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# REWARD VALUE

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Annual Management Report Reward Value Foundation  
2021

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Reward Value Foundation

## TABLE OF CONTENTS

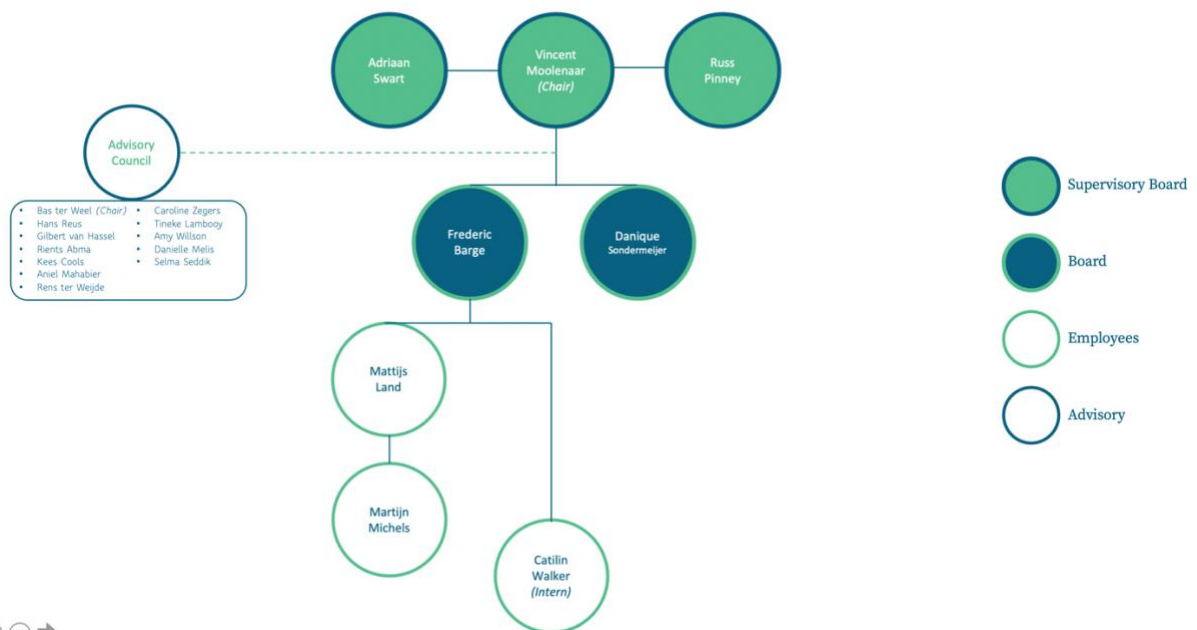
STRUCTURE & TEAM .....	2
RESEARCH PROJECTS.....	3
NETWORK & PARTNERS.....	8
AWARENESS & COMMUNICATIONS .....	10

## STRUCTURE & TEAM

As of 21<sup>st</sup> of December 2020, the research activities and all related work of Reward value has been transferred in the newly established Reward Value Foundation. Originally, the board consisted at the start of a one-tier board with three members, one being a non-executive and the other two were executive members of the board. In the course of the reporting period, the articles of association have been amended and the structure has been amended to a two-tier board with a Management Board of two members, being Frederic Barge and Danique Sondermeijer, and a supervisory board of three members, being Vincent Moolenaar, Russ Pinney and Adriaan Swart.

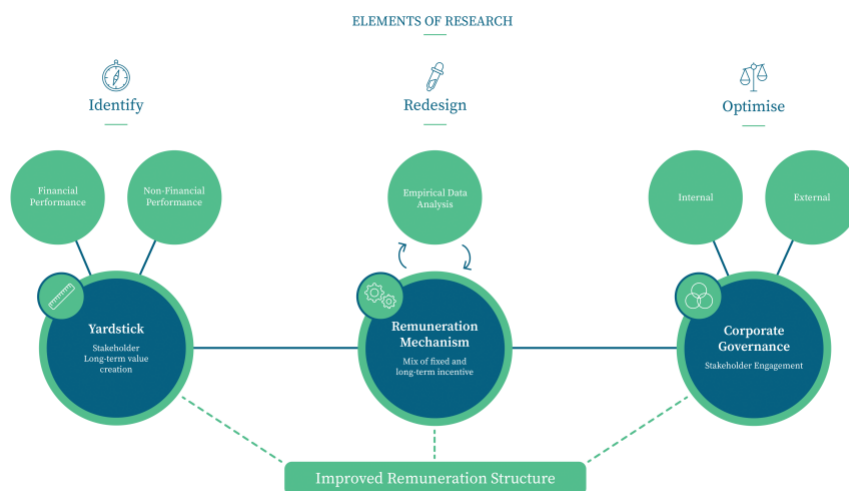
The Foundation has also set up an Advisory Council, which has grown over the reporting period to 12 members representing the core stakeholders of the Foundation. With the input of the Supervisory Board and the Advisory Council, the Foundation has been able to accelerate its research activities, grow its network and made the first important steps towards structural funding.

With respect to the team of Reward Value, we started the reporting period with one intern next to the management board. At the end of the reporting period, the team has grown to 8 people in total of which 4 interns all based in Northern Italy. The team represents a balanced gender mix (5 men and 3 women) with 5 nationalities.



## RESEARCH PROJECTS

Following the Green Paper released in Q3 of 2020, a clear research agenda has been defined.



In order to test assumptions made in the Green Paper and build proof of effective modernized executive remuneration and its contribution to long-term value creation, six carefully designed research projects have been defined.

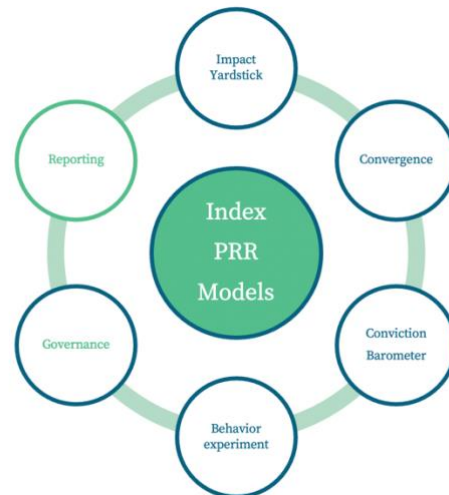
Practical change requires practical interventions. Reward Value has commissioned independent academic research to develop a set of workable tools research around the three research pillars:

1. **Performance:** The means to measure Sustainable Long Term Value Creation (SLTVC), consisting of the following:
  - a. Yardstick: the instrument to measure firm's value creation by combining financial and non-financial performance
  - b. Barometer: analysis of alignment between a company's purpose, performance and pay
  - c. Convergence: the term at which different measures converge. i.e. what is 'long term'?
2. **Mechanism:** The calculations used to decide when and how executives will be paid. Behaviour: analyze the effect of extrinsic motivation on intrinsic motivation
3. **Regulation:** The mix of hard and soft law and reporting standards that ensure effective implementation and execution of modernized pay.
  - a. Principles: Outline internal and external corporate governance requirements in support of modern CEO remuneration
  - b. Reporting: Design detailed reporting requirement and reporting models

The findings following from the research projects will form the building blocks for the key deliverables of the Reward Value Foundation, being:

1. Principles of Responsible Remuneration
2. Models of Responsible Remuneration; and
3. Index of Responsible Remuneration.

Below a short description of the research projects are given



### IMPACT YARDSTICK

A central feature of any remuneration policy is an agreement on the ‘yardstick’: the instrument to measure firm’s value creation by combining financial and non-financial performance. The combined insights of Wharton and INSEAD on financial impact analysis and Harvard on non-financial impact assessment form the cornerstone of our research methodology.

Many CEOs are rewarded for mainly short-term financial targets. Yet share- and stakeholders rarely want short-term financial success if it comes at the cost of long-term value. For this to change, performance yardsticks must also change.

We are developing a database of firm-level social and environmental monetized impacts. This database will allow us to assess the ‘net societal value added’ of firms by netting financial impact with the financial value of social and environmental impacts (both positive and negative). This results in a more truthful measure of firm sustainable value creation for all stakeholders to which compensation may be tied. Once finished, this approach of monetizing firm impacts has several useful features. The direct measurement of net societal value creation spurs CEOs to act with societal interests in mind. Similarly, direct measurement implies that decompositions of financial and various aspects of nonfinancial value should be possible. This offers CEOs and stakeholders the tools to assess where firm behaviour should be directed. Relatedly, given that all impacts are expressed in the same units of account, trade-offs between various stakeholder interests become transparent and comparable. Taken together, the role of this impact yardstick then becomes severalfold: it incentivizes the right behaviour but can also be analysed to guide strategic decisions and supports fairness in firm behaviour by rationalizing the trade-offs between various stakeholder interests.



### CONVICTION BAROMETER

Firms increasingly recognize that share- and stakeholders expect that firm behaviour keeps societal interests in mind. As a result, firms attempt to act purposeful and to engage with stake- and shareholders on material societal interests. This engagement may be bilateral, in the public debate, at the AGMs and through disclosures. Parallel to such efforts by firms, there is a widespread concern that talk is cheap. Actual decisions may deviate from stated objectives, and many of the disclosures and other touchpoints for engagement may be heavily skewed to paint the firm in a more favourable (often: greener) light.

Reward Value together with Diligent is developing an AI-powered tool to assess the extent to which firm attitudes, attention and actions align. This assessment of alignment or conviction should help us to better understand whether companies focus on the right issues and whether they are able to translate their focus on the right topics into concrete actions to drive long-term societal value creation.

With respect to pay, such tracking of intentions, actions and progress is important as well. Companies should align purpose, performance and pay. Measuring the extent to which purpose is embedded in firm priorities and outlooks can facilitate monitoring and a quantification of the relation between purpose and pay. Likewise, measuring firm attitudes, attention and actions and the outside perception of those attitudes, attention and actions may serve as a proxy and/or a leading indicator for performance. 'Impact' may be a slow-moving variable. Pivoting to a green business model takes time, and the effects of that will only become apparent after an implementation lag. Until the pivot is finalized, there still is a need to track progress. The conviction barometers may be one tool to track firm attitudes, attention and actions.



## CONVERGENCE

Whilst many stakeholders as well as shareholders agree that firms should focus on long-term outcomes, few offer a view on what this 'long term' is and why they feel that their view of the 'long term' is appropriate. Is 5 years the long term or 10? If it is 10, why?

In terms of compensation policy, the appropriate long-term may be the term at which different measures of firm outcomes converge. Shareholders may be willing to forego short term cash profits in return for future gains that result from current period investments. This expectation of future profits is discounted into asset valuations, but at some point, such expectations should materialize for the foregone short-term cash profits to be worthwhile to the investor. Likewise, material non-financial issues affect future firm performance (human capital, climate risks, etc.), but it takes time for such issues to affect the firm's bottom line.

For compensation policy, the optimal long-term may be at the nexus between current and future costs and benefits for shareholders and stakeholders. A measure of CEO performance is 'fair' if it has had sufficient time to 'absorb' all relevant financial and non-financial costs and benefits. In this research project, we aim to estimate this term: how long does it take for accounting and share-based performance to align and how long does it take for non-financials to be appropriately accounted for in profits and valuations.



## BEHAVIOUR

Whilst many stakeholders, boards and shareholders will agree that compensation policy can be improved, there is less agreement on what this change should constitute. This may be partially attributed to the fact that evidence on the efficacy of new models for rewarding CEOs is scarce. The resulting paradox is that willingness to change is low, and no new observational data becomes available. We're finding a way out of this problem by running online, laboratory and within-firm experiments. This allows us to test potential new compensation models so that we can arrive at evidence-based compensation policy that drives the right behaviour by CEOs. We take a broad approach to this experimental redesign of remuneration and consider factors beyond the classical principal-agent approach, including leadership style, personality traits, teamwork, and culture. This project is made possible by the Goldschmeding Foundation.



## PRINCIPLES

Although many organizations and stakeholders recognize that changes to executive pay are sorely needed, coordinating on a joint push toward a new equilibrium is difficult. Many organizations and stakeholders prefer not to be the first and/or only mover. Many organizations and stakeholders don't necessarily agree on the direction and magnitude of the push towards a new equilibrium. In short,

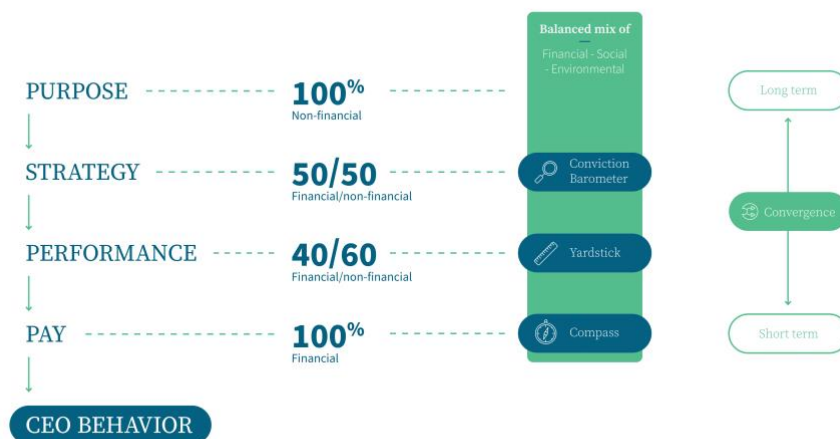
there are (temporary) organizational and governance frictions that hinder the development and adoption of a new remuneration model across the board. In an effort to reduce such governance frictions, Reward Value is coordinating the development of a set of Principles for Responsible Remuneration (PRR). These principles are developed jointly with stakeholders. This co-creation allows for the process to be part of the solution of achieving agreement on the direction of change. Upon agreement of the PRR, the PRR may become a touchpoint for meaningful engagement about and governance of executive pay.



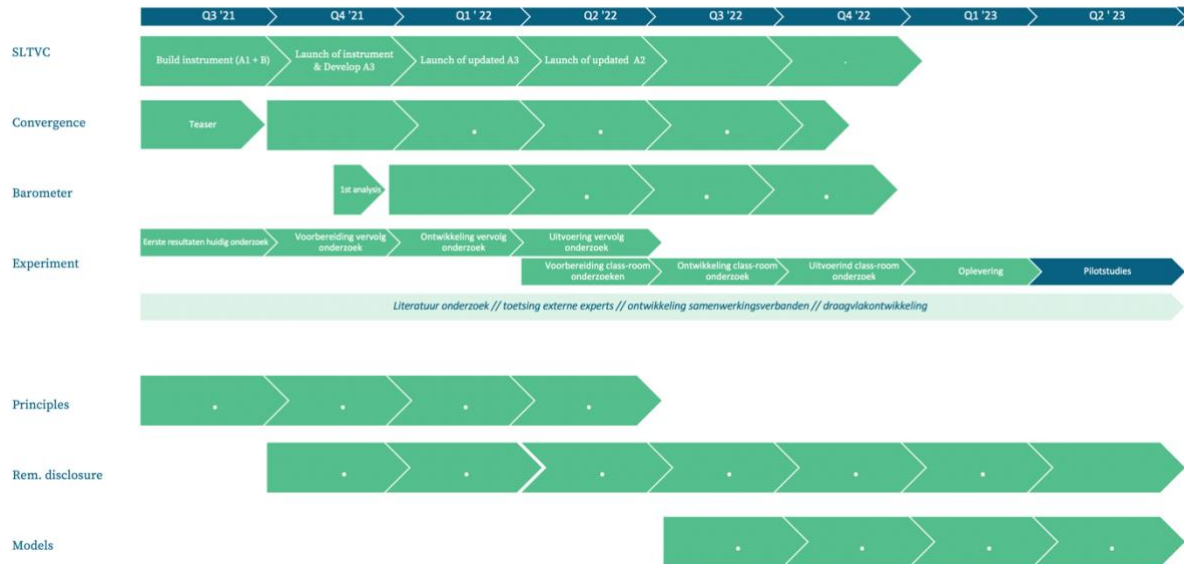
## REPORTING

Companies are bound by various requirements for their reporting on remuneration, both through legislation and regulations and through (self) regulation in the form of governance codes. Companies are generally compliant with such requirements, but despite such compliance, concerns remain about the extent to which shareholders and stakeholders can successfully monitor companies' remuneration policies. This is partly the result of the fact that remuneration reporting is often not standardized, companies have a relatively large amount of freedom to define broad standards at their own discretion, and only rarely offer extensive and substantive substantiation for the choices made in the remuneration policy. Concerns about the "quality of transparency" are the result. To help companies design their remuneration reporting in such a way that the expectations of stakeholders and shareholders can be met, we propose to develop a guidelines document for high-quality remuneration reporting. In such a document we not only map out what the best practices are now, but especially how they can be improved. By sketching such an 'ideal type' of remuneration reporting, we hope to encourage market parties to make their own remuneration reporting more transparent, for example by standardization and by offering more substantive explanation of choices in remuneration.

The various projects are interrelated and fit together, and more importantly reinforce each other to arrive at the necessary proof for modernized pay and deliver on the planned deliverables of Responsible Remuneration. The connectedness of the research projects is depicted here below and helps to bridge the current gap between purpose and pay. It is this alignment that will allow companies to accelerate their transition to a regenerative and inclusive economy.



In the reporting period the research foundation for the different projects has been established and in the coming two years the results of the projects should become available in the following expected timelines.



In the reporting period the following publications have been made:

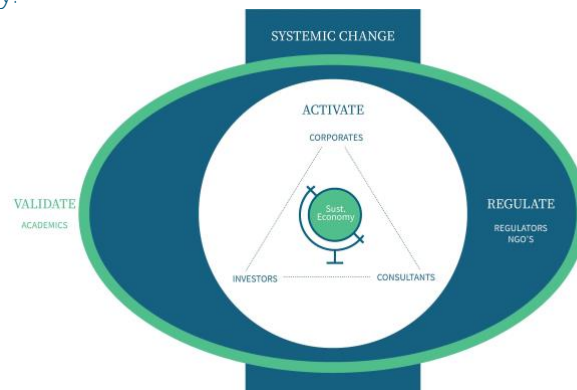
- » 2 background notes regarding corporate governance
  - o An overview of architecture
  - o Short-termism
- » 3 open letters (thought leadership)
- » 2 consultations of the European commission
- » 2 literature review publication (convergence and experiment)



## NETWORK & PARTNERS

During the reporting year a extensive stakeholder analysis has been made outlining the relevance of the different stakeholder groups and the role they play for Reward Value and vice versa. The analysis supports the relevance of the different stakeholders in the process toward the envisaged systemic change needed in executive remuneration. In order to maintain close contact with the different stakeholder groups, Reward Value has representants of these groups in the Advisory Council and in the sounding boards of the research programmes. Furthermore, Reward Value has joined other networks and organisations in support of general awareness of the Foundation and its research specifically.

Reward Value has grown into a much stronger and more mature organization with a clear, vision, mission, and objective. The stakeholders have clear roles in the needed systemic change towards responsible remuneration. Whereas the business, investment and consulting communities are needed for the activation of modernized pay, the national- and international governmental institutions and NGOs are responsible for regulating modernized pay. Finally, the role of the academic community is crucial with respect to validating modernized pay. Building on the rising sense of urgency felt in society, it is important to continue to grow the awareness for the systemic change and increase Reward Value's visibility.



## PARTNERS

From the onset of Reward Value, since 2018, a strong research partnership has been established with Stichting Economisch Onderzoek (SEO) linked to the University of Amsterdam. This relationship continues to be the backbone of our research activities, while at the same time we have expanded the academic cooperation to other national and internal universities and business schools.

With respect to the research projects partnerships have been established with Diligent Institute in the USA and Impact Institute based in the Netherlands.

In the reporting period also a funding partnership has been established with the Goldschmeding Foundation related to the behavioural experiments research project. The support of the Goldschmeding Foundation is an important recognition of the value of Reward Value's research and the relevance of modernizing executive remuneration.

The established partnerships add significant value to Reward Value's research and its mission. The Foundation is grateful for the support received.

**seo** • economisch onderzoek  
de wetenschap dat het goed is



## MEMBERSHIPS AND NETWORKS

Next to the partnerships mentioned here above, Reward Value has established membership relations with or joined existing networks which contribute to the different research projects or with whom mutual interests are shared. These networks allow Reward Value to grow its knowledge and visibility as well as contribute to the work of other related initiatives. In the reporting period such contributions have been made by Reward Value to FCLTGlobal and r3.0. In the picture below an overview of our network relationships are depicted.



2100  
Initiative

WeAll  
Network

## AWARENESS & COMMUNICATIONS

Reward Value's core visibility is structured in a well-designed website and a LinkedIn page. The traffic to these places is monitored and a structural increase in visitors has been noticed. It is foreseen to update the website in 2022 to further grow the professionalism of the Foundation. The number of followers of the Reward Value LinkedIn page has grown from 385 to 775 followers in the reporting period. Next to this, Reward Value issued [XX] newsletters during the reporting period. The number of subscribers to the newsletter more than doubled to 525 subscribers in the reporting period.

To further increase the awareness of Reward Value and its mission, several Podcast, webcast and participation in seminars have taken place. The picture below shows the activities joined by Reward Value.



Reward Value foundation has only been able to achieve this leap forward with the support of its network, the trust in the approach and the commitment of many to spread the word. The Foundation kindly asks for continuation of this support. Together with the stakeholders and the broader network executive remuneration as a catalyst for change can be created. Everybody needs to contribute to the transition to a regenerative and inclusive economy. It is time to realise corporate purpose and to close the gap between purpose and pay. Successful transition is in dire need of this systemic change. Reward Value is ready to double the effort again next year. Please join the mission!