

AN INTELLIGENCE SERVICE FROM FOREVER SUSTAINABLE | ISSUE #20

SUSTAIN ABILITY *BRIEFING*

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How boards decide on ESG inclusion in executive incentive systems

»»» **A NUMBER OF** features of how boards work with ESG parameters when designing compensation schemes has been identified in a new study. It was made by Xavier Beaten, Professor in Reward and Sustainability and his team at Vlerick Business School. They have interviewed chairpersons in remuneration committees in 10 Dutch and Belgian companies. Four main topics is brought forward.

First, Boards include ESG criteria that is forward-looking and give guidance as leading indicators that reflect progress in longer-term ESG strategies. These are often industry specific, such as GHG emissions in polluting industries.

Second, it is about finding reliable performance criteria that can lead to predictable bonus outcomes, which can be hard due to challenges in measuring ESG performance in an objective way.

Thirdly, criterias need to be close within managers control or the incentive system will lose its purpose of influencing managers behavior. Criterias should be closely connected to the ESG program and not be dependent so much on financial aspects like for example currency fluctuations.

Lastly, the CEO often have a strong influence on the choice of ESG criteria and is only likely to be challenged by members with a long tenure in the board. Most often the CEO pick criteria connected to an earlier decided sustainability strategy. ■



SOURCE: Decision-making on ESG criteria in executive remuneration: board perspectives | Vlerick Business School
<https://www.vlerick.com/en/insights/decision-making-on-esg-criteria-in-executive-remuneration-board-perspectives/>



Auditors important in enhancing ESG compensation

>>> COMPANIES THAT HAVE their sustainability reporting audited are more likely to include sustainability terms in the compensation contracts with top managers. The same applies for companies that have sustainability committees on board level. This is the result of a study among 300 UK companies at the FTSE350 index during 2011 and 2015 and their CEO compensation contracts. Companies that invest in assurance of sustainability reporting are more likely to monitor the management achievements of sustainability goals, the authors conclude. ■

LEON SEIBERT



SOURCE: CEO Compensation and Sustainability Reporting Assurance: Evidence from the UK | SpringerLink <https://link.springer.com/article/10.1007/s10551-017-3735-8>



JOAKIM HONKASALO

A rare case in Finland

>>> SUSTAINABILITY remuneration is still rare among Finnish companies. Only 16 percent, or 7 companies, had this in a study covering remuneration statements and sustainability reports from 43 Finnish companies that report according to the Global Reporting Initiative (GRI) framework. As an comparison long-term financial targets were implemented at most companies compensation systems. Authors conclude that the lack of

sustainable executive remuneration in Finnish companies may hinder the development of sustainability and that the missing link between incentives and sustainability needs to be addressed. ■



SOURCE: Sustainability in executive remuneration - A missing link towards more sustainable firms? - ScienceDirect <https://www.sciencedirect.com/science/article/pii/S0959652621034107>

Swedish CEOs talk more about sustainability in their CEO letters

»» **SWEDISH CEOs** HAS dramatically increased their talk about sustainability in their CEO letters in the annual report. The sustainability talk is over time becoming more advanced in terms of being more elaborated and multidimensional. It is covering more and more perspectives including connections to performance and products, mainly within environmental sustainability.

This is the result of a study of CEO letters in the annual report of 27 large listed Swedish companies 2008-2017, by Susanne Arvidsson at Lund University. The study implies that there is a shift away from a shortsighted focus on shareholder value towards a greater focus on sustainability and the transition to sustainable business. ■



SOURCE: CEO talk of sustainability in CEO letters: towards the inclusion of a sustainability embeddedness and value-creation perspective | Emerald Insight
<https://www.emerald.com/insight/content/doi/10.1108/SAMPJ-07-2021-0260/full/html>



Very high CEO pay can increase ongoing crisis

»» IF THE CEO is regarded to have a very high pay this can make a brand crisis worse, from a consumer perspective. This is the result of a study of consumer purchase intent by American researchers. The high CEO pay contributes to consumers losing trust in the firm's brand which effect consumer purchase intent negatively. This is even stronger when the brand is strong, so big brands must be specifically careful when designing CEO pay, researchers conclude. ■



SOURCE: When CEO Pay Becomes a Brand Problem | SpringerLink
<https://link.springer.com/article/10.1007/s10551-023-05394-0>



FREDDIE COLLINS

Award winning CEOs invest even more in CSR after receiving the prize

»» WHEN A COMPANY wins a prestigious award in the media, the CEO is likely to invest more in external visible CSR activities than before. This goes specifically for those companies that have a high media exposure from the start. Hence, it seems like well-known companies that get an award increase their CSR investment more than less known companies. However, the award-winning CEO also tends to invest less in internal CSR activities which do not get the

same attention in the media. It is even more so, if there is a lack of strong internal stakeholders, like employees with strong negotiating power. The study was based on 149 listed Chinese companies that won awards 2005-2015. ■



SOURCE: The Effects of CEO Awards on Corporate Social Responsibility Focus | SpringerLink
<https://link.springer.com/article/10.1007/s10551-023-05411-2>



A more positive view on innovation

»» IN A MAJOR PIECE in Harvard Business Review a revised more positive view of innovation is launched, by the two same professors at Insead who once came up with the idea of "Blue Ocean Strategy" that guide companies to more productive areas. Innovation does not have to come with high social cost where the new competition leads to destruction of companies and jobs that bring damage to communities. Today more and more

innovation happening outside the existing industries and give rise to new markets that did not exist before. This type of innovation brings new economic growth but without many of the social costs, enabling business and society to thrive together, authors claim. ■



SOURCE: Innovation Doesn't Have to Be Disruptive (hbr.org)
<https://hbr.org/2023/05/innovation-doesnt-have-to-be-disruptive>

Testing the case of Shared Value strategy

»» RESEARCHERS WANTED to test the Shared Value thesis from Michael Porter and Mark Kramer. In this concept these scholars from Harvard Business School lay out the idea that when a company integrates social and environmental needs into corporate strategy, competitiveness is enhanced. In the article this is empirically tested and hence verified to be true. A Shared Value strategy promotes the provision of new technological resources and additional information resources, authors claim. This

gives improved access to market resources increasing demand for products and services. The company can more easily recruit employees and are more attractive for investors. ■



SOURCE: The impact of creating shared value strategy on corporate sustainable development: From resources perspective (wiley.com)
https://onlinelibrary.wiley.com/doi/epdf/10.1002/csr.2490?saml_referrer

CSR

Swedish CSR managers combining multiple purpose

»» A GROUP OF international researchers have interviewed 57 CSR managers in Swedish international companies on how they see their work as meaningful and to what extent they change their view over time. As a starting point there might be an expectation of being characterized by a strong sense of purpose, even beyond self-gain. However, there are tensions for these CSR practitioners who can experience a divide between their social aspirations and the commercial goals of the company. The study introduces three stages in the career: early, mid and late stage and show how purpose differ from activist to win-win and then to alignment with corporate purpose. ■



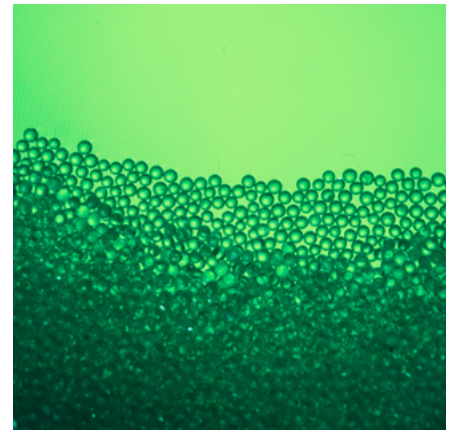
LINDSAY HEWWOOD



SOURCE: Saving the World? How CSR Practitioners Live Their Calling by Constructing Different Types of Purpose in Three Occupational Stages | SpringerLink
<https://link.springer.com/article/10.1007/s10551-023-05343-x>

EU green deal bring **increased transparency** on environmental responsibility

»» SINCE THE LAUNCH of the new EU regulation against climate change the transparency has increased on environmental responsibility among the large international European companies. This is the result of a study of sustainability reports covering more than 800 companies during the years 2011 – 2020. In this major quantitative study statistical significance was found for this increase. ■



FREDIE COLLINS

New dissertation on the digital sustainable agri-food industry

»» AS THE AGRI-FOOD industry is dealing with financial, planetary and societal challenges, new knowledge is needed. To address this Maria Bustamante at the Stockholm School of Economics has researched the effect of digitalization on the sustainability in the industry. In her PhD thesis she concludes that if digital technology is going to drive sustainability, the social elements

and the values driving technology decisions should be given greater consideration within innovation processes. ■



SOURCE: Microsoft Word - V2 -Bustamante - SSE Dissertation FINAL - 14 Mar 2023.docx (hhs.se)
https://www.hhs.se/contentassets/42623050c5774b8a8c1cdf77e0053c3a/sse-phd-diss_2023_maria-bustamante.pdf



SOURCE: How does the European Green Deal affect the disclosure of environmental information? - García-Sánchez - Corporate Social Responsibility and Environmental Management - Wiley Online Library
<https://onlinelibrary.wiley.com/doi/full/10.1002/csr.2514>

ABOUT US

FOREVER SUSTAINABLE

We are a Scandinavian hybrid consultancy and think tank focusing on sustainable business and Shared Value.

SUSTAINABLE BUSINESS QUARTERLY REPORT

An intelligence service for executives engaged in sustainability, CSR and the future of business.

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PUBLISHER

FOREVER

Forever Sustainable Business Nordic AB
Norrskén House

Birger Jarlgatan 57C
113 56 Stockholm SWEDEN

www.foreversustainable.se
info@foreversustainable.se

SUBSCRIBE

info@foreversustainable.se