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Firm-Level Tournament Incentives and Social Decoupling: Evidence From the United States

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ABSTRACT

This study investigates whether tournament-based executive incentives exacerbate social decoupling. Using 4468 firm-year observations from S&P 500 firms between 2010 and 2022, we find that stronger tournament incentives are associated with higher levels of social decoupling. This association is stronger in firms without ESG-linked compensation, those facing higher product market competition, and those with greater board co-option. Additional analyses indicate that increased agency costs constitute an important channel. The analysis employs firm and year fixed-effects regressions and is supplemented by alternative decoupling measures, change-on-change analysis, instrumental variable estimation, and a Heckman two-stage model. This study advances the literature on executive incentives and corporate social responsibility by identifying tournament incentives as a novel antecedent of social decoupling. By focusing explicitly on the social dimension of ESG, the study responds to calls for more disaggregated analyses of sustainability dimensions and highlights the unintended consequences of competitive compensation structures.

1 | Introduction

Unlike chief executive officers (CEOs), whose incentives are primarily performance-based, vice presidents (VPs) respond not only to performance-based incentives but also to incentives arising from the opportunity to be promoted to the CEO position. This promotion is highly desirable, as it comes with higher compensation, more privileges, and greater prestige (Jia 2017). A series of recent studies has examined how tournament incentives influence managerial decision-making (e.g., Colak et al. 2021; Gad et al. 2023; Jia 2018; Park 2017; Pathan et al. 2023; Zhang et al. 2018). These studies provide evidence suggesting that competitive pay structures significantly influence how managers prioritise strategic and operational choices (Pathan et al. 2023; Zhang et al. 2018). For instance, Ma et al. (2020) report that tournament incentives have an incremental effect on firm performance metrics, encouraging greater risk-taking and increasing the likelihood of financial misreporting.

Understanding these effects is particularly important in the context of environmental, social, and governance (ESG) activities, which have become increasingly important for firms and their stakeholders. Firms face growing pressure to improve transparency regarding environmental and social risks and to provide credible ESG disclosures (Ali et al. 2022; Flammer et al. 2021; Krueger et al. 2020). However, ESG initiatives often involve long-term investments, uncertain returns, and substantial resource commitments, which may discourage managers from fully engaging in such activities (Tan 2024; Zhao et al. 2023). In such settings, incentive structures that emphasise relative performance may influence how managers approach ESG-related decisions, potentially affecting both ESG performance and disclosure.

As a common corporate strategy, tournament incentives may thus play a role in shaping ESG initiatives. However, previous studies offer inconclusive findings and highlight the need for

further in-depth research (Zhang et al. 2022; Zhao et al. 2023; Tan 2024). One view suggests that when faced with tournament incentives, VPs may be discouraged from engaging in risky and long-term ESG activities that may not utilize company resources in an optimal manner (Tan 2024). Zhao et al. (2023) support this view, finding that tournament incentives reduce ESG performance. Another view posits that tournament incentives can positively influence ESG performance by motivating executives to exert greater effort, including engaging in ESG activities, to improve operations and company performance in order to increase their chances of being promoted (Cheng et al. 2024). Supporting this perspective, Zhang et al. (2022) reveal that tournament incentives encourage CEOs to be more socially responsible. Thus, the effect of tournament incentives on firms' ESG performance remains unclear.

Further, while this literature has focused primarily on ESG performance, an important but underexplored issue concerns the potential divergence between ESG disclosure and actual performance. ESG disclosures are intended to provide stakeholders with an accurate representation of firms' sustainability practices. However, prior research suggests that managers may engage in ESG decoupling, whereby disclosed commitments do not align with actual ESG performance (Aboud et al. 2024; Eliwa et al. 2023). Such practices allow firms to maintain legitimacy and meet stakeholder expectations without fully committing to substantive ESG improvements (Gull, Hussain, Khan, Nadeem, and Zalata 2023). This issue is particularly salient in the social dimension of ESG, which captures how firms treat employees and interact with key stakeholders such as customers, suppliers, and communities (Yekini et al. 2017; Aluchna et al. 2022). Compared to environmental and governance dimensions, social performance is less standardised, more difficult to measure, and subject to weaker regulatory oversight (Yekini et al. 2015; Soobaroyen and Mahadeo 2016). This ambiguity increases the scope for discretionary reporting and creates greater opportunities for divergence between actual performance and disclosure.

Despite recent efforts to examine the relationship between executive compensation and ESG decoupling, important gaps remain in the literature. Existing studies have primarily focused on governance mechanisms or institutional contexts outside the United States, while paying limited attention to internal compensation structures such as tournament incentives. In addition, most studies rely on aggregate ESG measures, with relatively little focus on the social dimension of ESG decoupling (e.g., Li and Chen 2024; Eliwa et al. 2026; Abweny et al. 2025). Consequently, there is limited understanding of whether and how tournament incentives contribute to social ESG decoupling.

To address these gaps, this study examines whether tournament incentives increase social ESG decoupling, defined as the divergence between firms' social disclosure and actual social performance. Under tournament incentive structures, where executive rewards are tied to relative performance, the pressure to maintain a competitive edge may further encourage such symbolic actions. In this context, ESG decoupling becomes a balancing mechanism, enabling top management to satisfy external expectations of social responsibility without committing extensive resources to actual performance. Supporting this view, the managerial power perspective suggests that a large CEO pay gap reflects heightened managerial power and CEO entrenchment, which in turn exacerbate agency problems (Bebchuk et al. 2011; Zhang et al. 2018). Given this rationale, we propose that tournament incentives are likely to be negatively associated with social ESG performance relative to disclosure—that is, they are likely to increase social decoupling. In other words, top executives may resort to social decoupling by manipulating social disclosures to project a favorable image while maintaining limited substantive performance. This strategy helps mitigate reputational risks and avoid the negative consequences of poor ESG engagement. Such strategic decoupling enables executives to legitimise their leadership positions and protect their public image while pursuing personal interests, such as compensation maximisation or career advancement (Zhao et al. 2023; Lee et al. 2025; Tan 2024).

The United States provides a relevant context for this study for several reasons. First, pay disparities between CEOs and other executives have widened significantly (Jia 2018). Second, U.S. firms face increasing pressure from stakeholders to improve ESG transparency. Third, ESG disclosure remains largely voluntary, which may increase the likelihood of divergence between reported and actual ESG practices (Flammer et al. 2021; Krueger et al. 2020).

Analysing a sample of 4468 firm-year observations from S&P 500 companies between 2010 and 2022, we find that tournament incentives are associated with greater social decoupling. Furthermore, we find that this positive relationship is more pronounced in firms without ESG-linked compensation, those facing higher product market competition, and those with greater board co-option. Finally, we propose that tournament incentives increase social decoupling through the channel of aggravated agency costs. Our main findings remain robust after using alternative measures of social decoupling and conducting a series of endogeneity tests.

Our study contributes to the literature in several important ways. First, it extends research on tournament incentives by demonstrating their implications for ESG-related behavior, particularly through their association with social decoupling. While prior studies report mixed evidence on the relationship between tournament incentives and ESG outcomes (e.g., Zhang et al. 2022; Zhao et al. 2023; Lee et al. 2025), we show that social decoupling may serve as a mechanism through which managers balance external expectations and internal constraints.

Second, by demonstrating that tournament incentives are positively associated with social decoupling, our study adds to the literature that critically evaluates the unintended consequences of such incentive structures, complementing prior findings on both opportunistic and beneficial managerial behavior (e.g., Gad et al. 2023; Jia 2018; Park 2017; Zhang et al. 2018; Pathan et al. 2023; Colak et al. 2021).

Third, our study contributes to the emerging literature on ESG decoupling by identifying tournament incentives as a novel antecedent, addressing the limited understanding of the drivers of this practice (e.g., Eliwa et al. 2023; Gull, Hussain, Khan, Khan, and Saeed 2023; Gull, Hussain, Khan, Mushtaq, and Orij 2023; Gull, Hussain, Khan, Nadeem, and Zalata 2023; Gull et al. 2024; Shahab et al. 2022).

Fourth, by focusing specifically on the social dimension of ESG, we respond to calls for more disaggregated analyses of sustainability practices and extend prior work on environmental decoupling (e.g., Gull, Hussain, Khan, Mushtaq, and Orij 2023; Gull et al. 2024).

Finally, our findings offer practical implications for investors, analysts, and regulators by highlighting how tournament-based incentives may distort ESG reporting and weaken the credibility of social sustainability disclosures.

The remainder of the paper is structured as follows. Section 2 reviews the literature and develops the hypothesis. Section 3 describes the research design. Section 4 presents the empirical results. Section 5 discusses the results of robustness and additional tests. Section 6 reports the sub-sample analysis. Section 7 examines a potential channel mechanism. Section 8 concludes.

2 | Literature Review and Hypothesis Development

Tournament-based incentives play a significant role in shaping managerial decision-making, including choices related to corporate social responsibility (e.g., Colak et al. 2021; Gad et al. 2023; Jia 2018). These incentives encourage vice presidents (VPs) to engage in various strategic behaviors aimed at enhancing their chances of promotion, thereby influencing their decision-making processes (Zhao et al. 2023; Cheng et al. 2024; Zhang et al. 2022). VPs may pursue improved performance either through legitimate, performance-driven efforts or by adopting more aggressive tactics (Zhao et al. 2023).

Empirical evidence suggests that tournament incentives can lead to beneficial outcomes for firms. Specifically, they have been linked to enhanced innovation efficiency and superior firm performance (Shen and Zhang 2018), indicating their potential to positively influence organisational success. However, tournament incentives can also give rise to adverse consequences. The prospect of promotion—accompanied by increased compensation, authority, and prestige—may attract VPs to engage in opportunistic or self-serving behavior. They may perceive the potential benefits of promotion as outweighing the risks associated with such actions. For example, Kubick and Masli (2016) find that CFO tournament incentives are positively associated with aggressive tax strategies. Similarly, Haß et al. (2015) and Shi et al. (2016) report that tournament incentives among VPs increase the likelihood of fraudulent activity and exposure to securities class action litigation.

Recent studies have explored the relationship between tournament incentives and ESG (e.g., Zhang et al. 2022; Zhao et al. 2023; Lee et al. 2025); however, they provide mixed and inconclusive findings regarding the impact of such incentives on ESG outcomes. Zhang et al. (2022) argue that disparities in compensation between the CEO and vice presidents motivate greater investment in ESG, as such initiatives enhance the firm's public image, strengthen stakeholder trust, and reinforce the perceived value of its products—ultimately helping to ease conflicts among different stakeholder groups. Similarly, Ali et al. (2020) find that firms offering stronger tournament-based incentives are more likely to pursue sustainability initiatives, including ESG, as a means of enhancing financial performance while simultaneously generating shared value for a broad range of stakeholders. Focusing on environmental performance and disclosure, Ali et al. (2023) demonstrate that firms with strong tournament incentives tend to adopt proactive environmental policies that enhance performance; however, they often limit environmental disclosures to mitigate the risk of regulatory scrutiny or enforcement actions.

In contrast, Zhao et al. (2023) argue and provide evidence that tournament incentives—measured by the pay gap between CEOs and vice presidents—are negatively linked to ESG performance. Their findings suggest that competitive promotion dynamics may encourage opportunistic behavior, leading VPs to prioritise projects with clearer performance outcomes over longer-term ESG investments. This perspective is consistent with the opportunistic interpretation of agency theory, which suggests that managers may act in ways that serve their own interests—potentially at the expense of shareholders—by either excessively committing to ESG for self-serving motives or avoiding it altogether due to a lack of incentives or an unwillingness to exert the required effort (e.g., Bénabou and Tirole 2010; Masulis and Reza 2015). Likewise, Tan (2024) finds that local compensation gaps motivate top executives to reduce their ESG engagement, with the decline primarily observed in the areas of diversity, community engagement, environmental practices, and product responsibility.

Nevertheless, to avoid reputational risk and the adverse effects of not engaging in ESG, top executives may instead benefit from ESG decoupling and manipulate ESG disclosure to legitimise their position and mitigate reputational risk while maintaining ESG performance at a level that serves their personal interests. Notably, prior studies have examined ESG performance and disclosure in isolation, without considering how managers may strategically leverage the interaction between the two to manage their incentives. Extant literature provides evidence on the use of ESG decoupling to manipulate stakeholders and gain potential benefits associated with engaging in ESG activities (Aboud et al. 2024; Gull et al. 2024; Shahab et al. 2022). For example, García-Sánchez et al. (2020) find that managerial entrenchment has a substantial impact on earnings quality and weakens the consistency between ESG disclosures and actual ESG performance. In the European context, Aboud et al. (2024) find that the use of ESG decoupling declined following both the adoption of the EU Directive in 2014 and its subsequent implementation, suggesting that regulatory reforms reduced opportunities for opportunistic ESG disclosure. Moreover, Liu et al. (2023) reveal that firms with distracted mutual fund investors tend to prioritise external ESG activities over internal ones, resulting in a greater degree of ESG decoupling compared with their peers. Thus, under tournament incentives, the use of ESG decoupling may serve as a balancing tool to help the top management team achieve its objectives. Given the above discussion, we anticipate that tournament incentives will be positively related to social decoupling, and we state our hypothesis as follows:

H1. *There is a positive relationship between tournament incentives and social decoupling.*

3 | Research Design

3.1 | Data and Sample

Our study uses S&P 500 companies from 2010 to 2022. Due to their significant market capitalization, these firms experience considerable pressure from stakeholders and society to take a leading role in ESG initiatives (Bui et al. 2020). We compute social decoupling using data from the Refinitiv EIKON and Bloomberg databases. To construct the tournament incentives variable, we obtain data from Execucomp. The Compustat and Bloomberg databases are used to collect data on control variables. Financial firms and those with missing data are excluded from the analysis. The final sample consists of 4468 firm-year observations from 2010 to 2022.[1] To mitigate the influence of outliers, all continuous variables are winsorized at the 1% and 99% levels at both ends of the distribution. Table 1 presents the sample distribution.

TABLE 1 | Sample distribution.

	N	%
Panel A: Sample distribution by industry		
Mining and construction	331	7.41
Manufacturing	2159	48.32
Transportation, communications, electric, gas, and sanitary services	767	17.17
Wholesale and retail trade	524	11.73
Services	660	14.77
Public administration	27	0.60
	4468	100
Panel B: Sample distribution by year		
2010	318	7.12
2011	334	7.48
2012	329	7.36
2013	344	7.70
2014	326	7.30
2015	332	7.43
2016	354	7.92
2017	351	7.86
2018	349	7.81
2019	359	8.03
2020	349	7.81
2021	364	8.15
2022	359	8.03
	4468	100

3.2 | Variable Measurement

3.2.1 | Tournament Incentives

The independent variable is tournament incentives. It is argued that the larger the pay gap between the CEO and VPs, the larger the prize associated with winning the promotion. Accordingly, we measure tournament incentives (TOURN) as the natural logarithm of the gap between the CEO's total compensation and the median of the VPs' total compensation, following Jia (2017).

3.2.2 | Social Decoupling

The dependent variable is social decoupling (SOCDEC). SOCDEC captures the extent to which a company's social performance and social disclosure are inconsistent. Thus, SOCDEC is calculated as the difference between the social disclosure score and the social performance score. To make the social disclosure and social performance scores more comparable, we standardize the ratings on a scale of 1 to 10 (Eliwa et al. 2023).

3.2.3 | Control Variables

Motivated by previous studies (e.g., Eliwa et al. 2023; Gull, Hussain, Khan, Nadeem, and Zalata 2023), we include the following control variables: Leverage (LEV), Profitability (PROF), market to book ratio (MTB), firm size (FSIZE), property, plant and equipment ratio (PPE), research and development (R&D), organizational slack (SLACK), capital intensity (CI), board size (BS), board meetings (BM), board independence (BIND), board gender diversity (BGD), CSR committee (CSR), CEO duality (CEODUAL), CEO gender (CEOGENDER), CEO tenure (CEOTENURE), and institutional ownership (INST). Table 2 presents variable definitions. We also incorporate firm and year fixed effects. We cluster standard errors at the company level.

3.3 | Model

We employ the following firm fixed effects regression model to investigate the impact of tournament incentives on social decoupling:

$$\begin{aligned}\text{SOCDEC}_{i,t} = {} & \beta_0 + \beta_1 \text{TOURN}_{i,t} + \beta_2 \text{CONTROLS}_{i,t} \\ & + \text{Firm FE} + \text{Year FE} + \varepsilon_{i,t}\end{aligned} \quad (1)$$

where i represents the firm and t denotes the year. SOCDEC is our proxy for social decoupling. The independent variable, TOURN, is the measure of tournament incentives. CONTROLS represent a set of control variables that could significantly influence SOC_DEC.

4 | Empirical Results

4.1 | Descriptive Statistics

Table 3 presents the descriptive statistics for the variables used in the main regression. SOCDEC has a mean of −3.44 and a standard deviation of 1.62, indicating substantial variation in social decoupling across companies. TOURN has an average of 8.979 and

TABLE 2 | Variable definitions.

Variable	Measurement	Source
Dependent variable		
SOCDEC	Difference between social disclosure score and social performance score	Bloomberg, Refinitiv EIKON
Independent variable		
TOURN	Natural logarithm of the gap between CEO's total compensation and the median of VPs' total compensation	Execucomp
Control variables		
FSIZE	Natural logarithm of sales revenue	Compustat
LEV	Long-term debt divided by total assets	Compustat
PROF	Net profit/loss divided by shareholders' equity	Compustat
MTB	Market value of common equity divided by book value of common equity	Compustat
SLACK	Ratio of current assets to current liabilities	Compustat
CI	Ratio of total assets to sales.	Compustat
R&D	Natural logarithm of one plus research and development expense	Compustat
PPE	Property, plant, and equipment divided by total assets	Compustat
BS	Number of board members	Bloomberg
BM	Number of annual board meetings	Bloomberg
BIND	Percentage of independent members in board of directors	Bloomberg
CSR	Dummy variable that equals one if a firm has CSR committee, and zero otherwise	Bloomberg
BGD	Percentage of women in board	Bloomberg
CEODUAL	Dummy variable that equals one if the CEO is also the chairman of the board, and zero otherwise	Execucomp
CEOGENDER	Dummy variable that takes value 1 if the CEO is female, and zero otherwise	Execucomp
CEOTENURE	Number of years after an executive is hired as the CEO in the firm	Execucomp
INST	Ratio of a firm outstanding shares owned by institutional investors	Thompson Reuters 13F
Alternative measures for social decoupling		
SOCDEC_1	Difference between the current social disclosure score and the lagged social performance score	Bloomberg, Refinitiv EIKON
SOCDEC_2	Difference between the current social disclosure score and the lagged social performance score scaled by the logged value of total assets	Bloomberg, Refinitiv EIKON, Compustat
Instrumental variable		
INDTOURN	Industry-year median of *TOURN*	Execucomp
Moderator variables		
BODCO	Percentage of the board members appointed after the CEO assumes office	Coles et al. (2014)
FLUIDITY	Text-based measure for the intensity of competition	Hoberg et al. (2014)
ESGCOMP	Dummy variable coded 1 if the firm practices ESG-linked compensation and 0 otherwise	Refinitiv EIKON
Possible channel variable		
AC	Ratio of SG&A expenses to total sales	Compustat

TABLE 3 | Descriptive statistics.

Variable	Obs	Mean	Std. Dev.	Min	Max
SOCDEC	4468	−3.436	1.623	−6.8567	0.352
TOURN	4468	8.979	0.662	6.465	10.636
LEV	4468	0.277	0.159	0.000	0.810
PROF	4468	0.210	0.573	−1.974	3.482
MTB	4468	4.789	12.220	−51.628	66.409
FSIZE	4468	9.316	1.096	7.033	12.279
PPE	4468	0.297	0.250	0.007	0.879
R&D	4468	3.154	3.175	0.000	9.283
SLACK	4468	1.705	1.019	0.401	6.291
CI	4468	1.890	1.398	0.299	23.357
BS	4468	10.900	1.867	6	17
BM	4468	7.876	3.087	4	21
BIND	4468	0.851	0.081	0.571	0.933
BGD	4468	0.225	0.103	0.000	0.500
CSR	4468	0.447	0.497	0.000	1.000
CEODUAL	4468	0.500	0.500	0.000	1.000
CEOGENDER	4468	0.954	0.210	0.000	1.000
CEOTENURE	4468	6.212	6.291	1	33
INST	4468	0.882	0.117	0.497	0.996

Note: All continuous variables are winsorized at the 1% and 99% levels. Variables are defined in detail in Table 2.

a standard deviation of 0.662. These statistics are consistent with Zhao et al. (2023). On average, the sample firms have mean values of LEV, PROF, MTB, FSIZE, PPE, R&D, SLACK, and CI of 0.28, 0.21, 4.79, 9.32, 0.30, 3.15, 1.71, and 1.89, respectively. Regarding corporate governance controls, the mean values of BS, BM, BIND, BGD, CSR, and INST are 10.9, 7.88, 0.851, 0.225, 0.45, and 0.882, respectively. Finally, for managerial characteristic controls, the mean values of CEODUAL, CEOGENDER, and CEOTENURE are 0.50, 0.95, and 6.21, respectively. Overall, the summary statistics of the control variables are consistent with prior research.

4.2 | Baseline Results

Table 4 reports the main regression results examining the impact of tournament incentives (TOURN) on social decoupling (SOCDEC). The coefficient on TOURN is positive and statistically significant, indicating a robust association between higher levels of tournament-based incentives and a greater divergence between social ESG disclosure and performance. This effect is also economically meaningful: a one-standard-deviation increase in TOURN leads to a 3.02% standard deviation increase in SOCDEC (calculated as $100\% \times 0.074 \times 0.662/1.623$). These findings provide empirical support for Hypothesis 1, confirming that tournament incentives are positively associated with social decoupling. This relationship is consistent with the agency theory perspective, which suggests that when executive rewards are tied to relative performance—such as in tournament-based compensation systems—managers may be discouraged from committing to long-term, uncertain, and potentially costly ESG initiatives. Instead, they may seek more immediate and visible signals of social responsibility that enhance their career prospects or public standing without incurring significant resource outlays.

In such settings, ESG decoupling emerges as a strategic balancing mechanism. Under pressure to demonstrate social legitimacy while minimizing risk and cost, top executives may manipulate social disclosures to project a favorable ESG image while engaging in minimal substantive action. This behavior enables them to mitigate reputational risk, pre-empt stakeholder criticism, and preserve their leadership reputation—all while pursuing personal objectives such as promotion, compensation maximization, or status advancement (Zhao et al. 2023; Tan 2024).

This interpretation aligns with the opportunistic view of agency theory, which posits that managers prioritize self-interest when oversight is weak or when incentives favor short-term, impression-driven behavior. In this light, our findings support the view that tournament incentives do not necessarily drive authentic social engagement but rather incentivize symbolic compliance. ESG decoupling becomes an attractive strategy for executives to "tick the box" of social responsibility while reallocating firm resources toward activities that yield more measurable and immediate gains in performance rankings.

TABLE 4 | Baseline regression results.

Variables	SOCDEC
TOURN	0.074**
	(1.98)
LEV	0.072
	(0.23)
PROF	0.089*
	(1.83)
MTB	−0.006**
	(−2.53)
FSIZE	−0.347***
	(−2.74)
PPE	0.533
	(0.98)
R&D	−0.156**
	(−2.00)
SLACK	−0.014
	(−0.32)
CI	−0.033
	(−1.07)
BS	−0.025
	(−1.29)
BM	0.005
	(0.66)
BIND	−0.006
	(−1.00)
BGD	−0.009**
	(−2.07)
CSR	−0.173*
	(−1.87)
CEODUAL	0.023
	(0.26)
CEOGENDER	0.109
	(0.90)
CEOTENURE	−0.008
	(−0.02)
INST	−0.007
	(−1.52)
Constant	0.544
	(0.39)
Year FE	Yes
Firm FE	Yes
N	4468
Within *R*-squared	0.045

Note: *, **, and *** symbolize significance at the 10%, 5%, and 1% levels, respectively. *T*-statistics are given in parentheses.

Our findings are consistent with Zhao et al. (2023), who report that tournament structures are negatively linked to ESG performance, particularly when executives perceive ESG as yielding low short-term returns. Similarly, Tan (2024) shows that large compensation gaps between executives reduce ESG engagement, especially in areas such as diversity, community involvement, and product responsibility—domains directly captured in our measure of social decoupling.

By contrast, our results diverge from the findings of Zhang et al. (2022), who argue that tournament incentives encourage proactive ESG as a strategic tool to reduce stakeholder conflict and enhance long-term value. One potential explanation for this discrepancy lies in the distinction between ESG performance and disclosure. While Zhang et al. (2022) suggest that ESG may be used strategically to gain stakeholder approval, our results indicate that, under tournament incentives, firms may pursue disclosure disproportionately relative to actual performance—engaging in decoupling to extract legitimacy without committing to substantive reform.

In summary, these results provide compelling evidence that tournament incentives contribute to the divergence between what firms say and what they do in the social dimension of ESG. This decoupling behavior reflects an adaptive executive response to career concerns under competitive reward structures and highlights the importance of distinguishing between symbolic and substantive ESG engagement when evaluating the implications of executive incentive schemes. Overall, our findings underscore a central insight: tournament-based incentive structures, arising from executive pay disparities, may inadvertently incentivize symbolic ESG engagement, leading firms to prioritize social disclosure over substantive social performance.

Among the control variables, several relationships with social decoupling (SOCDEC) are noteworthy. Firm size (FSIZE) is negatively and significantly associated with SOCDEC ($\beta = -0.347$, $t = -2.74$), suggesting that larger firms may be subject to greater external scrutiny and, consequently, have less flexibility to decouple ESG disclosures from actual performance. Similarly, the market-to-book ratio (MTB) shows a significant negative relationship with SOCDEC ($\beta = -0.006$, $t = -2.53$), implying that firms with higher growth expectations—likely under greater investor surveillance—are less inclined to engage in symbolic ESG. R&D intensity is also negatively associated with SOCDEC ($\beta = -0.156$, $t = -2.00$), which may indicate that firms with higher innovation investment are more committed to substantive ESG engagement rather than disclosure-driven legitimacy.

TABLE 5 | Alternative measures for social decoupling.

Variables	(1) SOCDEC_1	(2) SOCDEC_2
TOURN	0.088**	0.089**
	(2.14)	(2.08)
LEV	0.215	0.407
	(0.70)	(1.24)
PROF	0.103**	0.098**
	(2.43)	(2.12)
MTB	−0.006***	−0.007***
	(−2.77)	(−2.63)
FSIZE	−0.290**	0.010
	(−2.11)	(0.07)
PPE	0.460	0.350
	(0.82)	(0.59)
R&D	−0.151**	−0.138*
	(−1.99)	(−1.77)
SLACK	0.002	−0.008
	(0.03)	(−0.17)
CI	0.012	0.072*
	(0.30)	(1.67)
BS	−0.015	−0.017
	(−0.72)	(−0.82)
BM	−0.002	−0.003
	(−0.26)	(−0.34)
BIND	−0.006	−0.008
	(−0.97)	(−1.13)
BGD	−0.009*	−0.009**
	(−1.90)	(−2.01)
CSR	−0.111	−0.100
	(−1.17)	(−1.03)
CEODUAL	0.037	0.045
	(0.41)	(0.47)
CEOGENDER	0.161	0.155
	(1.24)	(1.13)
CEOTENURE	−0.004	−0.005
	(−0.64)	(−0.86)
INST	−0.002	−0.002
	(−0.32)	(−0.36)
Constant	−0.495	−3.425**
	(−0.32)	(−2.16)
Year FE	Yes	Yes
Firm FE	Yes	Yes
N	3976	3976
Within *R*-squared	0.061	0.061

Note: *, **, and *** symbolize significance at the 10%, 5%, and 1% levels, respectively. *T*-statistics are given in parentheses.

In addition, board gender diversity (BGD) is negatively and significantly related to SOCDEC ($\beta = -0.009$, $t = -2.07$), suggesting that more diverse boards may place stronger emphasis on authentic ESG practices, thereby reducing the likelihood of decoupling. Profitability (PROF) exhibits a weakly significant positive association ($\beta = 0.089$, $t = 1.83$), indicating that more profitable firms may have both the financial capacity and the strategic motivation to portray a socially responsible image—possibly through symbolic disclosure. Finally, the presence of a CSR committee (CSR) is negatively and marginally significantly associated with SOCDEC ($\beta = -0.173$, $t = -1.87$), suggesting that firms with CSR committees are less likely to engage in decoupling and may adopt more substantive CSR practices.

5 | Robustness and Endogeneity Tests

5.1 | Alternative Measures of Social Decoupling

In our baseline analysis, we use the difference between the social disclosure score and the social performance score (SOCDEC) as a proxy for social decoupling, and we find that TOURN is positively associated with SOCDEC. To avoid potential bias arising from the use of a single proxy for social decoupling, we construct two alternative measures of social decoupling. The first measure (SOCDEC_1) represents the difference between the current social disclosure score and the lagged social performance score (Gull, Hussain, Khan, Khan, and Saeed 2023), whereas the second measure (SOCDEC_2) is calculated as the difference between the current social disclosure score and the lagged social performance score scaled by the logarithm of total assets (Gull, Hussain, Khan, Nadeem, and Zalata 2023). The results, presented in Table 5, show that the coefficient on TOURN remains positive and statistically significant after using these alternative proxies for social decoupling.

5.2 | Change-On-Change Method

To ensure the robustness of our findings and address potential endogeneity concerns, we implement a series of complementary econometric techniques. Endogeneity may arise from several sources, including reverse causality, omitted variable bias, and

TABLE 6 | Change-on-change analysis.

Variables	ΔSOCDEC
ΔTOURN	0.075**
	(2.55)
ΔLEV	0.219
	(0.74)
ΔPROF	0.046**
	(2.13)
ΔMTB	−0.005
	(−0.53)
ΔFSIZE	−0.190*
	(−1.74)
ΔPPE	0.580
	(1.30)
ΔR&D	−0.042
	(−0.72)
ΔSLACK	−0.040
	(−1.54)
ΔCI	−0.026
	(−1.14)
ΔBS	0.003
	(0.25)
ΔBM	−0.004
	(−0.72)
ΔBIND	−0.002
	(−0.60)
ΔBGD	−0.001
	(−0.35)
ΔCSR	−0.049
	(−0.67)
ΔCEODUAL	0.028
	(0.52)
ΔCEOGENDER	0.280***
	(2.72)
ΔCEOTENURE	−0.002
	(−0.59)
ΔINST	−0.003
	(−1.00)
Constant	−0.007
	(−0.13)
Year FE	Yes
Firm FE	Yes
N	3830
Within *R*-squared	0.017

Note: *, **, and *** symbolize significance at the 10%, 5%, and 1% levels, respectively. *T*-statistics are given in parentheses.

sample selection issues, all of which can threaten the validity of causal inferences in observational data. We adopt the change-on-change method, which has been widely used in the literature (e.g., Kim et al. 2018). If the level of tournament incentives significantly influences social decoupling, as our results suggest, then increases in tournament incentives over time should be associated with corresponding increases in social decoupling. To estimate the change-on-change regression model, we replace the dependent variable SOCDEC at time *t* with the change in SOCDEC from $t-1$ to t (ΔSOCDEC). We then compute the change in all independent variables from $t-1$ to t. The results, presented in Table 6, show that the coefficient on ΔTOURN is positive and statistically significant.

5.3 | Two-Stage Least Squares (2SLS) Approach

We employ the two-stage least squares (2SLS) method to further address potential endogeneity issues that may stem from reverse causality, following Gull, Hussain, Khan, Khan, and Saeed (2023). We use the industry-year median of tournament incentives (INDTOURN) as an instrumental variable for tournament incentives, following Zhao et al. (2023). The first-stage regression results, presented in Column 1 of Table 7, show that INDTOURN has a positive and statistically significant coefficient, indicating the relevance of the instrumental variable. The results also demonstrate that the instrument satisfies the statistical threshold for strength, as its F-statistic exceeds the recommended value of 10. The second-stage regression results, presented in Column 2 of Table 7, show that the coefficient on TOURN is positive and statistically significant, indicating that our main results remain robust after employing the 2SLS approach.

5.4 | Heckman Two-Stage Model and Industry Fixed Effect

We employ the Heckman two-stage model to address sample-induced endogeneity, following Khalifa et al. (2024). First, we create a dummy variable based on the annual median value of TOURN (DUMTOURN). In the first stage, a logit model is estimated to predict DUMTOURN using the same set of control variables as in the main regression model, along with year and industry fixed effects. The industry-year median of tournament incentives (INDTOURN) is used as an exclusion restriction instrument at this stage. Based on this estimation, the Inverse

TABLE 7 | 2SLS and Heckman two-stage.

	2SLS		Heckman two-stage	
	(1)	(2)	(3)	(4)
Variables	**TOURN**	**SOCDEC**	**DUMTOURN**	**SOCDEC**
TOURN		0.172*		0.074*
		(1.74)		(1.96)
INDTOURN	0.713***		2.808***	
	(22.43)		(10.65)	
IMR				0.007
				(0.15)
LEV	−0.046	0.074	0.771	0.076
	(−0.50)	(0.36)	(1.62)	(0.24)
PROF	0.011	0.088**	0.153	0.091*
	(0.71)	(2.45)	(1.49)	(1.86)
MTB	0.009	−0.006***	0.009	−0.006**
	(1.26)	(−3.41)	(0.21)	(−2.55)
FSIZE	0.155***	−0.369***	1.066***	−0.358***
	(4.97)	(−5.10)	(10.79)	(−2.75)
PPE	−0.217	0.554	−1.467**	0.573
	(−1.36)	(1.56)	(−2.24)	(1.04)
R&D	0.070***	−0.162***	0.004	−0.145*
	(3.15)	(−3.26)	(0.09)	(−1.75)
SLACK	−0.001	−0.013	0.137**	−0.015
	(−0.09)	(−0.42)	(2.05)	(−0.35)
CI	0.017*	−0.036*	0.124*	−0.033
	(1.69)	(−1.66)	(1.84)	(−1.06)
BS	−0.002	−0.024*	0.074**	−0.026
	(−0.33)	(−1.77)	(2.35)	(−1.35)
BM	−0.003	0.005	0.002	0.005
	(−1.08)	(0.84)	(0.13)	(0.70)
BIND	0.005***	−0.006*	0.007	−0.006
	(3.35)	(−1.78)	(0.84)	(−1.07)
BGD	−0.003	−0.009***	0.016***	−0.008*
	(−0.28)	(−3.31)	(2.65)	(−1.87)
CSR	0.024	−0.175***	−0.022	−0.172*
	(1.02)	(−3.33)	(−0.19)	(−1.83)
CEODUAL	0.074***	0.013	0.581***	0.017
	(3.21)	(0.24)	(4.40)	(0.20)
CEOGENDER	−0.102**	0.117	0.163	0.115
	(−2.21)	(1.15)	(0.67)	(0.93)

(Continues)

TABLE 7 | (Continued)

	2SLS		Heckman two-stage	
	(1)	(2)	(3)	(4)
Variables	**TOURN**	**SOCDEC**	**DUMTOURN**	**SOCDEC**
CEOTENURE	0.008***	−0.001	0.041***	0.009
	(5.06)	(−0.28)	(3.48)	(0.17)
INST	0.003**	−0.007**	0.014**	−0.007
	(2.30)	(−2.40)	(2.35)	(−1.50)
Constant	0.282	−0.029	−38.567***	0.642
	(0.67)	(−0.03)	(−13.23)	(0.44)
Year FE	Yes	Yes	Yes	Yes
Firm FE	Yes	Yes	No	Yes
Industry FE	No	No	Yes	No
F-statistics (instrument)	37.16			
Obs.	4468	4468	4370	4370
Within R^2	0.221	0.043		0.047

Note: *, **, and *** symbolize significance at the 10%, 5%, and 1% levels, respectively. *T*-statistics are given in parentheses.

Mills Ratio (IMR) is calculated using the estimated parameters. In the second stage, we re-estimate Equation (1) by including IMR as an additional control variable. The results, presented in Table 7, show that the coefficient on TOURN is positive and statistically significant. Thus, our findings remain robust after employing the Heckman two-stage model.

Moreover, to account for potential variation across industries, we further control for industry fixed effects. The results, reported in Table 8, show that the coefficient on TOURN remains positive and statistically significant after controlling for industry fixed effects, along with year and firm fixed effects. These results further confirm our main findings reported in Table 4.

6 | Subsample Analysis

6.1 | Board Co-Option

Given the important role that boards play in shaping corporate decisions (Baghdadi et al. 2020), we investigate whether board co-option—a newly constructed attribute of board composition (Develay and Virk 2024)—moderates the relationship between tournament incentives and social decoupling. Saeed et al. (2025) suggest that co-opted directors, whose appointments are influenced by CEOs, are often closely aligned with managerial interests and may compromise their independence and oversight capabilities. Consistent with this notion, prior research shows that firms with more co-opted boards exhibit poorer ESG performance (Maneenop et al. 2024). Thus, we argue that the positive effect of tournament incentives on social decoupling will be more pronounced in firms with higher levels of board co-option.

To empirically test this proposition, we obtain the board co-option measure (BODCO) from Coles et al. (2014). We then split the sample into two subsamples based on the median value of BODCO. The results, presented in Panel A of Table 9, show that the positive effect of tournament incentives on social decoupling is more pronounced in firms with higher board co-option.

6.2 | Product Market Competition

As competition intensifies, firms face increased pressure to achieve strong performance and a heightened risk of liquidation, which in turn amplifies managers' incentives to enhance investor perceptions of profitability (Guo et al. 2019). Consequently, recent studies suggest that competitive pressure may lead managers to engage in excessive risk-taking and unethical practices, such as earnings manipulation (e.g., Shi et al. 2018). Using similar logic, since ESG initiatives involve considerable costs and compete with other financial priorities, Pursiainen et al. (2023) argue and provide evidence that greater competitive pressure is associated with a decline in ESG performance.

Accordingly, we argue that the positive impact of tournament incentives on social decoupling will be more pronounced in firms facing higher product market competition. To empirically test this proposition, we obtain the product market competition measure (FLUIDITY) from Hoberg et al. (2014). We then split the sample into two subsamples based on the median value of FLUIDITY. The results, presented in Panel B of Table 9, show that the positive effect of tournament incentives on social decoupling is more pronounced in firms with higher product market competition.

TABLE 8 | Industry fixed effects.

Variables	SOCDEC
TOURN	0.074**
	(1.96)
LEV	0.072
	(0.23)
PROF	0.089*
	(1.82)
MTB	−0.005**
	(−2.51)
FSIZE	−0.347***
	(−2.71)
PPE	0.533
	(0.97)
R&D	−0.155**
	(−1.98)
SLACK	−0.014
	(−0.32)
CI	−0.033
	(−1.06)
BS	−0.025
	(−1.28)
BM	0.005
	(0.66)
BIND	−0.006
	(−0.99)
BGD	−0.009**
	(−2.05)
CSR	−0.172*
	(−1.85)
CEODUAL	0.023
	(0.26)
CEOGENDER	0.109
	(0.89)
CEOTENURE	−0.008
	(−0.02)
INST	−0.007
	(−1.51)
Constant	0.998
	(0.69)
	(Continues)

TABLE 8 | (Continued)

Variables	SOCDEC
Year FE	Yes
Firm FE	Yes
Industry FE	Yes
N	4445
Adj *R*-squared	0.668

Note: *, **, and *** symbolize significance at the 10%, 5%, and 1% levels, respectively. *T*-statistics are given in parentheses.

TABLE 9 | Subsample analysis.

	(1)	(2)
Variables	**High**	**Low**
Panel A: Board co-option		
TOURN	0.118*	−0.004
	(1.72)	(−0.06)
Firm controls	Yes	Yes
Fixed effects	Firm, Year	Firm, Year
Obs.	1446	1405
Within R^2	0.068	0.096
Panel B: Product market competition		
TOURN	0.155***	−0.061
	(2.84)	(−1.05)
Firm controls	Yes	Yes
Fixed effects	Firm, Year	Firm, Year
Obs.	2060	2061
Within R^2	0.063	0.07
Panel C: ESG-linked compensation		
TOURN	0.022	0.083*
	(0.47)	(1.85)
Firm controls	Yes	Yes
Fixed effects	Firm, Year	Firm, Year
Obs.	1998	2470
Within R^2	0.067	0.05

Note: *, **, and *** symbolize significance at the 10%, 5%, and 1% levels, respectively. *T*-statistics are given in parentheses.

6.3 | ESG-Linked Compensation

ESG-linked compensation refers to the practice of integrating ESG performance targets (e.g., community outreach, pollution control, and employee welfare) into executive compensation contracts (Liu et al. 2024). In recent years, many firms have begun tying executive compensation to sustainability metrics (Ikram et al. 2023). It is argued that ESG-linked compensation

TABLE 10 | A possible channel.

Variables	(1) High AC SOCDEC	(2) Low AC SOCDEC
TOURN	0.136***	−0.057
	(3.03)	(−0.87)
LEV	−0.303	0.176
	(−0.76)	(0.39)
PROF	−0.034	0.203***
	(−0.81)	(3.50)
MTB	−0.002	−0.009**
	(−1.31)	(−2.57)
FSIZE	−0.355*	−0.363*
	(−1.79)	(−1.91)
PPE	1.391*	0.621
	(1.75)	(0.87)
R&D	−0.208	−0.112
	(−1.53)	(−1.10)
SLACK	−0.045	0.114
	(−1.05)	(1.19)
CI	0.035	−0.148*
	(0.73)	(−1.85)
BS	−0.043	−0.028
	(−1.51)	(−1.16)
BM	0.002	0.010
	(0.25)	(0.85)
BIND	−0.010*	−0.001
	(−1.68)	(−0.12)
BGD	0.002	−0.017***
	(0.38)	(−2.64)
CSR	−0.127	−0.261
	(−1.17)	(−1.63)
CEODUAL	0.032	−0.006
	(0.27)	(−0.05)
CEOGENDER	0.102	0.269
	(0.63)	(1.41)
CEOTENURE	−0.003	0.006
	(−0.38)	(0.86)
INST	0.003	−0.021***
	(0.45)	(−3.38)
Constant	−0.361	2.469
	(−0.19)	(1.15)
Fixed effects	Firm, year	Firm, year
Obs.	2504	1964
Within R^2	0.048	0.088

Note: *, **, and *** symbolize significance at the 10%, 5%, and 1% levels, respectively. *T*-statistics are given in parentheses.

incentivizes CEOs to prioritize ESG goals and align their actions with stakeholders' interests and the company's long-term sustainability (Homroy et al. 2023). Recent empirical studies provide support for this argument. For instance, Al-Shaer et al. (2023) find that CEOs who receive compensation linked to environmental activities are motivated to improve ESG performance.

Thus, we argue that the positive effect of tournament incentives on social decoupling will be more pronounced in firms without ESG-linked compensation. To test this proposition, we define ESG-linked compensation (ESGCOMP) as a dummy variable coded as 1 if the firm adopts ESG-linked compensation and 0 otherwise, following Radu and Smaili (2021). We then split the sample into firms with ESG-linked compensation (ESGCOMP = 1) and firms without ESG-linked compensation (ESGCOMP = 0). The results, presented in Panel C of Table 9, show that the positive effect of tournament incentives on social decoupling is more pronounced in firms without ESG-linked compensation.

7 | Agency Costs as a Possible Channel Between Tournament Incentives and Social Decoupling

Thus far, we have established that tournament incentives significantly increase social decoupling. Our main argument predicting this relationship is based on the intensified agency conflict perspective, which suggests that in the presence of strong tournament incentives, senior executives may be discouraged from engaging in risky and long-term ESG initiatives that may not utilize firm resources optimally. Instead, they may be incentivized to engage in decoupling practices to gain the legitimacy associated with ESG without incurring the related costs. If this is indeed the case, one would expect that the positive impact of tournament incentives on social decoupling will be more pronounced in firms with higher agency costs.

To empirically test this proposition, we measure agency costs (AC) using the ratio of selling, general, and administrative (SG&A) expenses to total sales, following Singh and Davidson III (2003). We then split the sample into two subsamples based on the median value of AC. The results, presented in Table 10, show that the positive effect of tournament incentives on social decoupling is more pronounced in firms with higher agency costs.

8 | Conclusion

In this study, we examine the impact of tournament incentives on social decoupling. We find that tournament incentives exacerbate social decoupling. Furthermore, the positive effect is more pronounced in firms without ESG-linked compensation, those facing higher product market competition, and those with greater board co-option. Our main findings remain robust after employing alternative measures of social decoupling and conducting a series of endogeneity tests. Finally, we propose that tournament incentives increase social decoupling through the channel of heightened agency costs.

Our study contributes to the literature in several important ways. First, it extends the growing body of research on the implications of tournament incentives for firm-level outcomes, particularly in the context of ESG. Second, our study adds to the literature that critically evaluates the unintended consequences of such incentive structures. Third, our study contributes to the emerging literature on the antecedents of ESG decoupling and provides a novel link between tournament incentives and social decoupling. Fourth, to our knowledge, this is the first study to focus specifically on social decoupling, addressing recent calls in the literature to analyse sustainability dimensions separately. Finally, our findings offer practical implications for investors, analysts, and regulators by providing a deeper understanding of how executive compensation structures—particularly tournament-based incentives—may distort ESG reporting and weaken the credibility of social sustainability disclosures.

Our study has several limitations that offer promising avenues for future research. First, our analysis focuses exclusively on S&P 500 firms. Future studies could extend the investigation to other contexts, such as emerging markets, to examine whether the relationship between tournament incentives and ESG decoupling holds across different settings. Second, this study concentrates on a specific dimension of ESG—namely, the social dimension. Future research could explore whether tournament incentives similarly influence decoupling in the environmental and governance dimensions of ESG, or whether different ESG dimensions exhibit distinct patterns of decoupling. Third, given that research on the determinants of ESG decoupling remains limited, future studies could examine additional managerial characteristics that may shape ESG decoupling, such as CEO political ideology, marital status, and activism. Fourth, because institutional investors play an important role in shaping corporate strategies, future research could investigate how different characteristics of institutional investors—such as ownership stability or political ideology—affect firms' ESG decoupling. Finally, institutional factors may also shape ESG decoupling. Future studies could explore how factors such as corruption, social capital, and religion influence ESG decoupling.

Endnotes

[1] Our sample period begins in 2010 because both anecdotal and empirical evidence suggest that firms began taking corporate social responsibility (CSR) more seriously following the global financial crisis. In particular, companies increasingly sought to improve their CSR performance in order to reduce scrutiny and skepticism from stakeholders and regulators (Cornett et al. 2016).

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