

# REWARD VALUE





## SUSTAINABLE REMUNERATION: THE THREE P'S: PURPOSE – PERFORMANCE - PAY

*Reward Value's mission is to support the development of remuneration policies that contribute to long-term sustainable and inclusive value creation. Executive remuneration today is driven by incentives that no longer align with shareholder interests or reflect broader societal responsibilities. Reward Value seeks to further the debate on executive remuneration with investors, business schools, and the business community at large to bridge the gap between purpose, performance and pay.*

*Reward Value is a not-for-profit research initiative. Reward Value can be reached by email ([contact@rewardvalue.org](mailto:contact@rewardvalue.org)). For more information on Reward Value please visit our website [www.rewardvalue.org](http://www.rewardvalue.org).*

### 1. Introduction

Where many companies have embraced the triple bottom line concept of people, planet and profit into their purpose statements, the realisation of such statements is dependent on three different P's: Purpose, Performance and Pay.

### 2. Purpose

We are all familiar with the concept of the triple bottom line: People, Planet and Profit. Introduced in

1998 by John Elkington, the concept highlights that sustainable value creation is based on the harmonious combination of these three elements.<sup>1</sup> The importance of the Triple Bottom Line is more and more understood. Firm's purpose statements reflect this and companies increasingly acknowledge that doing good for society and the environment is part of their *raison d'être*. Most of the leading global companies subscribe to the Sustainable Development Goals (SDGs).

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<sup>1</sup> Cannibals with Forks: The Triple Bottom Line of 21<sup>st</sup> Century Business

### 3. Performance

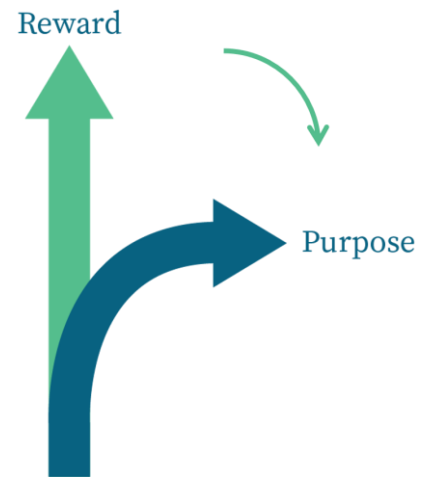
Adopting a purpose that includes societal objectives should drive non-financial performance. Assessing the extent to which firms contribute to achieving global ESG goals, however, remains difficult to assess. Paradoxically, the wealth of different initiatives that aim to support and foster the accurate measurement of non-financial performance (e.g. SASB, GRI, TCFD amongst others), has resulted not just in significant progress but also a dearth of comparability.

In order to strengthen the link between purpose and performance, corporate decision makers, investors and societal stakeholders need to be able to speak a common language when discussing the non-financial performance. This gives executives the tools to prioritize and decide on appropriate action, whilst allowing investors and other stakeholders to monitor firm behaviour and to keep companies accountable for their non-financial value creation or destruction. Currently however, there is little common understanding in how we define clear targets for corporate behavior, or track progress and measure success for that matter. Moving towards this common language requires a global harmonization of how the different elements of sustainability and corporate responsibility are measured and reported. Uniformity allows for comparison between companies and creates transparency allowing share- and stakeholders to hold companies accountable for their actions.

### 4. Pay

Although firms increasingly incorporate their purpose in their vision and strategy, that same purpose is often not reflected in the firms' executive remuneration policies. If organizations want to contribute to social long-term value creation, this mismatch will need to be addressed. As Reward Value we strive to contribute to the development of

evidence-based, long-term, sustainable, and stakeholder-inclusive executive remuneration policies.



Achieving outcomes that benefit both shareholders and society requires behavioural change at firms, starting at the board level. Executives are critical to a firm's success and can drive the required change at firms to achieve better social and environment outcomes conjunctively with financial performance. In fact, in response to public debate and as a result of intrinsic motivation and vision, some executives have already made important contributions to better societal outcomes in their own organisations or across the value chain.

Stimulating executive behaviour towards sustainable entrepreneurship can be encouraged by aligning the executive compensation policies to the long-term impact of firms on financial, societal and environmental value creation. Over the last decades, executive pay has seen a tremendous growth, resulting in more and more public outcry as well as frequent discontent among the company's stakeholders (including shareholders). Such discontent is not only directed at the level of pay but also at its structure. In many cases, remuneration structures are designed to stimulate short-term profit maximisation instead of creating long-term sustainable value. Often, they disregard environmental, social and governance (ESG) considerations. A more balanced mix of targets,



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incentives and accountability can contribute significantly to achieving better societal outcomes.

### 5. Next steps

Together with universities and business schools, the business and investment value chain, and societal stakeholders, Reward Value works towards a new evidence-based remuneration model. As a first step to support the envisioned evidence-based nature of the new remuneration model, Reward Value and its partners have undertaken preliminary yet careful research and analysis. Our current line of thinking about the problem of executive compensation and options for the way forward is outlined in our recent green paper. A copy of the green paper can be obtained through our website [www.rewardvalue.org](http://www.rewardvalue.org). We invite stakeholders and experts like universities, business schools, institutional investors and the business community to join us in further research efforts and building lasting solutions towards effective remuneration policies in line with business and social purpose.

