

RGC Ref. No.: UGC/FDS14/B01/19 <hr/> (please insert ref. above)

**RESEARCH GRANTS COUNCIL
COMPETITIVE RESEARCH FUNDING SCHEMES FOR
THE LOCAL SELF-FINANCING DEGREE SECTOR**

FACULTY DEVELOPMENT SCHEME (FDS)

Completion Report
(for completed projects only)

<p><u>Submission Deadlines:</u></p> <ol style="list-style-type: none"> 1. Auditor's report with unspent balance, if any: within six months of the approved project completion date. 2. Completion report: within 12 months of the approved project completion date.
--

Part A: The Project and Investigator(s)

1. Project Title

Chief Sustainability Officers, CSR-based Executive Pay Performance Measures, and Firm

Value: International Evidence

2. Investigator(s) and Academic Department(s) / Unit(s) Involved

Research Team	Name / Post	Unit / Department / Institution
Principal Investigator	Dr Lisa GOH / Associate Professor	Department of Accountancy / The Hang Seng University of Hong Kong
Co-Investigator(s)		
Others		

3. Project Duration

	Original	Revised	Date of RGC / Institution Approval (must be quoted)
Project Start Date	01/01/2020	N/A	N/A
Project Completion Date	31/12/2021	30/06/2022	Approved by HSUHK on 24/08/2021
Duration (in month)	24	30	
Deadline for Submission of Completion Report	31/12/2022	30/06/2023	

Part B: The Final Report**5. Project Objectives**

5.1 Objectives as per original application

1. To examine the extent to which CSR improvement mechanisms have been adopted internationally (such as the establishment of a CSO position and the use of CSR-based pay-performance measures for executives);
2. To examine whether the presence of a CSO and the presence of CSR-based performance measures in executive pay affect CSR performance in countries around the world;
3. To investigate whether and how the effects (e.g., capital market consequences) of these practices, if any, vary across country-level institutional characteristics; and
4. To investigate specific CSR mechanisms that effect changes in market values following the adoption of the above CSR practices, further differentiating between firms that show improvements only in CSR reporting quality (soft CSR performance measures) and those that make substantive CSR improvements (hard CSR performance measures).

5.2 Revised objectives

Date of approval from the RGC: N/A

Reasons for the change:

- 1.
- 2.
3.

5.3 Realisation of the objectives

(Maximum 1 page; please state how and to what extent the project objectives have been achieved; give reasons for under-achievements and outline attempts to overcome problems, if any)

The four objectives of the project have been achieved as originally planned. The project has provided empirical evidence on the use and prevalence of CSOs and CSR-based performance measures in executive compensation internationally (Objective 1), how these affect CSR performance, using four different criteria: a generalized measure, environmental score, governance score, and social score (Objective 2), how the CSO and CSR-based performance measures in executive pay affect firm values internationally (Objective 3), and specific measures that affect the firm values (Objective 4). The work has been presented in two academic conferences and a manuscript is available which presents these results.

5.4 Summary of objectives addressed to date

Objectives <i>(as per 5.1/5.2 above)</i>	Addressed <i>(please tick)</i>	Percentage Achieved <i>(please estimate)</i>
1. To examine the extent to which CSR improvement mechanisms have been adopted internationally (such as the establishment of a CSO position and the use of CSR-based pay-performance measures for executives)	✓	100%
2. To examine whether the presence of a CSO and the presence of CSR-based performance measures in executive pay affect CSR performance in countries around the world	✓	100%
3. To investigate whether and how the effects (e.g., capital market consequences) of these practices, if any, vary across country-level institutional characteristics	✓	100%
4. To investigate specific CSR mechanisms that effect changes in market values following the adoption of the above CSR practices, further differentiating between firms that show improvements only in CSR reporting quality (soft CSR performance measures) and those that make substantive CSR improvements (hard CSR performance measures)	✓	100%

6. Research Outcome

6.1 Major findings and research outcome

(Maximum 1 page; please make reference to Part C where necessary)

Much of the existing literature on Chief Sustainability Officers (CSOs) is based on data from the United States and focuses on their role within organizations. In the manuscript “Chief Sustainability Officers, CSR in executive pay, and CSR performance: International evidence,” attached, we provide evidence on the prevalence CSOs internationally, and on the use of corporate social responsibility (CSR)-based performance measures in executive compensation. We first show that the prevalence of CSOs is increasing steadily over the 2002–2016 period, particularly after 2008. We also find a wide country-level variation in appointment of CSOs, the highest in India, Taiwan, Germany, and New Zealand.

Using regression analysis, we find a significant positive relationship between the appointment of a CSO and CSR performance using four measures of CSR performance which cover different aspects of a company’s CSR performance: their environmental score, governance score, social score, and a comprehensive measure of all aspects. We control for firm performance, firm size, leverage, and the number of employees, as well as year fixed effects, country fixed effects, and industry fixed effects using 2-digit SIC codes.

We also use regression analysis find a significant positive relationship between the use of CSR-based performance measures in executive pay contracts (an indicator variable for the presence of CSR-related targets in the company’s compensation policies), the appointment of a CSO, and CSR performance, using the same four measures as above. This suggests that including compensation targets in executive pay contracts is beneficial for a company’s CSR outcomes.

We find that firms hiring a CSO have higher firm value (and measured by Tobin’s Q), and that there is a positive relationship between firm value and CSR performance, using all four measures. This suggests that a firm’s CSR performance has benefits for overall firm value. However, we do find a negative relationship between CSR, the appointment of a CSO, and 1-year growth in market capitalization. This may be due to the growth in market capitalization variable capturing newer, high-growth companies which are less likely to have CSOs and CSR-based performance measures, or the benefits of CSO appointment and CSR-based performance measures more likely to be manifested in the long-run or captured in cross-sectional analysis.

In the last analysis, we examine the relationship between hard environmental performance measures (emissions reduction and resource reduction) and softer targets such as product innovation. We find a positive relationship between both the hard targets and soft targets, the appointment of a CSO, and CSR performance.

6.2 Potential for further development of the research and the proposed course of action
(*Maximum half a page*)

The project has considered CSO appointments and the use of CSR-based performance measures in executive pay, and how these affect CSR performance. A natural extension of the latter would be to examine specific CSR-based performance measures in executive pay (whether environmental, social, or governance), the specific targets selected, and how they affect environmental, social, and governance performance more specifically. The topic may also be extended to consider the impact of recent regulatory initiatives internationally on CSR performance, such as the creation of the International Sustainability Standards Board (ISSB), or more country-specific initiatives, for example the Hong Kong Stock Exchange

7. Layman's Summary

(*Describe in layman's language the nature, significance and value of the research project, in no more than 200 words*)

In this project, we examine the appointment of Chief Sustainability Officers (CSOs) and the use of CSR (ESG)-based performance measures in executive compensation, and how these affect corporate CSR performance, using an international sample of listed firms from 2002–2016. We find that the appointment of CSOs and the use of CSR-based performance measures is positively related to CSR performance across multiple dimensions, namely environmental performance, governance, and social aspects. This suggests that having a senior executive tasked with sustainability and embedding CSR into executive performance measures can help improve corporate CSR performance. This finding is important for regulators and stakeholders, as they can be used as tools to promote better corporate CSR practices. Regulators and stakeholders may encourage or propose that companies embed such practices within the organization to improve CSR outcomes. We also find that firms with better CSR practices and CSOs have higher market valuations, perhaps being viewed more positively by consumers and investors, or having a more sustainable business model. These findings are important to firms, since they show that investment in CSR practices pays off in the form of business valuation. Overall, our findings are important for firms, regulators, and stakeholders concerned with corporate sustainability.

Part C: Research Output**8. Peer-Reviewed Journal Publication(s) Arising Directly From This Research Project**

(Please attach a copy of the publication and/or the letter of acceptance if not yet submitted in the previous progress report(s). All listed publications must acknowledge RGC's funding support by quoting the specific grant reference.)

The Latest Status of Publications				Author(s) (denote the corresponding author with an asterisk*)	Title and Journal / Book (with the volume, pages and other necessary publishing details specified)	Submitted to RGC (indicate the year ending of the relevant progress report)	Attached to this Report (Yes or No)	Acknowledged the Support of RGC (Yes or No)	Accessible from the Institutional Repository (Yes or No)
Year of Publication	Year of Acceptance (For paper accepted but not yet published)	Under Review	Under Preparation (optional)						
			✓	*Goh, Lisa Tsang, Albert	Chief Sustainability Officers, CSR in executive pay, and CSR performance: International evidence		Yes (Annex I)	Yes	No (will be available on publication)

9. Recognized International Conference(s) In Which Paper(s) Related To This Research Project Was / Were Delivered

(Please attach a copy of each conference abstract)

Month / Year / Place	Title	Conference Name	Submitted to RGC (indicate the year ending of the relevant progress report)	Attached to this Report (Yes or No)	Acknowledged the Support of RGC (Yes or No)	Accessible from the Institutional Repository (Yes or No)
12/2020 HK	"Chief Sustainability Officers: International evidence"	Academy of International Business Southeast Asia Regional Conference		Yes (Annex II)	Yes	Yes https://research.db.hsu.edu.hk/view/publication/202300035
06/2023 HK	"Chief Sustainability Officers: International evidence"	World Business Ethics Forum		Yes (Annex III)	Yes	Yes https://research.db.hsu.edu.hk/view/publication/202000269

10. Whether Research Experience And New Knowledge Has Been Transferred / Has Contributed To Teaching And Learning

(Please elaborate)

I discussed the role of sustainability officers with students in the BBA-Corporate Governance Compliance programme and students who took my Corporate Governance course an elective course, as part of my topic on environment and sustainability activities. I also used knowledge gained from the project in my Management Accounting 2 course which includes an extended module on performance measures, including ESG (environmental, social, and governance) performance measures and targets.

11. Student(s) Trained

(Please attach a copy of the title page of the thesis)

Name	Degree Registered for	Date of Registration	Date of Thesis Submission / Graduation
N/A			

12. Other Impact

(e.g. award of patents or prizes, collaboration with other research institutions, technology transfer, teaching enhancement, etc.)

One of my research assistants was a new HSUHK graduate, who gained further experience with data collection from annual reports and the structure of annual reports in different countries, giving him more practical experience with financial reports. This graduate subsequently took up a full-time position with a Big 4 accounting firm.

13. Statistics on Research Outputs

No. of outputs arising directly from this research project	Peer-reviewed Journal Publications	Conference Papers	Scholarly Books, Monographs and Chapters	Patents Awarded	Other Research Outputs (please specify)	
					Type	No.
		2			Intended journal publication	1

14. Public Access Of Completion Report

(Please specify the information, if any, that cannot be provided for public access and give the reasons.)

Information that Cannot Be Provided for Public Access	Reasons
N/A	