



# ***BEYOND ESG: EXECUTIVE PAY METRICS AND SHAREHOLDER SUPPORT***

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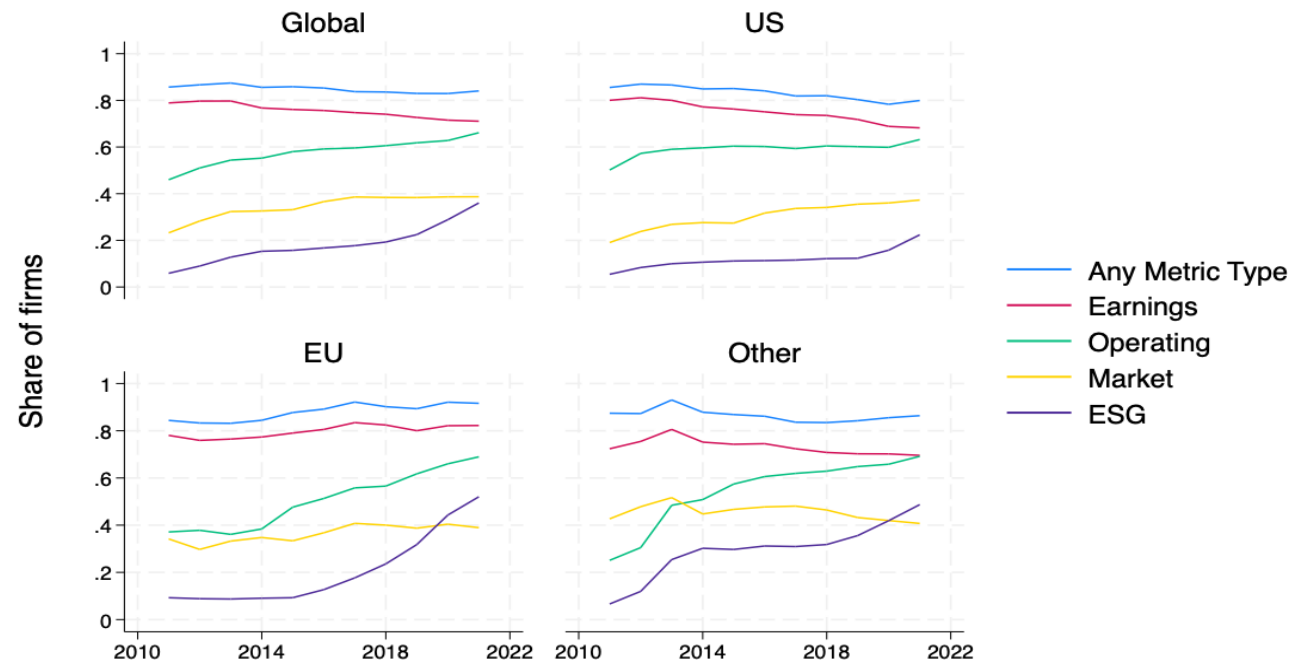
# Background

- The tenet of theory and practice of executive pay is that **CEO compensation** should be linked to **financial targets** to align managerial incentives with shareholder interests (Jensen and Murphy, 1990; Hall and Liebman, 1998)
- Prompted by concerns about environmental and social (E&S) issues, companies increasingly **link executive compensation to E&S targets**
- Heated debate on whether **E&S targets** are contractible and whether E&S pay is just a manifestation of **CEO power** (Bebchuk and Tallarita, 2022)
  - Evidence on whether the adoption of E&S pay is associated with better ESG performance is mixed (Homroy, Mavruk, Nguyen, 2023; Cohen, Kadach, Ormazabal, and Reichelstein, 2023; Ikram, Li, and Minor, 2023; Hazarica et al, 2022; Flammer, Hong, and Minor, 2019; Maas, 2018; Michaely, Schmid, and Wang, 2024)

## This paper: *Is ESG Pay Special?*

What metrics are targeted in CEO compensation?

- Metrics other than financial targets are widely used
- The use and purpose of **ESG metrics** may be better understood in **relation to other performance metrics**



# Preview of Results

- First comprehensive **classification based on SABS of all executive pay metrics** for 10,636 global companies
  - Most **detailed classification of ESG metrics** in executive pay to date
- How do companies use compensation metrics?
  - Usage of ESG metrics is highly correlated with usage of market, earnings, and operating metrics
  - Metrics use is **highly correlated with equity-based compensation**
  - Evidence that metrics follow standard contract theory is mixed
- Metrics have **limited influence on level of executive compensation**
  - All CEOs are paid for good ESG performance regardless of E&S targets
  - ESG pay does not decrease the sensitivity of pay to stock market performance

## Preview of Results (cont'd)

- **Metrics inform shareholders of corporate strategy**
  - More consensus on **say-on-pay votes**
  - Less shareholder dissent on management proposals
  - **Fewer shareholder proposals** opposed by management
  - **Fewer ESG proposals** for companies with ESG pay
- **The primary benefit of pay metrics is to reduce ill-conceived shareholder proposals that waste managerial time and destroy shareholder value**
  - Gantchev and Giannetti, 2021; Matsusaka, Ozbas, and Yi, 2019

Strategy & Corporate Finance Practice

# Investors want to hear from companies about the value of sustainability

Investors want companies to sharpen their equity story and clarify the value of their sustainability initiatives. Here's what company leaders can do.

*by Jay Gelb, Rob McCarthy, Werner Rehm, and Andrey Voronin*

**While more than** 95 percent of S&P 500 companies issue a sustainability report,<sup>1</sup> very few fully integrate environmental, social, and governance (ESG) into their equity stories. The lack of a clear link between sustainability and strategy can make it difficult for investors to understand how a company's efforts affect financial performance and, crucially, intrinsic value.



# Data

- Compensation data from **Executive Compensation Analytics (ECA)** by Institutional Shareholder Services (ISS)
  - Global listed companies – 10,636 unique firms across 34 countries from 2011 to 2021, with increasing coverage over time
  - Nearly half of firms from outside the U.S.
- Information on salaries, bonuses, equity awards, stock options, and other forms of remuneration
  - [Textual information on the performance metrics used to determine CEO's final remuneration](#)

## Data (cont'd)

- We classify metrics by combining *textual analysis* and *manual review*:
  - ✓ **Earnings metrics** → *Profitability* and *Cashflow*
    - *Profitability*: return on assets and net income
  - ✓ **Market metrics** → shareholder returns, share price performance
  - ✓ **Operating Metrics** → *Capital Structure, Efficiency, Investment, Sales, and Other*
    - *Efficiency metrics*: operating expenditures and asset turnover
    - *Other*: metrics such as customer satisfaction and the successful completion of strategic projects
  - ✓ **ESG metrics** → 24 categories according to *Sustainability Accounting Standards Board (SASB)*
    - *Materiality Map* allows identification of *material metrics* in different industries



# Examples of metric descriptions

Company	Year	Metric Description	Specific Metric Type	Broad Metric Type
EMCOR Group, Inc.	2021	Continue to emphasize long-term goal of a 20 percent per capita reduction in GHG by 2035	GHG Emissions	ESG
Liontrust Asset Management Plc	2020	Improve gender diversity at senior levels and introduction of measures to increase gender diversity in the recruitment process	Employee Engagement, Diversity & Inclusion	ESG
Barloworld Ltd.	2021	Safety through targets that included zero fatalities and achievement of LTIFR targets	Employee Health & Safety	ESG
Endo International Plc	2020	Deliver on year-end 2020 net debt leverage ratio objectives	Capital Structure	Operating
Laredo Petroleum, Inc.	2016	General and administrative expense (\$/BOE)	Efficiency	Operating
Kosmos Energy Ltd.	2019	Project Capital Expenditure (CapEx) of less than \$500 million	Investment	Operating
The Descartes Systems Group Inc.	2014	Cash generated from operations	Cashflow	Earnings
Aimia Inc.	2019	TSR relative to the companies in the TSX Small Cap Index	Market	Market

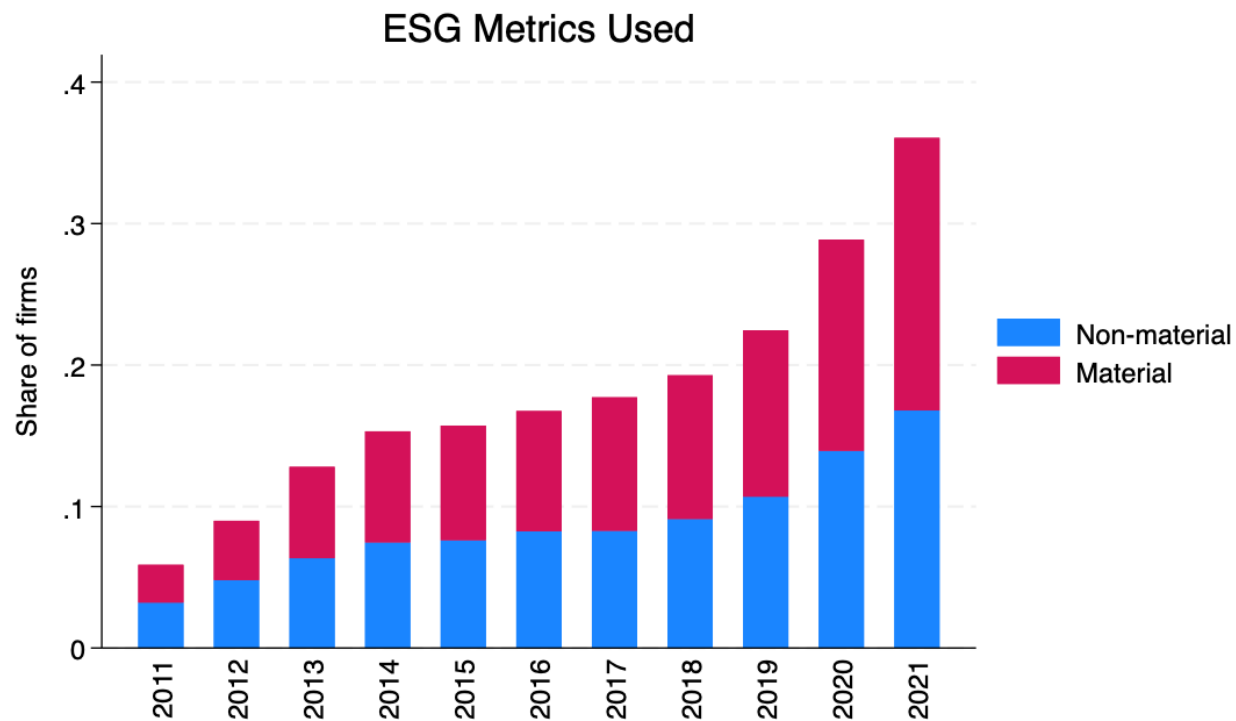
## Data (cont'd)

- FactSet **TruValue Labs**
  - **Daily updates** on firms' ESG performance from over 200,000 vetted sources → no self-reported data
  - **Sentiment** in the language
  - **Scores** for overall ESG performance and for each of 26 SASB categories
- Other data
  - **ISS Voting Analytics** – voting patterns on shareholder and management proposals
  - **FactSet Ownership** – ownership by different types of blockholders
  - **Worldscope/Datastream**



*A few facts about the metrics*

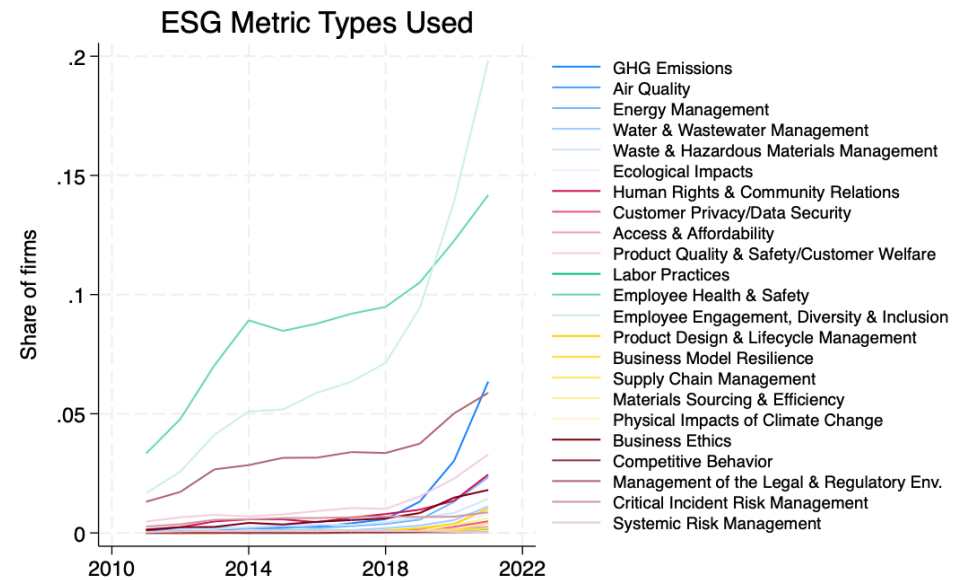
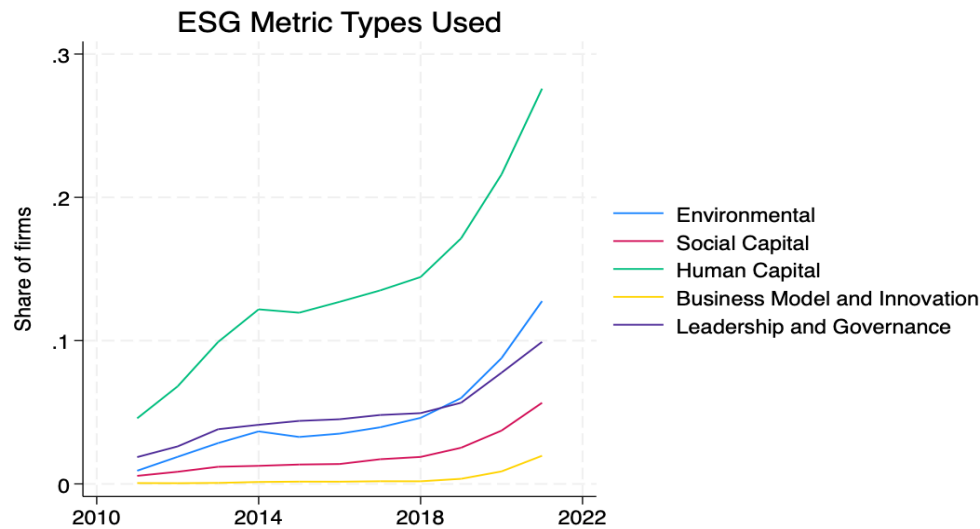
# ESG Metrics



→ Half of ESG metrics can be classified as **material**

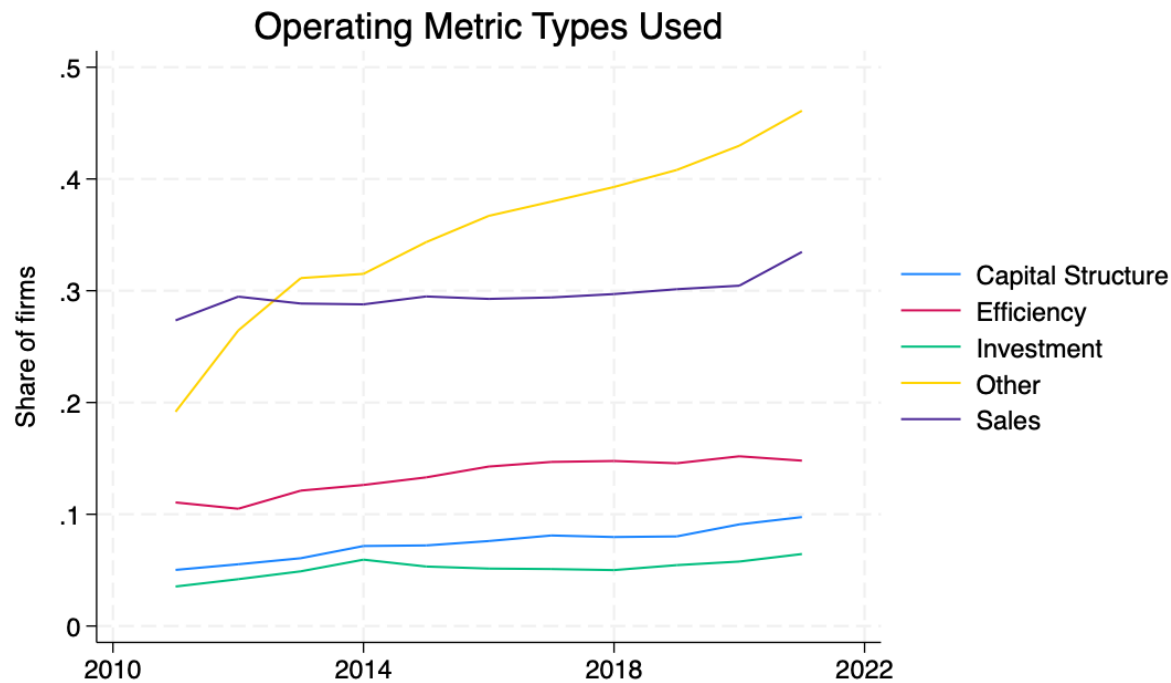
→ Proportion of material metrics is constant over time

# Types of ESG Metrics



→ Explosion in ESG metrics driven by Employee Health and Safety, and especially Employee Engagement, Diversity, and Inclusion

# Operating Metrics



→ Higher frequency in operating metrics driven by **Other** – completion of individual projects; customer satisfaction

# ESG and Other Metrics

- *Firms using ESG metrics also use other metrics*
- *ESG metrics more likely in large firms and firms with volatile market performance*
- *ESG metrics less likely in firms with non-institutional blockholders*

	(1)	(2)	(3)	(4)
	ESG Metric		Material ESG Metric	
Operating metric	0.1507*** (22.22)	0.1460*** (18.36)	0.0810*** (14.88)	0.0794*** (12.53)
Earnings metric	0.0534*** (6.68)	0.0295*** (2.91)	0.0364*** (5.49)	0.0250*** (2.94)
Market metric	0.0742*** (10.35)	0.0602*** (7.38)	0.0452*** (7.83)	0.0336*** (5.05)
St. Dev. All Pulse News		0.0003 (0.91)		0.0003 (1.16)
Log(Var Daily Returns)		0.0171*** (4.66)		0.0148*** (4.96)
St. Dev. Ind-adj. ROE		0.0093 (1.40)		-0.0048 (-1.04)
Log Mkt Cap		0.0203*** (8.23)		0.0097*** (4.91)
Inst Block Own		-0.0259 (-1.16)		-0.0194 (-1.07)
Large Non-Inst Block		-0.0211** (-2.51)		-0.0190*** (-2.63)
Below Avg ESG Rank		0.0001 (0.02)		
Below Avg Material ESG Rank				0.0144** (2.26)
Observations	41,516	31,760	40,982	31,490
Year, Industry & Country FE	YES	YES	YES	YES
Adjusted R2	0.283	0.302	0.266	0.288

# Metrics Use and Equity-Based Compensation

→ *Positive correlation between metrics and equity-based compensation*

→ *Firms awarding equity use 14.19% more broad metrics*

→ *One-SD increase in equity share → 6.39% increase in number of metrics*

	(1)	(2)	(3)	(4)	(5)	(6)
	Num Metric Types		Num Metric Types Excl. Mkt		Num Indiv. Metrics Excl. Mkt	
Equity Comp	0.2914*** (10.02)		0.1834*** (7.54)		0.3575*** (8.36)	
Share of Equity Comp		0.4473*** (9.76)		0.1873*** (5.10)		0.3158*** (4.75)
St. Dev. All Pulse News	0.0038*** (3.95)	0.0037*** (3.83)	0.0035*** (4.46)	0.0035*** (4.49)	0.0043*** (2.90)	0.0044*** (2.97)
Log(Var Daily Returns)	-0.0354*** (-3.22)	-0.0474*** (-4.27)	-0.0372*** (-4.19)	-0.0427*** (-4.77)	-0.0358** (-2.12)	-0.0455*** (-2.66)
St. Dev. Ind-adj. ROE	-0.0351* (-1.87)	-0.0423** (-2.24)	-0.0405** (-2.49)	-0.0432*** (-2.65)	-0.0036 (-0.13)	-0.0078 (-0.28)
Log Mkt Cap	0.1499*** (19.17)	0.1312*** (15.74)	0.0955*** (15.15)	0.0892*** (13.22)	0.1896*** (15.63)	0.1801*** (14.00)
Inst Block Own	0.3249*** (4.67)	0.2622*** (3.76)	0.1868*** (3.26)	0.1651*** (2.87)	0.1147 (1.08)	0.0818 (0.77)
Large Non-Inst Block	-0.2843*** (-11.17)	-0.2925*** (-11.50)	-0.1725*** (-8.23)	-0.1811*** (-8.60)	-0.3085*** (-7.89)	-0.3273*** (-8.30)
Below Avg ESG Rank	-0.0192 (-0.95)	-0.0198 (-0.99)	-0.0210 (-1.33)	-0.0223 (-1.41)	-0.0352 (-1.08)	-0.0384 (-1.18)
Observations	30,841	30,841	30,841	30,841	30,841	30,841
Year, Industry & Cntry FE	YES	YES	YES	YES	YES	YES
Adjusted R2	0.266	0.267	0.194	0.192	0.220	0.216



# Which Firms Use ESG Metrics?

- Consistent with theory, firms with **volatile prices** use ESG metrics
- Arrival of **active blockholders** (hedge funds & private equity investors) correlates with use of ESG metrics
- **CEO tenure** is negatively correlated with ESG metrics
- Similar findings for material ESG metrics

	(1)	(2)	(3)	(4)
	ESG Metric			
Log(Var Daily Returns)	0.0168*** (4.21)	0.0159*** (4.01)	0.0168*** (4.21)	0.0166*** (4.17)
New 1% Block	0.0012 (0.22)			
New 1% Active Block		0.0203*** (3.29)		
New 5% Block			0.0010 (0.16)	
New 5% Active Block				0.0198* (1.79)
St. Dev. All Pulse News	0.0008** (2.25)	0.0008** (2.23)	0.0008** (2.26)	0.0008** (2.26)
St. Dev. Ind-adj. ROE	0.0057 (0.79)	0.0045 (0.63)	0.0056 (0.79)	0.0051 (0.72)
Below Avg ESG Rank	-0.0081 (-1.09)	-0.0087 (-1.18)	-0.0081 (-1.09)	-0.0082 (-1.10)
Log Mkt Cap	0.0278*** (10.77)	0.0282*** (10.87)	0.0277*** (10.72)	0.0279*** (10.76)
Inst Block Own	0.0063 (0.27)	0.0017 (0.07)	0.0062 (0.25)	0.0025 (0.10)
Large Non-Inst Block	-0.0467*** (-5.19)	-0.0469*** (-5.21)	-0.0468*** (-5.20)	-0.0473*** (-5.25)
CEO Tenure	-0.0016*** (-3.44)	-0.0016*** (-3.33)	-0.0016*** (-3.44)	-0.0016*** (-3.39)
Observations	26,731	26,731	26,731	26,731
Year, Industry & Country FE	YES	YES	YES	YES
Adjusted R2	0.274	0.275	0.274	0.274

# The Choice of ESG Metrics

- *Metric-level dataset*
- *Entry by (active) blockholder associated with 6.29% (11.19%) higher likelihood of using a specific ESG metric, compared to an unconditional probability of 1.43%*
- *Companies with low ESG rank introduce material metrics*

	(1)	(2)	(3)	(4)
	ESG Metric			
Material ESG Metric	0.0152*** (19.05)	0.0152*** (19.05)	0.0148*** (19.06)	0.0148*** (19.06)
Below Avg ESG Rank	-0.0010* (-1.76)	-0.0010* (-1.79)		
Material Metric X Below Avg ESG Rank	0.0034** (2.36)	0.0034** (2.36)		
Below Avg Material ESG Rank			-0.0017*** (-2.69)	-0.0017*** (-2.70)
Material Metric X Below Avg Material ESG Rank			0.0064*** (4.00)	0.0064*** (4.00)
New 1% Block	0.0009** (2.39)		0.0009** (2.39)	
New 1% Active Block		0.0016*** (4.15)		0.0016*** (4.13)
Inst Block Own	-0.0017 (-1.03)	-0.0015 (-0.92)	-0.0017 (-1.02)	-0.0015 (-0.91)
Large Non-Inst Block	0.0011 (1.26)	0.0011 (1.20)	0.0011 (1.27)	0.0011 (1.21)
Observations	818,904	818,904	818,904	818,904
Firm & Year FE	YES	YES	YES	YES
Adjusted R2	0.0541	0.0541	0.0541	0.0541

# When Do Firms Introduce *Specific* ESG Metrics?

→ Firms introduce ESG metrics following superior performance

→ One-SD increase in metric-specific news raises likelihood of introducing an ESG metric by 71.13%

→ Overall ESG news has no economically meaningful effect

	(1)	(2)	(3)	(4)	(5)	(6)
	First ESG Metric			First Material ESG Metric		
Metric-Specific News	0.0002*** (19.64)	0.0002*** (17.48)	0.0002*** (17.51)	0.0001*** (13.99)	0.0001*** (13.49)	0.0001*** (13.86)
Bad Metric-Specific News			-0.0000*** (-3.08)			-0.0000*** (-5.92)
Below Avg ESG Rank	0.0003 (0.40)	-0.0002 (-0.21)	0.0002 (0.32)			
Metric-Specific News X Below Avg ESG Rank		0.0000 (0.40)				
Below Avg Material ESG Rank				0.0005 (1.23)	0.0015* (1.80)	0.0008* (1.76)
Metric-Specific News X Below Avg Material ESG Rank					-0.0000 (-1.13)	
All Categories Pulse News	-0.0000*** (-2.74)	-0.0000*** (-2.74)	-0.0000*** (-2.68)			
Bad All Categories Pulse News			0.0000 (0.04)			
Material Pulse News				0.0000 (0.07)	0.0000 (0.06)	-0.0000 (-0.42)
Bad Material Pulse News						0.0000** (2.57)
Observations	341,621	341,621	341,621	342,980	342,980	342,980
Ownership Controls	YES	YES	YES	YES	YES	YES
Firm & Year FE	YES	YES	YES	YES	YES	YES
Adjusted R2	0.0247	0.0247	0.0247	0.0179	0.0179	0.0180

# Do Firms Improve ESG Performance *after* ESG Metrics?

→ *Introducing an ESG metric is associated with substantial improvement in ESG news sentiment*

→ *Firms that have introduced an ESG metric do no leverage their past ESG performance more*

	(1)	(2)	(3)	(4)	(5)	(6)
	Metric-specific News (t+1)					
First ESG Metric	2.3725*** (7.50)	2.0561*** (5.92)	5.4406*** (3.34)			
First Material ESG Metric				2.3302*** (4.83)	1.6810*** (3.19)	6.5533*** (2.72)
Metric-Specific News	0.6581*** (210.29)	0.6581*** (210.31)	0.6583*** (209.90)	0.6578*** (209.29)	0.6578*** (209.29)	0.6580*** (209.09)
Metric-Specific News (t-1)	0.1088*** (42.09)	0.1088*** (42.09)	0.1089*** (41.95)	0.1083*** (41.65)	0.1083*** (41.64)	0.1083*** (41.54)
First ESG Metric X Metric-Specific News			-0.0303 (-1.12)			
First ESG Metric X Metric-Specific News (t-1)			-0.0181 (-0.72)			
First Material ESG Metric X Metric-Specific News						-0.0695 (-1.63)
First Material ESG Metric X Metric-Specific News (t-1)						-0.0001 (-0.00)
All Categories Pulse News	-0.0051** (-1.97)	-0.0051** (-1.97)	-0.0051** (-1.96)			
Material Pulse News				-0.0166*** (-6.58)	-0.0166*** (-6.57)	-0.0166*** (-6.55)
Below Avg ESG Rank	-0.5581*** (-5.72)	-0.5670*** (-5.80)	-0.5656*** (-5.79)			
First ESG Metric X Below Avg ESG Rank		1.3083* (1.65)	1.1315 (1.44)			
Below Avg Material ESG Rank				-0.4280*** (-4.39)	-0.4368*** (-4.48)	-0.4360*** (-4.47)
First Material ESG Metric X Below Avg Material ESG Rank					2.7475** (2.30)	2.4789** (2.11)
Observations	289,117	289,117	289,117	285,854	285,854	285,854
Ownership Controls	YES	YES	YES	YES	YES	YES
Firm & Year FE	YES	YES	YES	YES	YES	YES
Adjusted R2	0.577	0.577	0.577	0.574	0.574	0.574

## Other results

- The arrival of new active investors, such as private equity investors:
  - Operating metrics ↑
  - Earnings metrics ↓
- Earnings metrics more used when profitability is less volatile
- Companies that lag behind their industry peers for cash-flows (sales) tie compensation to cash-flows (sales)
- But companies with relatively high profits tie compensation to profits
- **Overall, unclear that compensation metrics are used to direct efforts to specific targets**



*How do pay metrics affect compensation?*

# ESG Metrics and Payouts

- ESG metrics do not affect compensation, while operating, earnings and market metrics do
- This does not support the rent-extraction view on ESG metrics
- Metric news is only relevant for total compensation
- Similar results if we consider excess pay as dependent variable

	(1)	(2)	(3)	(4)	(5)	(6)
	Total Comp	Stock+ Options+ Bonus	Stock+ Options	Total Comp	Stock+ Options+ Bonus	Stock+ Options
ESG metric	0.0014 (0.07)	-0.0111 (-0.44)	0.0199 (0.71)	0.0004 (0.02)	-0.0180 (-0.70)	0.0172 (0.61)
Operating metric	0.0977*** (4.68)	0.0957*** (4.17)	0.1440*** (6.15)	0.1015*** (4.71)	0.1061*** (4.52)	0.1458*** (6.13)
Earnings metric	0.1835*** (4.15)	0.0178 (0.47)	0.0296 (0.73)	0.1742*** (3.74)	-0.0043 (-0.11)	0.0120 (0.29)
Market metric	0.2272*** (12.01)	0.2849*** (14.49)	0.3011*** (14.30)	0.2190*** (11.32)	0.2789*** (14.13)	0.2940*** (13.90)
All Categories Pulse News	0.0026*** (6.35)	0.0032*** (7.16)	0.0040*** (8.49)	0.0013*** (2.69)	0.0020*** (3.47)	0.0028*** (4.50)
Material Pulse News				0.0018*** (3.48)	0.0016*** (2.76)	0.0016*** (2.72)
Metric News	0.0003** (2.53)	0.0001 (0.78)	-0.0000 (-0.21)	0.0003** (2.50)	0.0001 (0.92)	-0.0000 (-0.12)
3-yr Return	0.0012*** (5.25)	0.0024*** (8.15)	0.0024*** (7.66)	0.0011*** (4.93)	0.0022*** (7.66)	0.0023*** (7.29)
Log Mkt Cap	0.3638*** (33.61)	0.4741*** (64.60)	0.4857*** (65.38)	0.3594*** (31.43)	0.4690*** (62.83)	0.4816*** (63.75)
Observations	32,105	29,472	25,822	30,320	27,928	24,523
Year, Ind & Cntry FE	YES	YES	YES	YES	YES	YES
Adjusted R2	0.495	0.555	0.590	0.491	0.553	0.589



*Why do firms use pay metrics?*



# Shareholder Votes

- *Increases in broad and specific metrics boost support for say-on-pay proposals*
- *The effect is relatively small, with average approval rate of 90.8%*
- *More metrics in contracts correlate with lower shareholder dissent*
- *Adding a broad metric type reduces shareholder dissent by 7.2% compared to mean dissent of 5.7%*

	(1)	(2)	(3)	(4)
	Mean Say-on-Pay Approval		Avg. Vote Against Mgmt	
Num Metric Types	0.0048*** (3.97)		-0.0040*** (-6.35)	
Num Individ. Metrics		0.0020*** (2.92)		-0.0018*** (-5.14)
All Categories Pulse News	0.0001** (2.13)	0.0001** (2.23)	-0.0001*** (-2.59)	-0.0001*** (-2.73)
Total Comp	-0.0217*** (-8.93)	-0.0215*** (-8.85)	0.0028*** (3.38)	0.0026*** (3.19)
3-yr Return	0.0005*** (5.90)	0.0005*** (5.88)	-0.0001*** (-3.20)	-0.0001*** (-3.18)
Log Mkt Cap	0.0082*** (6.21)	0.0083*** (6.37)	-0.0060*** (-12.09)	-0.0061*** (-12.50)
Inst Block Own	0.0457*** (6.07)	0.0468*** (6.21)	-0.0237*** (-6.82)	-0.0246*** (-7.00)
Large Non-Inst Block	0.0036 (1.04)	0.0031 (0.91)	-0.0003 (-0.17)	0.0001 (0.07)
Below Avg ESG Rank	-0.0075*** (-3.35)	-0.0075*** (-3.32)	0.0016 (1.50)	0.0015 (1.45)
Observations	24,817	24,817	29,232	29,232
Year, Ind & Cntry FE	YES	YES	YES	YES
Adjusted R2	0.0501	0.0495	0.0934	0.0918

# Metrics are introduced when management faces dissent

- *Increases in both broad and specific metric types following disapproval of say-on-pay proposals*
- *Stronger effect when disapproval persists*

	(1)	(2)	(3)	(4)
	Num Metric Types		Num Indiv. Metrics	
Mean Say-on-Pay Against Vote	0.1402*** (2.96)		0.2485*** (2.94)	
3-yr Mean Say-on-Pay Against Vote		0.3358*** (3.92)		0.5279*** (3.41)
All Categories Pulse News	0.0003 (0.81)	0.0003 (0.96)	0.0000 (0.02)	-0.0000 (-0.03)
3-yr Return	-0.0003 (-0.91)	-0.0004 (-1.28)	-0.0006 (-1.07)	-0.0006 (-1.38)
Log Mkt Cap	0.0631*** (3.41)	0.0728*** (4.24)	0.0356 (1.09)	0.0500* (1.68)
Inst Block Own	0.1992*** (3.28)	0.1936*** (3.28)	0.2501** (2.35)	0.2155** (2.12)
Large Non-Inst Block	-0.0367 (-1.00)	-0.0369 (-1.09)	0.0563 (0.85)	0.0429 (0.71)
Below Avg ESG Rank	0.0029 (0.21)	0.0004 (0.03)	-0.0037 (-0.14)	-0.0030 (-0.12)
Observations	23,869	26,201	23,869	26,201
Firm & Year FE	YES	YES	YES	YES
Adjusted R2	0.705	0.717	0.690	0.697

# ESG Proposals

- ESG metrics reduce probability of receiving ESG proposals
- Likelihood decreases by 17.54% (column 1) and 12.00% (column 2) relative to unconditional probability of 12.83%
- Effect stronger when ESG metrics are material

	(1)	(2)	(3)	(4)
	ESG Proposal			
ESG Metric	-0.0225*** (-3.80)	-0.0154*** (-2.63)		
Material ESG Metric			-0.0237*** (-3.15)	-0.0166** (-2.24)
Operating Metric		-0.0181*** (-3.80)		-0.0186*** (-3.64)
Earnings Metric		-0.0207*** (-3.08)		-0.0261*** (-3.61)
Market Metric		-0.0103** (-2.14)		-0.0115** (-2.26)
All Categories Pulse News	-0.0007*** (-6.55)	-0.0006*** (-6.28)		
Material Pulse News			-0.0005*** (-5.30)	-0.0005*** (-5.03)
3-yr Return	-0.0004*** (-4.77)	-0.0004*** (-4.76)	-0.0004*** (-4.56)	-0.0004*** (-4.56)
Below Avg ESG Rank	0.0021 (0.40)	0.0022 (0.42)	0.0035 (0.66)	0.0034 (0.64)
Log Mkt Cap	0.0360*** (15.59)	0.0382*** (15.80)	0.0370*** (15.46)	0.0396*** (15.72)
Inst Block Own	-0.1346*** (-9.82)	-0.1267*** (-9.43)	-0.1468*** (-9.95)	-0.1378*** (-9.54)
Large Non-Inst Block	0.0079 (1.51)	0.0041 (0.79)	0.0064 (1.14)	0.0025 (0.44)
Observations	31,367	31,367	28,724	28,724
Year, Ind & Cntry FE	YES	YES	YES	YES
Adjusted R2	0.298	0.300	0.297	0.299

# Proposals Opposed by Management

- *More metric types and specific metrics reduce likelihood of shareholder proposals*
- *Adding a broad metric type reduces shareholder proposals by 16.67%*
- *It also decreases management-opposed proposals by 25.19%*

	(1)	(2)	(3)	(4)
	Num Shareholder Prop		Num Shareholder Prop (Mgmt. Rec Against)	
Num Metric Types	-0.0273** (-2.19)		-0.0316*** (-2.71)	
Num Indiv. Metrics		-0.0134* (-1.86)		-0.0154** (-2.30)
Total Comp	-0.0304 (-1.43)	-0.0311 (-1.45)	-0.0266 (-1.24)	-0.0275 (-1.27)
All Categories Pulse News	-0.0024*** (-6.77)	-0.0025*** (-6.74)	-0.0024*** (-6.90)	-0.0024*** (-6.87)
3-yr Return	-0.0018*** (-4.79)	-0.0018*** (-4.78)	-0.0017*** (-4.78)	-0.0017*** (-4.77)
Log Mkt Cap	0.1545*** (9.36)	0.1536*** (9.41)	0.1523*** (9.27)	0.1513*** (9.30)
Inst Block Own	-0.4827*** (-10.96)	-0.4882*** (-10.92)	-0.4820*** (-11.16)	-0.4884*** (-11.15)
Large Non-Inst Block	-0.0007 (-0.04)	0.0013 (0.09)	-0.0020 (-0.13)	0.0003 (0.02)
Below Avg ESG Rank	0.0109 (0.70)	0.0106 (0.67)	0.0043 (0.29)	0.0039 (0.26)
Observations	29,235	29,235	29,235	29,235
Year, Ind & Cntry FE	YES	YES	YES	YES
Adjusted R2	0.209	0.209	0.182	0.182



# Conclusion

- CEO contracts feature a wide array of metrics
  - Recent proliferation of ESG metrics must be interpreted in the broader context of other metrics
- Contractual metrics have limited effects on the sensitivity of CEO pay to specific performance outcomes
- Metrics help reduce shareholder dissent on compensation and other management proposals
- By building consensus, ESG metrics also decrease the probability of shareholder proposals opposed by management
  - Metrics are mainly used to create consensus on CEO pay and align corporate strategy with shareholders' expectations