team, the board of directors, and ultimately the shareholders. In this study, legitimacy is defined following Suchman (1995) as "a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions."

For CPO's (or any other C-suite executive) to become strategic leaders who help to develop and to execute the vision of the firm, they must be granted, at a minimum, the power to shape the behavior of others (e.g., subordinates). Within this context, we follow Tyler (2006) in defining power as "the ability to shape the gains and losses of others either by threatening or using coercion to deter undesired behavior or by promising rewards to promote desired behavior." Presumably, their appointment to a C-suite level position provides CPO's with some amount of power. However, as noted by Zelditch (2001), exerting influence solely through the use of power is costly and inefficient. Considerable effort and resources are required to monitor, reward, and punish the behavior of others. Therefore, it is desirable for leaders to exert influence over their peers, subordinates, and other stakeholders, by means of others' volition due to the perceived legitimacy of the leader (King and Lennox, 2000).

If newly appointed CPO's are able to cultivate a sense of legitimacy, then they are more likely to create firm value due to their ability to impact the strategic direction of the firm in a less costly and more efficient manner. Prior research has measured legitimacy using various proxy variables (Alexiou and Wiggins, 2019), including ratings of accrediting organizations, public endorsements, media coverage, signals used by the firm to communicate with external stakeholders, legitimating behaviors engaged in by the firm, or (de)legitimizing events in the organization's history (Deeds et al., 2004; Deephouse, 1996; Deephouse and Carter, 2005; Westphal et al., 1997; Khoury et al., 2013; Pollock and Gulati, 2007; Tornikoski and Newbert, 2007, Rutherford and Buller, 2007).

Abt and Knyphausen-AufseB (2017), who examine the antecedents of CHROs (in which they include CPOs) as a member of the executive management team, include legitimacy theory broadly defined, unlike the more precise application used here. For example, Abt and Knyphausen-AufseB (2017) find that a key factor associated with the creation of a CHRO position is the presence of unionization, suggesting that unions help legitimize the strategic importance of the HR function (see also Dobbin and Sutton, 1998). Their primary conclusion is that the presence of a CHRO “mainly depends on social legitimization aspects,” suggesting that CHRO-adopting firms seek legitimacy by imitating other firms that have the position, especially within their industry (Dimaggio and Powell, 1983; Meyer and Rowan, 1977).

In this setting, a CPO’s legitimacy might be defined as the level of compliance by subordinates with their directives, or the relative resource allocations granted by the executive management team in support of their initiatives (Zelditch, 2001). Because these items cannot be directly observed, shareholders’ perceived legitimacy of a newly appointed CPO is measured as their decision to invest (or maintain their investment) in the firm, as indicated by movements in share price surrounding the firm’s announcement of a new CPO position.

This paper follows the research on the relationship between the firm value and the appointment of different C-suite positions to examine the first-time appointment of a Chief People Officer (CPO) by using an event study model. The next sections will describe the data, the methodology, the hypothesis, and the results.

3. Data

To identify firm announcements for the appointment of a CPO, the Nexis-Uni database is searched using terms of “new” or “first” or “appointment” or “created” along with terms to identify the date of the earliest announcement of the appointment to the position of “Chief People Officer.” Firms announcing their initial appointment are then checked as to whether they have publicly traded stock on the Center for Research in Security Prices (CRSP) database. A total of 30 firm announcements were found through the Nexis-Uni database with CRSP data. The search was expanded to other financial databases and media sources. The Wall Street Journal, Bloomberg, and Reuters were searched to find additional CPO announcements. These searches yielded an additional 16 events for a total of 46 firm CPO announcements for which data are available to calculate event study abnormal returns and to test for statistical inference. For firms in our sample that are registered with the Securities and Exchange Commission (SEC), we note that a Form 8-K must be filed with the SEC to inform shareholders of significant or material events that shareholders need to know (such as the appointment of a new C-suite officer). Event dates for CPO announcements for SEC-registrant sample firms were corroborated using corresponding Form 8-K filings. Figure 1 shows the frequency of the announcements of the initial appointment of the CPO’s per year. It is clear from the sample that the addition of the CPO to the executive suite is a recent phenomenon.

Firms in this study are listed on both the New York Stock Exchange (NYSE) and NASDAQ. In this study, the firms that list on the NYSE are substantially larger than firms listed on NASDAQ. Additionally, it is recognized that firms choosing to list on NYSE may desire higher levels of visibility and have different corporate objectives than firms listed on NASDAQ (Kedia and Panchapagesan, 2011). For these reasons, the equally-weighted CRSP index is used as the market proxy in our standard market-adjusted model for the event study.

Industries are very different from one another. Firms with more human capital would have a different reaction from adding a Chief People Officer to their C-suite. Firm industries are identified by the first-digit of their Standard Industrial Classification (SIC). For example, the Coca Cola Company has an SIC of 2084 and is coded as 2000 for our industry variable. This coding is done for each of our Chief People Officer sample firms. Figure 2 shows the frequency distribution of the CPO firms by industry.

4. Methodology

Standard event study methods are used to calculate abnormal returns and cumulative abnormal returns over various event periods to measure the magnitude of the impact on firm value of the firm’s announcement of the appointment of a new CPO position. Event studies measure the effect of an event under the assumptions of the efficient market hypothesis, which include market rationality, accurate investor assessment of firm value, and swift incorporation of available information in the firm’s stock price. Consequently, any abnormal returns experienced in the event window can be interpreted as a measure of the impact of the event – the announcement of the appointment of a Chief People Officer – on the value of the firm.

To study whether an event has any impact on the market value of the firm, the event-day cumulative abnormal returns (CARs) are calculated and are tested for their statistical significance. The main focus of this research is whether or not there is an impact on firm value from the announcement of the appointment of a Chief People Officer (CPO) within a reasonable time period, called the event window. The event window is the amount

of time, measured as the number of trading days, taken by investors to absorb the impact of a new event. According to the efficient market hypothesis, new information is incorporated very quickly into the stock price. Consequently, a short event window is likely to be a more reliable test of the market effect of an event.

The same methodological approach that Wingender and Kirby (2020) use in their event study to determine the price effect of the announcement of the appointment of a Chief Innovation Officer is followed here. For similar event study methods, see for example Conrad (1989), Holland and Wingender (1997), and Groff and Wingender (2010). Single-factor market model parameters are calculated using the estimation period of trading days before the event date to approximate one year of stock returns. The estimation period begins 275 trading days before the event and ends 26 days before it. These dates are the same as those used by Park, Lee and Song (2014).

The abnormal return (AR_{jt}) is the difference between the actual return (R_{jt}) on a specific date and the expected return ($E(R_{jt})$) calculated for the firm on that specific date. The expected return is calculated using the parameters of a single index regression model during the pre-event estimation period. The regression model parameters are determined by the following equation:

$$R_{jt} = a_j + b_j R_{mt} + e_{jt} \quad (1)$$

where R_{jt} is the return on security j for period t , a_j is the intercept term, b_j is the covariance of the returns on the j th security with those of the market portfolio's returns, divided by the variance of the market's returns, R_{mt} is the return on the CRSP equally-weighted market portfolio for period t , and e_{jt} is the residual error term on security j for period t . Betas (β_j) in the market model are estimated using the method of Scholes and Williams (1997). Ordinary Least Squares (OLS) is used to estimate the slope and intercept parameters for each security in the data set. The market model estimation is adjusted for any first-order autocorrelation with a GARCH (1,1) approach. These estimates are then used to calculate the expected return for the days in the event window,

$$E(R_{jt}) = (\alpha_j + \beta_j R_{mt}) \quad (2)$$

from which the abnormal returns (AR_{jt}) can be calculated:

$$AR_{jt} = R_{jt} - (\alpha_j + \beta_j R_{mt}) \quad (3)$$

where the estimates of alpha and beta are those calculated above from the estimation period. The average abnormal return (AAR_t) is calculated as the mean AR_{jt} for all N securities:

$$AAR_t = \frac{\sum_{j=1}^N AR_{jt}}{N} \quad (4)$$

where t is the trading day relative to the event. The cumulative average abnormal return from Day T_1 to Day T_2 ($CAAR_{T_1, T_2}$) is calculated as follows:

$$CAAR_{T_1, T_2} = \sum_{t=T_1}^{T_2} AAR_t \quad (5)$$

The statistical tests of the abnormal returns employ both parametric and non-parametric measures. The Cross-sectional Standard Deviation test (CsectErr) uses the daily cross-sectional standard deviation for the portfolio standard deviation. The portfolio test statistic for day t in event time is:

$$t = \frac{AAR_t}{\hat{\sigma}_{AARt} / \sqrt{N}} \quad (6)$$

where

$$\hat{\sigma}_{AARt}^2 = \frac{1}{N-1} \sum_{i=1}^N (A_{it} - \frac{1}{N} \sum_{j=1}^N A_{jt})^2 \quad (7)$$

The estimated variance of $CAAR_{T_1, T_2}$ is

$$\hat{\sigma}_{CAAR_{T_1, T_2}}^2 = \frac{1}{N-1} \sum_{i=1}^N (CAAR_{i, T_1, T_2} - \frac{1}{N} \sum_{j=1}^N A_{jt})^2 \quad (8)$$

The test statistic for $CAAR_{T_1, T_2}$ is

$$t_{CAAR} = \frac{CAAR_{T_1, T_2}}{\hat{\sigma}_{CAAR_{T_1, T_2}} / \sqrt{N}} \quad (9)$$

Brown and Warner (1985) report that the cross-sectional test is well-specified for event date variance increases but not very powerful. Boehmer, Musumeci and Poulsen (1991) report that the standardized cross-sectional test (see above) is more powerful and equally well specified. To test the data, the null hypothesis that the impact on firm value from the announcement of the appointment of a Chief People Officer event has no effect on the returns of the underlying security will be rejected if the parametric cross-sectional t test is significantly different than zero at the 0.10 level or better.

The generalized sign test is used as a nonparametric test of the impact of the announcements. The generalized sign test statistic controls for the normal asymmetry of positive and negative abnormal returns in the estimation period. The significance levels for the generalized sign test are calculated. The null hypothesis for the generalized sign test is that the fraction of positive returns is the same as in the estimation period. The test reports whether the difference is significant at the five percent, one percent, or one-tenth of one percent level. The actual test uses the normal approximation to the binomial distribution. For examples of the generalized sign test in the literature, see Sanger and Peterson (1990), Singh, Cowan and Nayar (1991), and Chen, Hu and Shieh (1991). The test as a binomial sign test. Sprent and Smeeton (2000) and Cowan (1992) describe the generalized sign test (Gen Sign). Cowan (1992) reports that the generalized sign test is well specified for an event date variance increase and more powerful than the cross-sectional test. To test the data, the null hypothesis that the impact on firm value from the announcement of the appointment of a Chief People Officer event has no effect on the returns of the underlying security will be rejected if the nonparametric Z test is significantly different at the 0.10 level or better. The following hypothesis is tested:

H₁₀: The null hypothesis is that there is no impact on firm value from the announcement of the appointment of a Chief People Officer.

H_{1A}: The alternative hypothesis is that there is a significantly significant positive impact on firm value from the announcement of the appointment of a Chief People Officer.

Statistically significant positive abnormal returns on and around the announcement date of the appointment of a Chief People Officer are valuable signals from the financial markets that strategic human resource management is very important within the company and to investors, also that employees are very important, resulting in significant positive impact on firm value.

Using the described event study methods, the abnormal return on the announcement date of the initiation [AR(0)] of the Chief People Officer is calculated. The prediction is that if investors consider the decision to be a material significant benefit to the C-suite, then the abnormal return will be positive. The statistical tests allow for inference as to whether the abnormal return is significantly different than zero. A statistically significant, positive abnormal return on Day (0) indicates that adding a Chief People Officer to the executive suite increases firm value.

The impact of initiating the Chief People Officer may be driven by companies with higher concentrations of value-adding human capital. This difference should be observed for different industries. To test this hypothesis that different industries will have a different impact on firm value with the appointment of a Chief People Officer, a regression was run of the Day (0) abnormal return per company on a series of Dummy Variables (DV) per

industry as independent variables: the value is 1 for the company's specific industry identified by SIC code; and 0 otherwise.

The regression model is as follows:

$$AR(0)_i = B_1 * DV_1 + B_2 * DV_2 + B_3 * DV_3 + B_4 * DV_4 + B_5 * DV_5 + B_6 * DV_6 + B_7 * DV_7 + B_8 * DV_8 + B_9 * DV_9 + e_i(10)$$

where

- DV₁ is the SIC's between 1000 and 1999,
- DV₂ is the SIC's between 1000 and 1999,
- DV₃ is the SIC's between 2000 and 2999,
- DV₄ is the SIC's between 3000 and 3999,
- DV₅ is the SIC's between 4000 and 4999,
- DV₆ is the SIC's between 5000 and 5999,
- DV₇ is the SIC's between 6000 and 6999,
- DV₈ is the SIC's between 8000 and 8999, and
- DV₉ is the SIC's between 9000 and 9999.

A statistically significant, positive beta coefficient in the regression results identifies an industry for which there is an incremental firm value effect from creating a Chief People Officer position.

5. Results

The date of the firm announcement of the appointment of the CPO is the event date (Day 0) in this study. Table 1 provides the results for the event study for various event periods. Given the hypothesis that the firm announcement of the appointment of a Chief People Officer is a signal that employees are highly valued in the company, as highlighted in bold in Table 1, the Day (0) abnormal return is the main focus of this investigation. In other words, a significantly positive abnormal return on Day(0) for newly appointed CPOs indicates that this position is viewed by the market as a legitimate strategic decision maker within the executive management team. The results find that the Day (0) average abnormal return is a very large and positive 0.81%, the Cross-sectional Standard Deviation test (CsectErr) is significant at the $p < .05$ level (t statistic equals 1.905). The Generalized Sign Z (Gen Sign test statistic equals 1.292) is also statistically significant (at the 10% or better level). This result is very large and very statistically significant and indicates strong support for H1_A. It is similar in size and significance to the result of Wright et al. (1995) at the announcement of award-winning affirmative action programs promoting diversity in human resource management.

The second test is whether any specific industries are significantly incrementally affected by the addition of a Chief People Officer. Within the sample, the companies are divided into their 1-digit Standard Industrial Classification (SIC). Companies in the 1000 to 1999 SIC classification are coded as a 1 in DV1, and so on. The results in Table 2 show that the companies in the 8000 SIC industries have statistically significant positive abnormal returns on Day (0), while the other industries are not statistically different from zero. However, the model's F statistic is not significant, so inference is taken with care.

The statistically significant industry with one-digit classification is the 8000's and is highlighted in bold print. The companies in these SIC industries are specifically Biotechnology firms in this sample. These results indicate that announcing the appointment of a CPO to the executive suite of a firm in the Biotechnology industry is value enhancing. The inference is that some companies are signaling a greater legitimacy with their announcement of the initiation of the CPO. This result is different than the industry investigations by Abt and Knyphausen-AufseB (2017) where they find no statistically significant industry effect for the presence of a CHRO, but caution of the finding is stressed.

Abt and Knyphausen-AufseB (2017) specifically examine the presence of the CHRO position in the Top Management Team (TMT). Their process leads to another test in our research. Do companies that compensate their CPO in the Top Five C-suite executives (TMT) provide more legitimacy to the influence of the person appointed to the CPO position? To operationalize a test of the hypothesis that the higher the relative compensation of the CPO in the executive suite, the greater the legitimacy of the position, the compensation of the CPO is examined to determine if it is in the Top Five of the Top Management Team. Of the 46 companies in the CPO sample, 44 have compensation data on Compustat. Of the 44 companies, 8 CPOs are in the Top Five compensated executives. A regression model is run to test whether the Dummy Variable as the independent variable, 1 if CPO is in the Top Five and 0 otherwise, and AR(0) as the dependent variable.

The regression model with the intercept suppressed is as follows:

$$AR(0)_i = B_1 * DV_1 + e_i \quad (11)$$

The result is a beta coefficient of -0.00554 that is insignificantly different from zero (t statistic = -0.52 and the p value = 0.61). More highly compensated CPOs are not found to have a higher abnormal return on the announcement date. Thus, this robustness test does not add to the support of the legitimacy theory.

Several additional robustness tests are examined. When appointing new executives, firms can choose outsiders and insiders who are promoted to the C-suite level positions. The most significant result is observed when outsiders are appointed to newly created C-suite positions rather than insiders (Hendricks, Hora, and Singhal, 2015). The first robustness test is whether there is a difference between the impact on firm value from the announcement of an outsider being appointed (diversity) as the company's first CPO versus an insider (homophily). In this sample of initial CPO announcements, no difference is found, similar to the findings of Abt and Knyphausen-AufseB (2017).

It is possible that firms with high ESG rankings benefit less from the appointment of a CPO as these companies are already recognized with increased firm value based on their higher ESG ratings due to their more employee-friendly corporate criteria versus unranked companies. In this case, the appointment of a CPO may be seen as a redundant confirmation of the firm's commitment to their employees. A second robustness check is done with a regression model like equation 11 with each company's ESG score as the independent variable. However, no difference is found. Thus, there is no relationship between ESG rating and the event day abnormal return.

Another robustness test is for large companies' impact versus smaller companies because large companies have more resources and could be more legitimate announcers of the appointment of a CPO to their C-suite. However, no difference is found in their impacts on firm value with a Dummy Variable regression, large equals 1, small equals 0, nor each company's abnormal return regressed on their total assets value.

Another robustness test in the literature looks at early adopters versus later adopters as some researchers find that benefits go to first movers. On the other hand, some researchers find that later movers gain from the lessening of the uncertainty of the legitimacy of the position as it becomes clear over time. Again, no significant differences result. (The summary findings are reported here. As the tests are all insignificant, the tabular results are not reported, but they are available on request.) Overall, these robustness tests add little marginal insight to the main results of the research.

6. Conclusions

This research finds that the firm announcement of the appointment of a Chief People Officer is a signal that employees are highly valued in the company. In other words, newly appointed CPOs are viewed by the market as legitimate strategic decision makers within the executive management team. The event period Day (0) Average Abnormal Return is positive (+0.81%), and significant. The regression of the firms' Day (0) abnormal returns on their industry dummy variables indicates that firms in the Biotechnology industry are more significantly positively affected by a firm's announcement of the addition of a Chief People Officer. This finding is consistent Khoury et al. (2013), who study the IPO proceeds for Biotechnology firms from 1980 to 2006. Their results suggest that Biotechnology firms who convey legitimacy to the market through signaling the firm's social capital by disclosing relationships (e.g., with universities, teaching hospitals, research institutes and underwriters with greater prestige), receive greater proceeds at IPO. Our findings indicate that Biotechnology firms could increase their firm value by adding a Chief People Officer to their C-suite. Future research is suggested into the exploration of specific features of the Biotechnology industry that moderate the impact of new CPO executive positions on firm value.

Author Profiles

Dr. Abraham H. Carr earned his Ph.D. at the University of Wisconsin – Madison in 2018. He is currently an Assistant Professor of Accounting in the Paul and Virginia Engler College of Business at West Texas A&M University. He has won several teaching awards.

Dr. John R. Wingender, Jr. earned his Ph.D. at the University of Nebraska in 1985. Currently he is a Professor of Finance and Senior Scholar in the Menards Institute of Economic Inquiry at Creighton University and Co-Editor of the Quarterly Journal of Finance and Accounting.

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Appendices

Figure 1. Frequency of Chief People Officer Initial Appointments by Year.

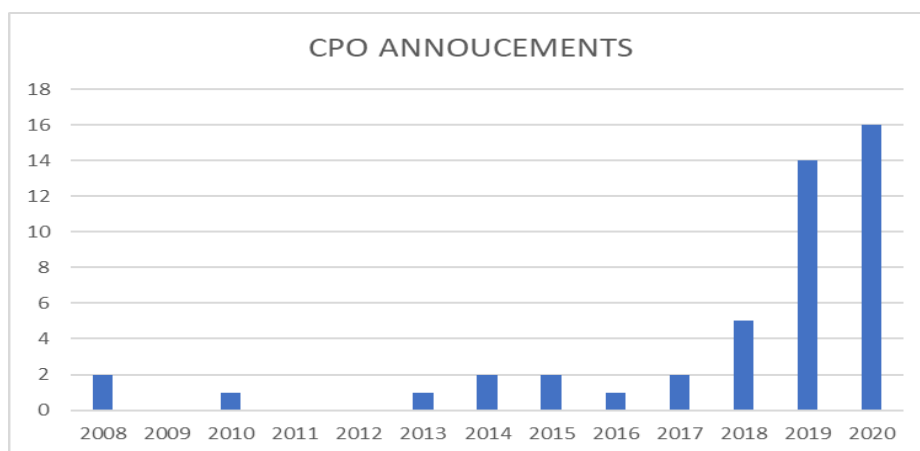


Figure 2. Frequency of Firms Making First CPO Announcement Per Standard Industrial Classification.

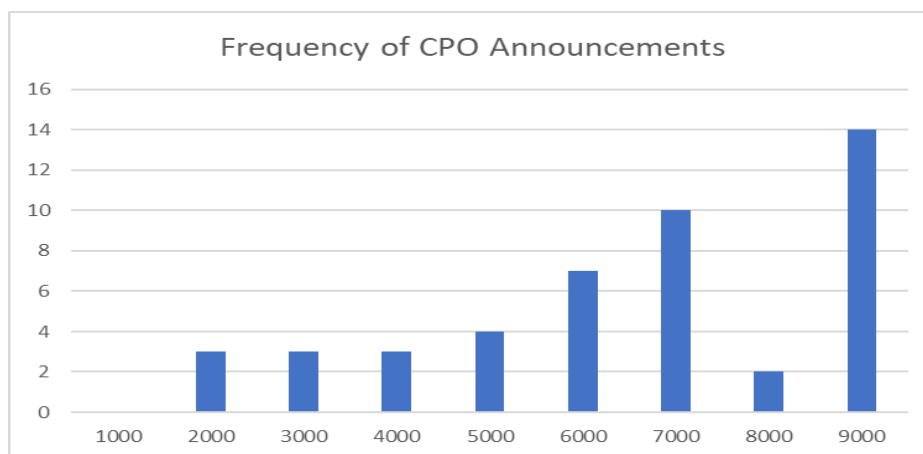


Table 1. The Event Study Results Using the Market Model with the CRSP Equally-Weighted Index.

Days	N	Mean CAR	Positive: Negative	CsectErr t	Gen Sign Z
(-1,0)	46	0.41%	25:21	0.724	0.702
(0)	46	0.81%	27:19 *	1.905 **	1.292 *
(0,+1)	46	0.22%	26:20	0.331	0.997
(-1,+1)	46	-0.17%	22:24	-0.231	-0.182

N = Number of firms announcing the appointment of a CPO
 Pos = Number of positive Abnormal Returns during the interval
 Neg = Number of negative Abnormal Returns during the interval
 CsectErr = Cross-sectional Error t statistic
 Significance Symbols: * p<0.1; ** p<0.05; *** p<.01

Table 2. Regression Statistics For Industry Analysis.

$$AR(0)_i = B_1*DV_1 + B_2*DV_2 + B_3*DV_3 + B_4*DV_4 + B_5*DV_5 + B_6*DV_6 + B_7*DV_7 + B_8*DV_8 + B_9*DV_9 + e_i$$

SIC		Coefficients	Standard Error	t Stat	P-value
2000	DV ₂	-0.011	0.017	-0.678	0.502
3000	DV ₃	0.019	0.017	1.146	0.259
4000	DV ₄	0.019	0.017	1.146	0.259
5000	DV ₅	0.019	0.014	1.356	0.183
6000	DV ₆	-0.006	0.011	-0.527	0.601
7000	DV ₇	0.002	0.009	0.180	0.858
8000	DV₈	0.038 *	0.020	1.871	0.069
9000	DV ₉	0.012	0.008	1.506	0.140
Multiple R		0.4738			
R Square		0.2245			
Adjusted R Square		0.0554			
Standard Error		0.0286			
Observations		46			
F Statistic		1.375			
F Significance		0.239			

Note: None of our sample CPO firms have an SIC code below 2000.

Significance Symbols: * p<0.1; ** p<0.05; *** p<.01