



UNIVERSITY
OF ALBERTA

CPA Speaker Series:

Pierre Chaigneau, Queen's University

Executive Compensation with Social and
Environmental Performance

Friday, Nov 29, 2024

2:00 PM - 3:30 PM

Location: BUS 306

ABSTRACT

How to incentivize a manager to create value and be socially responsible? A manager can predict how his decisions will affect measures of social performance, and will therefore game an incentive system that relies on these measures. Still, we show that the compensation contract is based on measures of social performance when the level of social investments preferred by the board exceeds the one that maximizes the stock price. When these measures are used, social investments are distorted because of gaming, and the sensitivity of pay to social performance is reduced to mitigate this effect. Relying on multiple measures based on different methodologies will generally mitigate inefficiencies due to gaming. This implies that harmonization of social performance measurement can backfire.

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