

Executive compensation is a key tool in the corporate governance tool belt. The rise of the use of non-financial metrics in corporate executive compensation packages has been noted since the 1990's but have generally been evaluated in relation to the financial performance of the firm. One recent change is the rise of Corporate Social Responsibility (CSR) incentives in executive pay packages where targets relating to social and environmental objectives are being included. For example, 20% of Royal Dutch Shell's 2016 bonuses were tied to sustainable development goals (Royal Dutch Shell Annual Report, 2016). Findings vary, but recent reports indicate that 43.4% of the S&P 500 link executive compensation to sustainability performance (IRRC and Sustainable Investments Institute, 2013).

Initially, it appears that CSR incentives differ from other non-financial metrics in that firms align these metrics to a perceived definition of sustainability, one that includes financial, social and environmental metrics. While some initial research has begun in this area (Maas, 2016; Flammer et al., 2016), much remains to be explored including the questions addressed in my research.

My thesis investigates three key questions in three papers: first, why do organizations adopt CSR incentives? Second, how does corporate governance play a role? Third, what are the effects of CSR incentive adoption including how do different weightings and types of incentives affect both CSR and financial performance? Corporate governance elements are examined in each paper as this underlies the very nature of the design, adoption and effect of CSR incentives. I utilize stakeholder and agency theory to explore possible explanations to these questions.

I apply structural equation modelling to data gathered from S&P 500 firms. The CSR incentive information is hand collected from firm proxy statements and combined with information from various databases to obtain the performance, ownership and board feature information. I also use instrumental variables to estimate the causal relationship between corporate governance, CSR incentives use and features as well as the effects on CSR and financial performance.

This research advances the literature in corporate governance in the design and effect of elements of executive compensation plans, as well as the literature on CSR performance and determinants. This study improves our understanding of how corporate governance plays a role in CSR incentive adoption and how it affects the design of these plans. My work extends research regarding the motivations of management by investigating previously unexamined motives for the inclusion of CSR incentives, specifically the possibility of a dual motivation to serve both the shareholders and stakeholders simultaneously. Practically, I provide evidence that informs boards on the use and design of CSR incentives and how corporate governance support these initiatives. I document the effect of these incentives on both the CSR and financial performance of the firm allowing this information to be better communicated to stakeholders and shareholders alike. Finally, this research is of interest to shareholders as they demonstrate a growing interest in both executive compensation and social & environmental matters, issues of great importance in corporate governance within Canada today. Overall, we all benefit from understanding why CSR incentives are offered, how corporate governance plays a role and what effect these incentives have both from a corporate and societal perspective.

References

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