Sinergie SIMA

Management Conference

Source: University of Bocconi

Boosting knowledge & trust for a sustainable business

Referred Electronic Conference Proceedings Full Papers

University of Bocconi, Milan

June 30th and July 1st 2022

Referred Electronic Conference Proceedings of Sinergie-SIMA Management Conference
Boosting knowledge & trust for a sustainable business, June 30th and July 1st 2022
University of Bocconi, Milan

ISBN 97888943937-8-1

The Referred Electronic Conference Proceedings are published online on
https://www.sijmsima.it

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Via Interrato dell'Acqua Morta, 26
37129 Verona - Italy

Boosting knowledge & trust for a sustainable business

June 30th and July 1st 2022

Referred Electronic Conference Proceedings

Full Papers

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Sandro Castaldo - Marta Ugolini - Gianmario Verona

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To the reader,

this volume contains the full papers of the Sinergie-SIMA 2022 Management Conference, hosted by the University of Bocconi of Milan on June 30th and July 1st 2022.

The resource-based view (RBV) has been one of the most cited streams of research in the management literature. This theory has been one of the few theories completely developed within the management disciplines. Since the initial pioneering research in the 80s and 90s, the study of knowledge- and trust-based resources has interested many theoretical and empirical works concerning many issues: company strategies, mergers and acquisitions, alliances and partnerships, organization and HR, innovation, marketing, consumer behavior, channel relationships, entrepreneurship, internationalization, and more. Today the post-pandemic world presents new challenges for managers, organizations, and researchers on which a deeper understanding of knowledge- and trust-based resources can help and shed a new light.

Sustainability and a fast digital transformation are nowadays considered key goals for many companies, managers, public organizations, and governments under the umbrella of EU Next Generation Recovery Plan. The real challenge now is to enhance and leverage the intangible resources heritage - namely knowledge and trust - to get a more sustainable, inclusive and digital world and, as a consequence, for building a better society. In this perspective, also the long-term goals of the firm and its finalism have to be totally re-shaped.

Sinergie Italian Journal of Management dedicated a special issue to this topic more than 20 years ago and many scholars have studied and deepened this multi-faced topic with original approaches in our community.

The Sinergie-SIMA 2022 Management Conference was a great occasion to discuss about the research efforts of our research community on knowledge and trust, also to find new ways to interpreter the future economic and social environment to face the post-pandemic challenges.

The Conference call for papers gave the opportunity to submit either an *extended abstract* or a *full paper*. Overall, the editorial staff received 135 *extended abstracts* and 60 *full papers*.

For the *extended abstracts*, the evaluation of the submissions was carried out by the Conference Chairs and the Scientific Committee, on the basis of their consistency with the Conference topic and/or with management studies, according to SIMA Thematic Groups. The clarity and (even potential) relevance of the contributions were evaluated, as well.

Fort the *full papers*, the evaluation followed the peer review process, with a double-blind review performed by two referees - university lecturers, expert about the topic - selected among SIMA and the community of Sinergie members.

In detail, the referees applied the following criteria to evaluate the submissions:
- clarity of the research aims,
- accuracy of the methodological approach,
- consistency of the contents with the Conference topic/tracks and/or with management studies,
- contribution in terms of originality/innovativeness,
- relevance in relation to the Conference topic/tracks and/or with management studies,
- clarity of communication,
- significance of the bibliographical basis.

The *peer review* process resulted in full acceptance, acceptance with revisions or rejection of the submissions. In the case of disagreement among reviewers' evaluations, the decision was taken by the Conference Chairs. Each work was then sent back to the Authors together with the referees' reports to make the revisions suggested by the referees.

The evaluation process ended with the acceptance of 30 *full papers* and 121 *extended abstracts*, which were published in two distinct volumes.

All the *full papers* published in this volume were presented and discussed during the Conference and published online on the web portal of Sinergie-SIMA Management Conference (***https://www.sijmsima.it/***).

While thanking all the Authors, Chairs and participants, we hope that this volume will contribute to advance knowledge about the boosting knowledge and trust for a sustainable business.

The Conference Chairs

Sandro Castaldo, Marta Ugolini, and Gianmario Verona

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Substance and symbol in ESG-linked executive compensation: evidence from Italian listed companies

NICOLA CUCARI[*] EUGENIO D'ANGELO[•] DOMENICO SARDANELLI[♠] FRANCESCO SURACE[**]
SIMONE DI SILVESTRE[••]

Abstract

Framing of the research. *A very recent development in corporate governance studies is about how to integrate environmental, social and governance (ESG) indicators in executive compensation plans. Particularly, the debate is no longer about whether the use of ESG indicators in executive compensation makes sense, but how to do it in the most effective way.*

Purpose of the paper. *Based on the Neo-Institutional Theory (NIT) and on the substantive vs. merely symbolic inclusion of ESG criteria in executive compensation plans, we describe the spread and frequency (of use) of ESG indicators in CEOs' compensation plans designed by Italian listed companies, verifying, at the same time, the quantitative diversification of such indicators and the progress made by selected companies in recent years. In addition, our aim is to provide configurations that enable firms to give a higher weight of ESG indicators in their compensation plans.*

Methodology. *Our sample covers all Italian listed companies in FTSE Mib during the last 5 years (2017-2021). To analyze data and define the specific configurations mentioned above, we employed the Fuzzy-set qualitative comparative analysis (Fs/QCA).*

Results. *In an overall context that shows a relevant progress in the adoption of ESG indicators as part of the compensation plan metrics, three configurations emerged, which achieve the highest ESG weights, and which correspond, according to our interpretation, to different levels of substantiality in ESG implementation.*

Research limitations. *Firstly, we did not consider other conditions that could have helped to identify cases of symbolic adoption. Secondly, we have not delved into the type of ESG indicators that firms adopt.*

Managerial implications. *Sustainability-oriented investors might look for cues in the bundle of characteristics of the remuneration policy to infer whether it corresponds to a more or less substantial implementation of the ESG activities.*

Originality of the paper. *To the best of our knowledge, our database is the first longitudinal database of ESG indicators on CEO's compensation.*

Keywords: *ESG weight; ESG indicators; neo-institutionalism; symbolic adoption; substantial adoption; QCA analysis*

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Referred Electronic Conference Proceedings
ISBN 97888943937-8-1
DOI 10.7433/SRECP.FP.2022.01

1. Introduction

The financial crises, the climate change, the CoViD-19 pandemic and, more recently, the emerging political crisis in Eastern European countries, have generated an extremely complex context, characterized by high instability, which is threatening the achievement of most of the goals set by the United Nations 2030 Agenda.

In this scenario, companies have an extremely important and active role with reference to all ESG (Environmental, Social and Governance) pillars. More in details, firms have the responsibility to design and implement effective corporate governance mechanisms, as well as in engaging those practices aimed at the reduction of the environmental impact, in terms of use of natural resources and harmful emissions, and the safeguarding of social well-being, including those best practices of internal CSR (Corporate Social Responsibility), such as the one addressing workforce issues, and external CSR, such as product responsibility and human rights protection (Kim *et al.*, 2010; Farooq *et al.*, 2017).

From a theoretical point of view, by recognizing the importance of ESG items, most scholars have had, indeed, a substantial shift from a "Friedmanian" vision (Friedman, 1970), based on the maximization of short-term profit for the shareholder, to a "Freemanian" vision (Freeman, 1984), aimed at an enlarged and longer-term creation and distribution of value. Since according to the conflict resolution hypothesis (Calton and Payne, 2003; Baron, 2009), and more recently reaffirmed by Stern (2020), what's good for people and sustainable for the planet is also good for business and sustainable for long-term shareholder returns, there would be a convergence, in the long run, between the pursuit ESG objectives and the shareholder's value. Indeed, we are recently noticing a profound shift according to which organizations are moving away from the idea of "doing good but not well" to embrace the idea of "doing good and well" (Krishnamoorthy, 2021, p. 2; Ya Ni *et al.*, 2018). The entire theoretical background according to which a higher short term ESG engagement will result in long-term firms' overperformance, is based on the capability of companies to acquire this renewed role in the social and economic systems, especially in the post pandemic era, that leads them to reach a (new) legitimacy (Matthews,1993). As noted in organizational literature (Ashforth and Gibbs, 1990), firms may obtain this so-called "citizenship" (Melo and Garrido-Morgado, 2012) on a large-scale, also through "coercive, mimetic and normative isomorphism" (DiMaggio and Powell 1983), that will result in a compliance to values, norms and expectations of a broader part of community members (Perrow, 1970).

According to the described theoretical background, also practitioners are adapting their investing strategies and approaches. Indeed, ESG has become increasingly popular and investment strategies driven by this sustainable perspective have gained popularity worldwide (Díaz, *et al.*, 2021; Zumente and Bistrova, 2021; Cornell and Damodaran, 2020). These circumstances are confirmed also by statements published by several associations of primary company leaders and international organizations. The Business Roundtable, for example, a group of prominent CEOs of major U.S. companies, announced that "while each of our individual companies serves its own corporate purpose, we share a fundamental commitment to all of our stakeholders" (2019). Therefore, they declare that the purpose of the corporation no longer gives shareholders special consideration, but rather that corporations should serve the interests of all their stakeholders (Harrison *et al.*, 2020). Or again, the universal purpose of the "Davos Manifesto 2020" by the World Economic Forum, which states that "the purpose of a company is to engage all its stakeholders in shared and sustained value creation", clarifies the mentioned shift in companies' objective also in the international public-private cooperation.

In this perspective, the alignment between the interests of shareholders and managers, rather reducing its importance as a research theme, has gained a renewed attention and prominence, particularly in terms of designing new incentives schemes aiming at fostering firms' responsible behavior which will result in the aforementioned legitimacy and in a "win-win" situation.

Therefore, a very recent development in corporate governance studies is about how to integrate environmental, social and governance indicators in executive compensation plans (Flammer *et al.*,

2019), which, according to Baraibar-Diez *et al.*, will represent the "the response to demands of society in terms of sustainable behavior" (2019, p. 1457). Therefore, the debate is no longer about whether the use of ESG indicators in executive compensation plans makes sense, but how to do it in the most effective way, overcoming the problem stated by the so-called "overinvestment hypothesis" (Barnea and Rubin, 2010), according to which CSR expenditures are seen as an expropriation of shareholders to raise private benefits in terms of reputation.

On this point we have several confirmations that the inclusion of ESG indicators in executive compensation plans is a topical theme also for practitioners. The High Committee for Corporate Governance (HCGE), for instance, in its 2020 report, highlighted the necessity to include at least one environmental indicator in the determination of the executive's variable compensation.

Differently from previous research on this topic, which mostly had the aim at demonstrating whether implementing a sustainable-based compensation policy has a positive influence on companies' ESG and economic engagement (Baraibar-Diez *et al.*, 2019) or on long-term orientation and firm's value (Flammer *et al.*, 2019), and based on the described new context, the purpose of this paper is three-fold. First, we will provide, following other authors (Aguilera *et al.*, 2006; Cucari, 2019b), a response to the calls for alternative theories in corporate governance studies, adopting a multi-dimensional and all-encompassing theory, as suggested by Haque and Ntim (2020), based on the Neo-Institutional Theory (NIT) and on the substantive vs. merely symbolic inclusion of ESG criteria in executive compensation plans (Adu *et al.*, 2022). Second, our study will describe the spread and frequency (of use) of ESG indicators in the CEO's compensation plans designed by Italian listed companies, verifying, at the same time, the quantitative diversification of such indicators and the progress made by selected companies in recent years. Finally, we will provide three specific configurations of key governance and social performance variables that enable firms to give a higher weight of ESG indicators in their executive compensation plans.

To accomplish these objectives, gathering data from companies' compensation reports, we build a novel database that compiles information on the composition of compensation plans with reference to ESG indicators. Our sample covers all Italian listed companies in FTSE Mib during the last 5 years (2017-2021) and, to the best of our knowledge, this database is the first longitudinal database of ESG indicators on CEO's compensation. To analyze data and define the specific configurations mentioned above, which is the main contribution of this paper, we employed the fuzzy-set qualitative comparative analysis (fs/QCA), which is broadly recognized as an appropriate method in social science to define different combination indicating a specific outcome (Pappas and Woodside, 2021; Misangyi *et al.*, 2017; Cucari, 2019b).

Our study is structured as follows: Section 2 illustrates the theoretical background; Section 3 describes fuzzy-set qualitative comparative analysis methodology and Section 4 reports descriptive statistics and fs/QCA results. Lastly, Section 5 is dedicated to discussion and concluding remarks.

2. Theoretical Background

2.1 Corporate Governance and Social Responsibility in the Neo-Institutional Perspective

According to the Cadbury Report (1992), Corporate Governance (CG) refers to the system by which firms are controlled and managed (MacMillan *et al.*, 2004). According to the European Commission (2011), firms can be responsible if they are able to go beyond the compulsory law requirements when integrating social and environmental concerns into their strategies and operations. These two mentioned definitions, apparently, would deny a direct relationship between CG and Corporate Social Responsibility (CSR), leading to the so-called "separation thesis" (Harris and Freeman, 2008). However the broader approach to CSR, indirectly, includes CG mechanisms, while the ESG (Environmental, Social and Governance) acronymous even explicitly includes CG as one of the pillars of firms' socially responsible business models and behavior (Gillan *et al.* 2021),

reaffirming that corporate governance has in any case seen as a topical theme in social responsibility.

On this point, scholars have had a long-lasting debate regarding if social and environmental concerns should or not be a managerial objective. The well-known Friedmanian position, according to which the only social responsibility of business is to increase its profits (Friedman, 1970), has been, indeed, opposed by the stakeholder approach to the firm (Freeman, 1984; Freeman and Velamuri, 2006), according to which companies should be managed in the interest of a wider range of parties, including their macro-environment (Clarkson, 1995).

This latter vision, which is consistent with the communitarian position (Lashgari, 2004) has, by time, gained a higher consensus, that became even more evident in the last two years because of the covid pandemic and of the effects on the community it has had. According to this wider perspective, CG and CSR have several points of contact (Aguilera *et al.*, 2006) and together contribute to sustainability and best business practices, laying the foundation for a new way of sustainable competitive advantage (Ho, 2005) and long-term wealth creation (Beltratti, 2005). In this way, managers can fulfill their moral, ethical and social duties, while also targeting corporate goals for their shareholders (Jo and Harjoto, 2012).

Therefore, unlike the agency model (Jensen and Meckling, 1976), the synergistic relationship between CSR and CG, rather than being illusory (Bebchuk *et al.*, 2022; Bebchuk and Tallarita, 2021) drives to a "win-win" situation for shareholders and other stakeholders (Edmans, 2021).

The recognition of a synergistic relationship between CG and CSR is further reinforced according to the theoretical perspective that places both along the so-called corporate responsibility continuum (Bhimani and Soonawalla, 2005; Jamali, 2008), as CG, social and environmental concerns can all be seen as elements that contribute, in an integrated way, to the sustainable growth of firms (Van den Berghe and Louche, 2005).

In this viewpoint, the needed new measures of value creation should include ESG goals as a complement to standard financial metrics (Schwab, 2019). Moreover, ESG goals, are not only a complement to financial information, but also a driver of companies' overperformance, since many scholars found a positive relationship between ESG and financial performance, that means that short term ESG investments lead to long term higher value creation (Mishra, 2020; Henisz *et al.*, 2019; Friede *et al.*, 2015), resolving the debate on different forms of capitalism (Stiglitz, 2019) and, in particular, on responsible capitalism (Stulz, 2022).

Since companies are open systems deeply interconnected with individuals and communities to whom they are somehow accountable (Russo e Perrini, 2010), besides more intuitive beneficial effects in terms of efficiency (Brammer and Millington, 2005), that firms can obtain through a higher ESG engagement, scholars have highlighted the relevance that responsible behavior has in order to respond to stakeholders' pressures, thus acquire legitimacy and creating competitive advantage (Halkos and Piazons, 2016; Lee *et al.*, 2018). Indeed, Sen *et al.* (2006) defines CSR as the set of activities put in place by firms to fulfill their obligations to society, thus creating and enhancing their societal relationships (Sun *et al.*, 2019). Therefore, since ESG concerns are constantly raising their importance in the worldwide community, thus improving the stakeholder pressure on firms, the relation between companies and stakeholders can be enhanced by additional investments of firms in ESG. This strategic choice may result in a higher firms' reputation (De Castro *et al.*, 2006), that is the set of expectations, perceptions and opinions that stakeholders have on values and behaviors of a given organization (Fombrun *et al.*, 2000). By demonstrating that they respond to the environmental, social and governance pressures, firms may raise their reputation and obtain the so-called citizenship (Matten and Crane, 2005) and legitimacy (Carroll, 1994). The aforementioned reasons by which companies may consider it worth to raise their ESG engagement is consistent with the Neo-Institutional Theory (NIT) which is recognized to be a dominant theoretical framework in organizational studies (Alvesson and Spicer, 2019, p. 204). Indeed, the NIT suggests that a firm's response to institutional pressures is often driven by two reasons: efficiency (substantive/economic) and legitimization (symbolic/impression management) (Meyer and Rowan, 1977). Of course, both reasons that drive response of firms to stakeholders' pressures

are pushed, on a large scale, by the well-known three mechanisms of institutional isomorphism: coercive isomorphism, that originates from political influence, mimetic isomorphism, that steams from risks and responses to uncertainty, and normative isomorphism, mainly related to education and professionalization (Di Maggio and Powell, 1983). Indubitably, all these three forms and, at the same time, causes of isomorphism are currently strongly in place with reference to ESG issues. From a coercive point of view, the incentives for social and environmental responsibility have increased significantly over years (consider that about 500 of the 800 billion euros of Multiannual Financial Framework 2021-2027 and NextGenerationEU are allocated to CSR objectives), as well as the sanctions. Similarly, from a competitive point of view, globalization and the more rapid diffusion of information, witnessed in the last 10 years due to technological progress, have exacerbated reputational risks for companies, leading them, in a mimetic way, to pay more attention and neutralize their gap in terms of ESG engagement. Lastly, as Ghoshal warned in 2005, academic and managerial training has increasingly drawn from scientific research with reference to the aforementioned shift from a shareholders' view to a stakeholders' view, that is consistent with a greater ESG engagement, in order to prevent bad theories to negatively influence good managerial practices (Ghoshal, 2005).

In order to fulfill stakeholder expectations and to obtain reputation and legitimacy, companies have to accurately disclose information on their responsible behavior (DasGupta, 2021). Indeed, scholars have highlighted that one of the main reasons why CSR activities fail to create the expected added value is that firms don't effectively communicate their socially responsible activities (Kim, 2017). Obviously, corporate social disclosure differently impacts on different companies. Firms that, because of their core activity, may more heavily and negatively impact on the community (is the case of chemicals, food or pharmaceutical companies, for instance) are more likely to give a higher attention to this topic and diffuse more information about their social and environmental engagement (Gao *et al.*, 2005; Boutin-Dufresne and Savaria, 2004). Likewise, larger companies, who typically have greater impact on community and greater notoriety, usually suffer greater stakeholders' pressures. to which they will have to respond with analogous level of non-financial disclosure (Carlisle and Faulkner, 2004; Graafland *et al.*, 2004). Additionally, country specific characteristics may influence the required level of social disclosure, given that different forms of capitalism and governance that characterize companies in different contexts may differently impact on the expected level of corporate social responsibility disclosure (van Der Laan Smith *et al.*, 2005; Aguilera *et al.*, 2006). Regardless the higher or lower need to communicate organizations' social performance, it is clear that social disclosure, like any other business communication, responds to the need to reduce information asymmetry towards stakeholders, including financial ones (Gangi *et al.* 2019). Indeed, both debt and equity (institutional investors) holders, through this greater information disclosure, may be able to better evaluate companies' risk, thus limiting the well-known problems of adverse selection (Verrecchia, 2001).

The above mentioned considerations describe a rather clear theoretical and practical background, but there is still one last element missing. Since, especially in terms of improving economic efficiency, the costs associated with a greater ESG engagement are more likely to turn into financial performance improvements only in the medium to long term, and since managers are more typically evaluated on the basis of short-term performances, some incentive mechanism is needed to align the interest of executives with this new conceptualization of enlarged value creation, that may be fostered by institutional forces that compel firms to sustainability-based compensation (Adu *et al.*, 2022) and result also in the described enhancement of the shareholder value.

2.2 ESG-linked compensation plans

During the COVID-19 crisis, ESG based performances and compensation schemes have gained more importance (Eklund and Stern, 2021) since the pandemic has demonstrated that societies and businesses should prioritize sustainable economic systems and social objectives (Van Barneveld *et al.*, 2020). In previous studies, such as in the one of Baraibar-Diez *et al.*, (2019), scholars have

mainly investigated whether having a sustainable compensation policy has a positive influence on ESG and economic scores. Following the "pay for performance" assumption, several other authors have argued the importance of ESG-based compensation policies to motivate executives to pursue sustainable objectives beyond financial performance (Haque, 2017). Moreover, even the study of Flammer *et al.*, (2019, p. 1099) showed that the adoption of CSR contracting - as the integration of CSR criteria in executive compensation - leads to: i) an increase in long-term orientation); ii) an increase in firm value; iii) an increase in social and environmental initiatives; iv) a reduction in emissions and v) an increase in green patent, but didn't provide any evidence about the link between compensation plans design and corporate social performances.

Nevertheless, as reported by Maas (2018), most of the existing studies focus on the effect of executive compensation on corporate social performance and only a few studies analyze whether this effect changes when corporate social performance targets are used. Furthermore, according to Stern (2020), most ESG-linked bonus plans are poorly designed, which may be the reason they achieve such mixed results. Therefore, the debate shifts on the substantive vs. merely symbolic inclusion of ESG criteria in executive compensation (Adu *et al.*, 2022), since organizations, as already stated, frequently try to pursue legitimacy through both symbolic and substantive practices (Ashforth and Gibbs, 1990). In this scenario, only a few authors have focused on substantive vs. merely symbolic inclusion of ESG indicators in executive compensation plans (Adu *et al.*, 2022), although some discussion on if CEOs' compensation may be driven by symbolic and substantive considerations have been developed in the less recent past (Zajac and Westphal, 1995).

In this perspective, it is absolutely relevant to understand both the progress that companies are making towards a greater inclusion of ESG goals in executives compensation plans and which can be the driver of this new form of alignment between shareholders and managers objectives. In the next sections of the paper, we will contribute to existing literature filling this gap, by both describing the recent progress in terms of ESG-related compensation plans by Italian firms and investigating how some variables, such as the "say on pay" (SOP), the compensation committee independence and the compensation plan structure, may determine a higher weight of ESG goals in the CEO's. compensation plan.

The compensation committee is an important element of the corporate governance structure, since it may heavily contribute to reducing agency problems by improving the alignment of executive remuneration with shareholders' objectives (Murphy, 1985). Therefore, several studies state that to obtain this alignment and push executives to raise companies' CSR engagement, the compensation committee should tie managers' remunerations to CSR objectives (Al-Shaer & Zaman, 2019). The relevance of this choice has been verified by Hong *et al.* (2016) who provide evidence of a positive relationship between CSR-linked CEO's remunerations and companies' CSR performances. In this context we decided to include, as an explanatory variable of the CSR weight in the compensation structure, the independence of the remuneration committee, since this characteristic of board members is likely to promote a higher CSR engagement (Jo and Harjoto 2011; Jo and Harjoto 2012).

Another CG tool that can somehow reduce the aforementioned misalignment between shareholders and managers is SOP. Through this mechanism, shareholders express their opinion on executives' compensations (Conyon and Sadler, 2010; Esposito De Falco *et al.*, 2016), showing an increased activism towards orienting managerial behavior (Cucari, 2019a). However, even if not so much attention has been paid to this element in previous CSR research (Lozano-Reina and Sánchez-Marín, 2020), some authors have found that the nature and level of CEO's remunerations are positively linked to CSR performances (Cullinan *et al.*, 2017).

Finally, we included in our empirical analysis two more elements: the number of ESG indicators used to define short-term incentives and the total number of performance indicators used to define short-term incentives. We included these two measures because, on one hand the number of ESG indicators in the compensation structure can serve as a proxy of a broader and diversified vision of CSR engagement, which is consistent with the legitimacy theory and with the need for an enhanced disclosure of firms' sustainable behavior. On the other hand, we decided to take in account the

overall number of indicators included in the compensation structure because it can serve as a proxy of a less limited discretion for managerial behavior, which is consistent with higher agency problems and, therefore, with a higher necessity to include CSR objectives as a part of CEO's compensation in order to more effectively align his interests to shareholders' ones.

When investigating the effect of the selected variables on the relative weight assigned to ESG performance indicators on the overall compensation plan, our contribution will provide different configurations of the mentioned drivers that can lead to shape a rather symbolic or substantive inclusion of ESG scores in compensation plans. Indeed, our theoretical perspective, relying on the NIT, takes into consideration that organizations are highly concerned about social and symbolic pressures arising from their institutional environment (Suddaby et al, 2013) and may adopt this kind of practices just for legitimacy effects, while providing only an appearance of economic rationality.

3. Methodology

3.1 Sample

The dataset consists of all Italian firms listed on the FTSE Mib during the period from 2017 to 2021. This time frame was chosen to allow an investigation of the impact of ESG indicators during the recent Covid-19 pandemics. ESG compensation in the Italian context has received scant attention, and to the best of our knowledge, no other studies have addressed the variations in ESG indicators in executive plans. Given the normative and political pressures they normally bear, listed companies are particularly interested to be studied within a Neo-Institutional framework, whose aim is to make sense of the institutionalization of organizational practices under the effects of contextual influences. To the same token, listed companies are more likely to incur in a merely symbolic and formal application of new practices, such as ESG implementation, just to comply with the dominant institutional context. Appendix 1 provides the final list of companies (26) we have included in the sample according to the availability of data.

3.2 Qualitative Comparative Analysis

Recently, different authors have suggested a more pluralistic range of theory building and methods to study corporate governance (Tihanyi et al, 2014; Boyd et al, 2017; Filatotchev and Wright, 2017; Cucari, 2019b). One of these is certainly the introduction of qualitative comparative analysis (QCA) in corporate governance studies (Cucari, 2019b; Garcia Castro *et al.*, 2013).

QCA has led to a new wave of "neo-configurational" studies that explicitly embrace causal complexity (Misangyi *et al.*, 2017; Greckhamer *et al.*, 2018). For a deeper review concerning different approaches and tools in QCA design, see Thomann and Maggetti, 2020. Briefly, QCA aids in the identification of causal structures (Ragin, 1987; Fiss et al 2013) and it is an instrumentation of generic analytical approaches for which qualitative methodologists advocate (Kan *et al.*, 2016). Specifically, Filatotchev and Wright (2017, p.459) prescribed a "qualitative research… based on using rich research and governance-related documents at the firm's level" and other recent contributions suggest that literature requires a much richer empirical base.

In this sense, QCA has been adopted in corporate governance research to empirically help to tackle the complexity implied by the bundle perspective on corporate governance (Khlif *et al.*, 2019; Cucari, 2018). Specifically, we adopted the fuzzy-set QCA (fs/QCA) that allows researchers to define the value of conditions not only in a dichotomous way, but also in gradual variations. The use of fs/QCA requires the selection of a calibration method to transform the original values into fuzzy set values for both the causal and outcome conditions (Ragin, 2009), as discussed in the next section.

3.3 Data and Operationalization of outcome and causal conditions

Since we adopted the Fs/QCA, we need to express variables into sets and subsets according to their degree of membership in a specific condition (calibration process). Our analytical model comprises one outcome, which measures the relative weight assigned to ESG performance indicators in short-term incentive plans and 4 causal conditions in line with the literature above (Table1).

Tab. 1: Outcome and conditions

Outcome/Conditions	Data Source	Description
ESG weight (outcome)	*Report on remuneration policy and payments*	Relative weight (%) assigned to ESG performance indicators used to define short-term incentives
ESG Indicators (condition)	*Report on remuneration policy and payments*	Number of ESG indicators used to define short-term incentives
Total indicators (condition)	*Report on remuneration policy and payments*	Total number of performance goals used to define short-term incentives.
"For" Votes (condition)	*Elaboration of the meeting minutes and of the summary report of the votes*	Percentage of favorable votes over the total of the votes expressed by investors for the first section of the remuneration report (remuneration policy).
Degree of independence of the Remuneration Committee (condition)	*Report on corporate governance and ownership structure*	Percentage of independent directors (according to the criteria of the Corporate Governance Code) over the total of directors composing the Remuneration Committee.

Source: our elaboration

The calibration process could be based on theoretical criteria when available. Unfortunately, in this case, we cannot use any theoretical criteria and consequently, based on other studies, we followed the practice of relying on sample statistics such as percentile scores (Greckhamer, 2016; Paolone *et al.*, 2021). In this study, the values of the 95th, 50th and 5th percentiles correspond to full membership, the crossover point and full non-membership, respectively: full membership (fuzzy score = 0.95); the crossover point (fuzzy score = 0.5); and the threshold for full non-membership (fuzzy score = 0.05).

Table 2 shows the calibration process and indicates the transformation of both the outcome and the conditions into fuzzy terms.

Tab. 2: Calibration process

Outcome/Conditions	Calibration values		
	Full non-membership	**Crossover point**	**Full membership**
ESG weight	0.05	0.13	0.24
ESG Indicators	0.63	1	2
Total indicators	3.7	6.25	15.7
"For" vote	0.75	0.92	0.97
Rem Committee Independence	0.67	0.83	1

Source: our elaboration

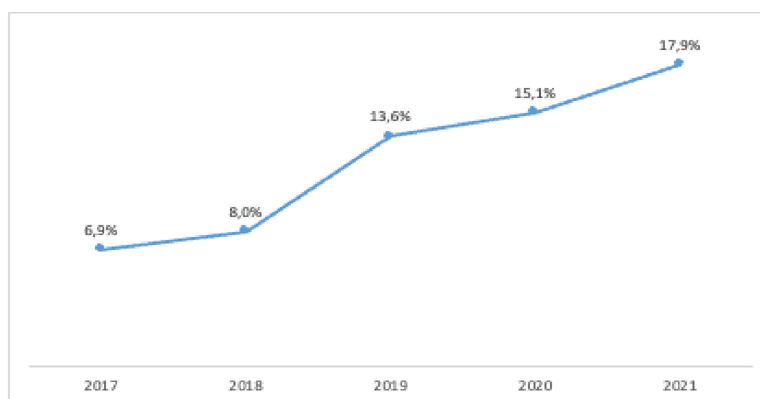
We consider the value average both for the outcome and for the causal conditions over a period of 5 years. Finally, we set our consistency threshold at a minimum of 0.80 (Ragin, 2008).

4. Results

4.1 Descriptive statistics

Table 3, 4, 5, 6 shows descriptive statistics for all variables used in the analysis.

Tab 3. Average ESG weight over time



Source: our elaboration

The average ESG weight, for firms in our sample, has been growing quickly in recent years. This trend seems to have started even before the Covid-19 pandemic, so that it is hard to tell whether the virus-related crisis has had any impact on the employment of ESG indicators as part of executive remuneration. The average number of ESG indicators and of total indicators across the 5 years, as well as the relative percentage of ESG indicators over the total are shown in Table 4. It is worth noticing that the ESG weight does not equal the percentage of ESG indicators, and that the latter has been generally higher and has been growing slower than the former across the years.

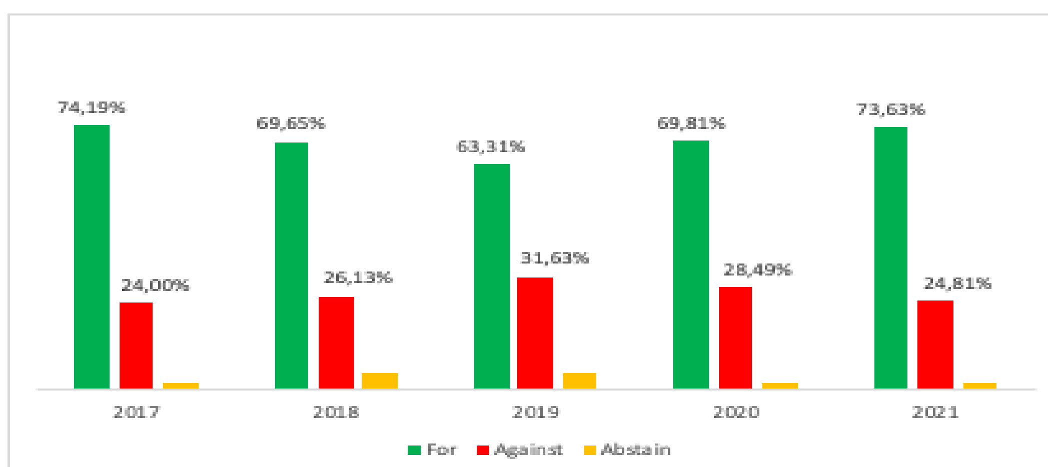
Tab 4. Average ESG Indicators and total number of indicators over time

	2017	**2018**	**2019**	**2020**	**2021**
Number of ESG indicators	0.65	0.70	1.15	1.42	1.76
Total number of indicators	6.65	6.16	6.62	7.88	7.97
Percentage of ESG indicators over total number of indicators	18,54%	19,67%	22,34%	25,14%	25,51%

Source: our elaboration

The percentage of "for" votes over total votes is relatively high (always greater than 60%) in all the years considered (Table 5), with a relevant minimum in 2019 (63.31%). However, it should be considered that these votes include the ones from block holders and majority shareholders, who tend to approve executive decisions and to increase the percentage of "for" votes. Therefore, even a small fraction of voting dissent is indicative of shareholders' satisfaction, and especially of minority shareholders.

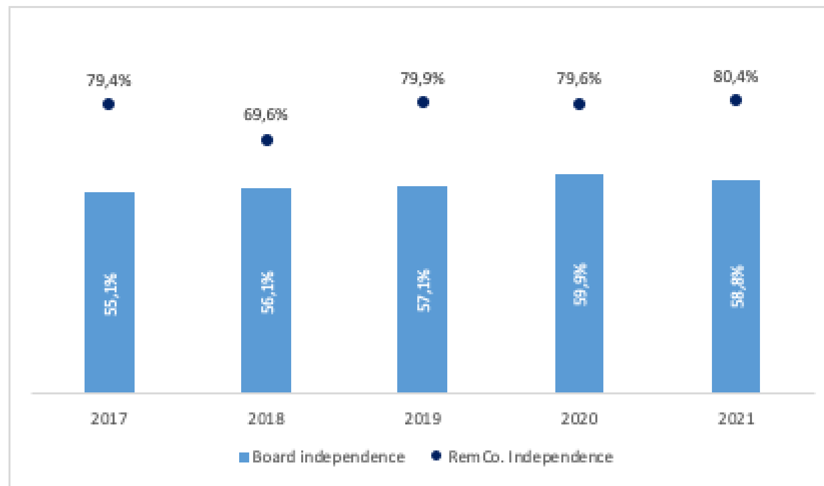
Tab 5. Percentage of "for" votes over total votes



Source: our elaboration

Table 6 shows the average percentage of independence of both the board and the remuneration committee of the firms in our sample. It immediately stands out that there is an abrupt drop in board independence in 2018, even if there are no dramatic changes in remuneration committee independence in this year as compared to the other four years.

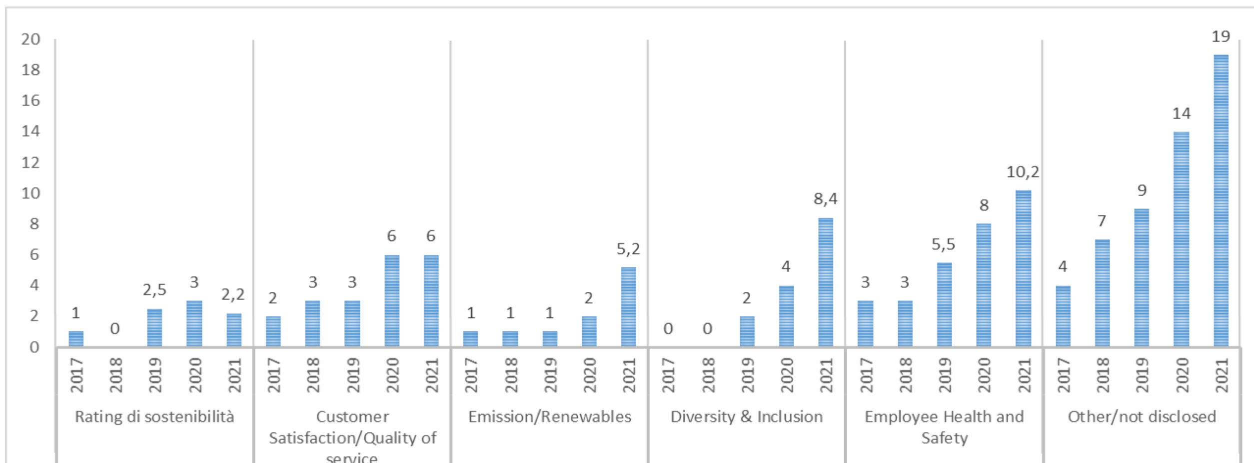
Tab 6. Percentage of "for" votes over total votes



Source: our elaboration

Finally, table 7 shows the evolution of the number of ESG indicators over the 5 years, divided by category. It emerges that, even if all categories have been growing over time, the most part of indicators are in the category "other/not disclosed".

Tab 7. The number of ESG indicators divided by category



Source: our elaboration

4.2 fs/QCA results

The results of fs/QCA are shown in Table 8. Following the notation introduced by Ragin and Fiss (2008), we've reported consistency and coverage values for each configuration as well as for the overall solution for each outcome. The coverage value indicates how much of the outcome is explained by a given configuration and therefore reflects empirical importance (Ragin 2008). The consistency indicates how closely a perfect subset relation is approximated. In our study, we obtain an overall coverage of 0.51 and an overall consistency of 0.95, that are suitable scores for the analysis.

Coverage indicates empirical relevance, so greater coverage implies a greater empirical relevance of the solution (Ragin, 2009), which means that a greater number of empirical cases are covered.

Tab. 8: fs/QCA results

	Configurations		
Conditions	1	2	3
ESG indicators	●		●
Total indicators	○	○	
'For' votes	○	○	○
Remuneration Committee Independence		●	●
Note: Black circles ("●") indicate the "presence" of a condition, circles with a cross-out ("○") indicate its "negation", and blank spaces in the solutions indicate the "don't care".			
Raw coverage	0.38	0.37	0.35
Consistency	0.96	0.05	0.97
Solution Coverage	0.51		
Solution Consistency	0.95		

Source: our elaboration

The findings reveal three "equifinal" configurations that lead to higher ESG weights:

- Solution #1: a high number of ESG indicators, with a low number of Total Indicator, associated with a low percentage of "Vote For" and 'don't care situation' for the level of independence of the remuneration committee. We define this configuration as a *symbolic ESG inclusion*.
- Solution #2: a low number of ESG indicators, with a low number of Total Indicator, associated with a low percentage of "Vote For" and a high level of independence of the remuneration committee. We define this configuration as a *semi-substantive ESG inclusion.*
- Solution #3: a high number of ESG indicators, with a 'don't care situation' of Total Indicator, associated with a low percentage of "Vote For" and a high level of independence of the remuneration committee. We define this configuration as a *substantive ESG inclusion.*

5. Discussions and conclusion

As suggested by some authors (Furnari *et al.*, 2021), we adopt "configurational thinking and theorizing" that is well-suited for explaining causally complex phenomena. According to our results, we find that some variables/conditions are conducive to higher ESG weights in compensation plans. Although all three configurations are associated with a higher ESG weight, nonetheless they correspond to different "bundles of values" that allow us to interpret the outcome ESG weight as more or less 'substantial' or 'symbolic'. In other words, even if the outcome is the same (i.e., higher ESG weight) it can be interpreted differently (e.g., a symbolic ESG implementation), depending on the background conditions (i.e., configurations) from which the output arose. In the perspective of Neo-Institutionalism, in some configurations, the formal application of ESG standards, as proved by a high ESG weight, is decoupled from the actual practices carried on by organizations (Boxenbaum and Jonsson, 2017).

Specifically, based on our theoretical framework, the configuration that can be associated with the highest degree of substantiality is Solution #3. In this case, we consider that the more ESG indicators are present in a remuneration plan, the greater is the awareness of the company decision-makers of their importance in keeping track of ESG performance. In addition, a truly independent remuneration committee ensures that ESG implementation is not just a matter of appearance but that it is truly embedded into the organizational culture (Abdelmotaal and Abdel-Kader, 2016). The total number of indicators used in a compensation plan is irrelevant.

The other two configurations, instead, present lower levels of substantiality in ESG-linked compensation plans. Both these configurations include a lower number of total indicators, which

might be an indication of insufficient attention towards fine tuning the system of incentives or even towards transparency about the internal processes of the firm. More specifically, Solution #2 appears to be in the middle in the substantial-symbolic continuum. The high ESG weight is achieved in this case when having a low number of total indicators in the remuneration plan. Therefore, even if the remuneration committee is highly independent, it might be that the remuneration plan is not sensitive enough in grabbing all the nuances in performance goals (both financial and non-financial ones) that can be linked to incentives for executives. As a result, the ESG weight might result from more contingent and less thoughtful evaluation.

Finally, Solution #1 is the one that, among the three, seems to correspond to the least substantial, and so the most symbolic, ESG implementation. In fact, in this configuration are included those organizations that generally obtains low percentage of 'for' votes, while having a remuneration plan that includes fewer total indicators and several ESG indicators. At the same time then, in this case it is irrelevant whether the remuneration committee is more or less independent. Furthermore, the low number of total indicators, coupled with the relatively high number of ESG indicators, might indicate that the ESG weight is artificially inflated by using too many ESG indicators that have little relations to the firm operations.

Several theoretical and practical implications can be drawn. Firstly, an important result is that one of the variables presenting the same value in all three configurations is the low percentage of 'for' vote percentage. This comes with little surprise, since higher voting dissent is often intended almost as a synonym of shareholder activism (Stathopoulos and Voulgaris, 2016) and so it can be interpreted as a sign of the attention of investors towards the corporate strategy issues, including sustainability concerns (Grewal *et al.*, 2016). However, it must be considered that the 'for' vote regards the remuneration plan as a whole, so that investors have no way for approving or rejecting a single component (e.g., financial indicators, ESG indicators) of the remuneration plan. Therefore, lower percentages of 'for' votes are to be intended as general dissent on the remuneration plan, but not specifically on ESG weights. This result is in line with the growing number of companies that are linking executive pay to sustainability metrics. Therefore, it emerges that "say on sustainability", likewise the "say on pay", could rule the votes at the upcoming shareholder meetings. Consequently, a specific configuration could help in this vote. Sustainability-oriented investors might look for cues in the bundle of characteristics of the remuneration policy to infer whether it corresponds to a more or less substantial implementation of the ESG engagement.

Secondly, another important result is represented by the percentage of independent directors within remuneration committees, which has the responsibility of designing the remuneration plan and defining the remuneration policy (Kuo and Yu, 2014). This governance tool should be free of burdensome ties with the other decisional tiers of the organization, so that it can best design incentive systems that truly align the interests of owners, managers and other stakeholders. The presence of not independent directors can undermine the functionality of the remuneration committee, which ends up being dominated by the interests of executives and top managers and being unable to defend the interests of all other stakeholders, including society. Independent directors safeguard the interest of all stakeholders and ensure that the implementation of ESG goals is embedded within the organizational culture and not decoupled from the actual organizational practices (Park and Zhang, 2020).

Thirdly, the number and the type of ESG indicators adopted can be an indication for investors of how much symbolic or substantial is the adoption of the ESG logics within the firm, as emerged by descriptive analysis. Too few and vague, general, or poorly measurable indicators may indicate a purely formal compliance to the sustainability, which allows the firm to define themselves social and environmentally friendly, without having to transform internal processes.

Some limitations of the present research need to be addressed through additional investigation and future research. In the first place, we look at only a subset of the possible cues of substantial or symbolic ESG adoption. For instance, we did not consider other conditions - such as absolute number of independent directors, or CEO duality - that could have helped to identify cases of symbolic adoption. Second, since institutional pressures are context-dependent, our research may

suffer from the specificities of the industries that the firms in our sample belong to. Therefore, further investigation is needed to verify the extent of symbolic adoption in different industries, as well as the profile of symbolic adopters in these domains. Finally, we have not delved a lot into the type of ESG indicators that firms adopt, especially in the fs/QCA results. With regards to this, future research may try to identify the profile of symbolic adopters of specific (environmental, social, governance) indicators.

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Appendix 1. List of companies included in the sample

1. A2A
2. Assicurazioni Generali
3. Atlantia
4. Banca Generali
5. Bper Banca
6. Buzzi Unicem
7. Enel
8. Eni
9. Finecobank
10. Hera
11. Intesa Sanpaolo
12. Inwit
13. Italgas
14. Leonardo
15. Mediobanca
16. Moncler
17. Nexi
18. Pirelli & C.
19. Poste Italiane
20. Prysmian
21. Recordati
22. Saipem
23. Snam
24. Telecom Italia
25. Terna
26. Unipol Gruppo