

INTERNATIONAL CALL FOR RESEARCH – EXECUTIVE PAY

The [UN-supported Principles for Responsible Investment \(PRI\)](#) initiative wishes to commission research that addresses the following key question:

How can executive pay drive and deliver corporate sustainability in the long-term?

The PRI invites expressions of interest from researchers to examine the trends in corporate pay practices in the context of academic literature and undertake a comparative analysis of these disclosure trends with existing ESG materiality framework(s).

From these submissions, a shortlist will be interviewed, and a candidate will be invited to submit a full proposal to undertake the study.

The PRI is making GBP 15,000 (equivalent) available to support this internationally-focused research project. The PRI will discuss data requirements with the selected applicant and assist in obtaining access to data where feasible. The project is expected to start in July 2019 and be completed by June 2020.

The deadline to submit expressions of interest is **21 June 2019 (5pm UK time)**.

BACKGROUND

Executive remuneration should incentivise sustainability and long-term value creation. However, there are wide-spread concerns¹ that it often falls short of meeting these objectives. Reasons for this include:

- Excessive focus on short-term financial indicators that could be ‘gamed’ by executives and result in excessive risk taking²
- Complexity of the pay structure that leads to information gaps on how total pay is calculated, the measures³, metrics and targets that underpin performance
- Weak oversight of the board or committees with allocated responsibility in evaluating pay packages and their use of discretionary powers in an appropriate way

¹ See for example: <https://publications.parliament.uk/pa/cm201719/cmselect/cmbeis/2018/2018.pdf>

² Bennett, Benjamin, J. Carr Bettis, Radhakrishnan Gopalan and Todd Milbourn (2017): “Compensation Goals and Firm Performance.” *Journal of Financial Economics* 124, 307-330.

³ Financial or non-financial

Integrating sustainability factors into executive pay could deliver better alignment of management's interest with shareholders' and stakeholders' interest⁴. However, a PRI study in 2016 found several trends including the integration of ESG factors into pay was very much in its infancy - only a few companies had a structured process, disclosed how ESG performance that they deemed material was linked to pay, or published challenging and clear performance measures and targets for these ESG metrics⁵.

Through this commissioned research, the PRI would like to understand how, if at all these trends have changed by undertaking:

- A market scan of corporate practices and an analysis following a review of academic literature
- A comparison of existing materiality frameworks with corporate pay disclosures that consider ESG measures

Recommendations that flow from this research should duly consider how E, S and G factors could be considered in an integrated manner (as opposed to separate thematic areas); be practical and feasible to implement; cautious not to add to the complexity or opacity of existing pay structures; establish a link to the sustainability culture of the company so any change is systematic and drives long term-value creation.

We expect that this research will pave the way for better understanding on how companies can best incorporate ESG factors in executive pay design.

RESEARCH QUESTIONS

The PRI invites expressions of interest for research that addresses the key areas outlined below. The research project is expected to start in July 2019 and be completed within a year.

- Undertake an academic literature review highlighting influential and innovative research on ESG and executive pay and connected governance issues
- Undertake a global market scan of corporate practices on integration of ESG issues in executive pay and identify trends and gaps for an investor audience to consider
- Compare corporate use of ESG metrics in incentive plans with material ESG issues in specific industries (e.g. using the SASB framework)
- Postulate recommendations for investors, particularly on active ownership

The successful research proposal will also address some or all of the areas below and identify appropriate research methodologies:

⁴ For example, see Flammer, C., Hong, B., Minor, D., 2019. Corporate Governance and the Rise of Integrating Corporate Social Responsibility Criteria in Executive Compensation: Effectiveness and Implications for Firm Outcomes. *Strategic Management Journal*, 1-26. DOI: 10.1002/smj.3018

⁵ <https://www.unpri.org/download?ac=1798>

- Evaluate corporate culture on sustainability and its relationship with the design of compensation packages
- Explore barriers to the comprehensive use of ESG factors in pay including any unintended consequences from their incorporation

ELEMENTS AND OUTPUTS OF THE RESEARCH

The successful application will include:

- The principal investigator to be a Professor, with the team to include at least one PhD student
- International relevance – i.e. the findings will have relevance in multiple geographical locations
- Major financial markets and rationale for focus areas (e.g. regional focus, sector and market size), details of relevant data and indicators that will be used in the research (for instance, format of disclosure, pay composition; any qualitative disclosure on incentives and their relationship with long-term/ short-term objectives; commentary on sustainable value creation; recent changes in compensation structure and relevant drivers; governance and decision making powers in relation to pay)

Deliverables from the research will be in English and include:

- Monthly progress reports
- Participate/present at an investor workshop in September
- Write a short article (2,000 words) for [PRI Perspectives](#) in August/September
- Compile a list of academic resources on ESG and executive pay summarising key findings (as part of the literature review) for the PRI website
- Two reports to be delivered to the PRI in line with the timeline

The successful application will present and employ appropriate method(s) in relation to the research objectives with a research team composed of members in different regions of the world. Multi-disciplinary approaches are welcomed. Preference will be given to expressions of interest submitted by teams consisting of at least one academic and one investment practitioner.

FUNDING

Under this initiative, the PRI has set aside up to GBP 15,000 (equivalent) to support this research project. The PRI will also provide support to the researcher to collect relevant data for the project, where feasible.

Applicants are requested to note that:

- University overheads are not funded, neither does PRI pay any percentage of full economic costs
- At least four meetings with the PRI Secretariat will be required as per the schedule below

- Reasonable travel and accommodation expenses relating to dissemination at PRI in Person for one member of the research team (see output section of this call for more information) will be supported by the PRI, in addition to the GBP 15,000 funding upon approval, and will therefore need to be detailed in the research costs.

INDICATIVE TIMELINE

2019	
Deadline for submitting expression of interest	21 June
Shortlisted candidates notified	28 June
Interviews with shortlisted candidates	First week of July
Deadline for the selected candidate to submit full project proposal	12 July
Research project starts	29 July
Meeting with PRI – to share early insights	27 August
PRI Perspectives article	August/September
Meeting with PRI - discuss draft report	1 November
Report due: Literature review and trends analysis	15 November
2020	
Meeting with PRI – to share early insights on the assessment of the materiality framework	End January
Meeting with PRI – to discuss draft report	End May
Deadline for submitting report with reviewers' comments addressed	Early June
Report due: Final report	20 June

HOW TO APPLY

In the first instance, expressions of interest should be submitted using the application form.

A jury comprised of academics and practitioners, including the PRI will be selecting from a set of shortlisted proposals based on:

- Whether it meets the criteria set out in the call for research
- Methodological strength
- Originality of approach
- Practical significance of the research

Enquiries and expressions of interest should be directed to: academic@unpri.org.

The deadline for expressions of interest is 21 June, 5pm UK time.

THE FUNDER

The [Principles for Responsible Investment](#) is an investor initiative in partnership with UNEP Finance Initiative and the UN Global Compact. Launched by former UN Secretary -General Kofi Annan, the PRI is a set of voluntary best practice principles to assist investors in integrating environmental, social and corporate governance (ESG) issues into investment processes and ownership practices.

The PRI's academic research programme provides grant funding to support and develop innovative responsible investment research, showcases research findings for an investor audience and convenes a vibrant, global community of around 4,000 academics and investors through the Academic Network. For more information on current work, see [here](#).

For more information, visit our website www.unpri.org.