



French companies: An increasing link between sustainability and remuneration

Summary note - February 2018

In less than ten years, the number of CAC 40 (benchmark French stock market index) companies that include CSR criteria in senior manager pay has risen from 10% to 70%.

The Study Center for Corporate Social Responsibility (Observatoire de la responsabilité sociétale des entreprises), known as Orse, and PwC France, have published the second edition of their study on the integration by companies of CSR criteria into the variable remuneration of senior managers and executives in France.

This study is based on the following:

- the testimonies of nine major French companies: Axa, BNP Paribas, Crédit Agricole, Danone, La Poste, Schneider Electric, Solvay, Thales and Vivendi,
- information communicated by CAC 40 companies in the public domain,
- some examples of practices from companies overseas,
- inputs of stakeholders on the topic.

Key learning points regarding the trends observed in the study

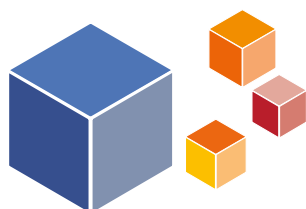
Figures are drawn from the analysis of information communicated by CAC 40 companies in 2015

The integration of CSR criteria is becoming more common within major French companies' remuneration policies

In less than 10 years, the integration of CSR criteria into the variable remuneration policies of companies has become widespread: the number of CAC 40 companies integrating CSR criteria has increased continuously, from 10% in 2006 to more than 70% to end 2015. This proportion is likely to grow further in coming years, since more companies have already made known their intention to put in place processes linking senior executive variable pay to CSR criteria.



The complete 80 page study has been published in June 2017 (in French). This note outlines the key learning points from the study.



Companies are first of all focusing on the annual bonus of executive directors

The integration of extra-financial criteria, combined with the economic criteria already in place (operating profit and turnover growth, for instance), aims to better conciliate short-term objectives for operational performance, with objectives for creating sustainable long-term value and shareholder interests.

CSR issues represent medium to long-term issues for companies. However, they tend to integrate in priority CSR criteria in short-term variable pay (or annual bonus); this is the case for all CAC40 companies. Only 14% of them integrate CSR criteria in long-term remuneration. At the same time, even if it remains mainly focused on executive directors (83% of the CAC 40), the process is increasingly widening to include the annual bonus of other populations such as executive directors (52%) and managers. By anchoring CSR more into the objectives and decision-making of each person concerned, the inclusion of CSR criteria contributes to the implementation of the CSR strategy at all levels in the company.

Finally, the share of pay attributed to CSR criteria is to bear in mind during the design of the process. It needs to be sufficiently important to ensure the mobilisation of those concerned and to enable the company to progress and to meet its objectives. The weight given to CSR criteria by CAC 40 companies generally varies between 10 and 30% (78% of companies).

A managerial tool which should be adjusted to the needs of each company

Integrating CSR criteria into the remuneration complements the process of defining a CSR strategy in line with the material challenges and issues of the company. The CSR criteria chosen must necessarily result from this strategy, be measurable and followed up in time with the support of reliable tools in order to make the process a true lever for implementing the strategy.

Issues addressed by companies vary strongly from one company to the other. In total, 21 distinct issues or challenges have been identified at CAC 40 companies. Regarding the remuneration of senior executives, the issues which are addressed the most concern the reduction of risks linked health and safety, to climate change, to environmental management and to ethics and compliance. Issues linked to 'the creation of sustainable value' – such as the development of 'green' products, human rights, and employee engagement – are also increasingly referred to

Apart from the choice of issues in itself, the impact of this process varies depending on the number and type of criteria selected. For example, the use of one 'simple' criteria will allow the targeted populations to focus on one priority issue (for example, one 'simple' criteria focusing on the issue of health and safety).

In contrast, building a 'complex' criteria will aim to mobilise them around the company's CSR strategy as a whole (the criteria will be, for example, an index which will show the average of the company's progress on several topics which are part of CSR strategy).

Finally, putting in place one 'external' criteria could enable the company to

concretise the process through an evaluation provided by an external body (the main external criteria used by companies are based on the notation of extra-financial rating agencies).

As a result, each company, according to its specificities and its goals, is free to choose and combine these various tools to innovate and better take CSR into account in its remuneration policy.

Stakeholders have increasing expectations in terms of transparency

Faced with the complexity of remuneration policies, recurring polemics on the pay of senior managers and executives, and the increasing gap and disconnection between the remuneration of executives and employees, stakeholders (investors and shareholders, public authorities, civil society for example) above all expect a level of detail and transparency from companies. Transparency should be sufficient to enable them to better appreciate the alignment between allocated variable remuneration, senior management performance, and progress made by the company in the period under consideration.

The information sought by stakeholders today focuses above all on:

- the link between the CSR criteria chosen and their impact on the economic strategy of the company,
- the rules governing the attribution of annual variable pay and in particular the weight of each criteria chosen,
- the level of performance expected for each criteria and the means put in place to measure change,
- the level of performance reached and the amount of the variable share paid out on the basis of these criteria.

In view of these expectations, it is clear that companies have made significant efforts. They globally all report on the criteria being used. However, more detailed information should be provided on the follow-up indicators used and on the level of performance reached.

Overall, it remains difficult to appreciate the way in which the criteria are applied in comparison to what had been planned during a given yearly cycle. In particular, only 54% of CAC 40 companies communicate about their methodology and the indicators used to measure performance, and

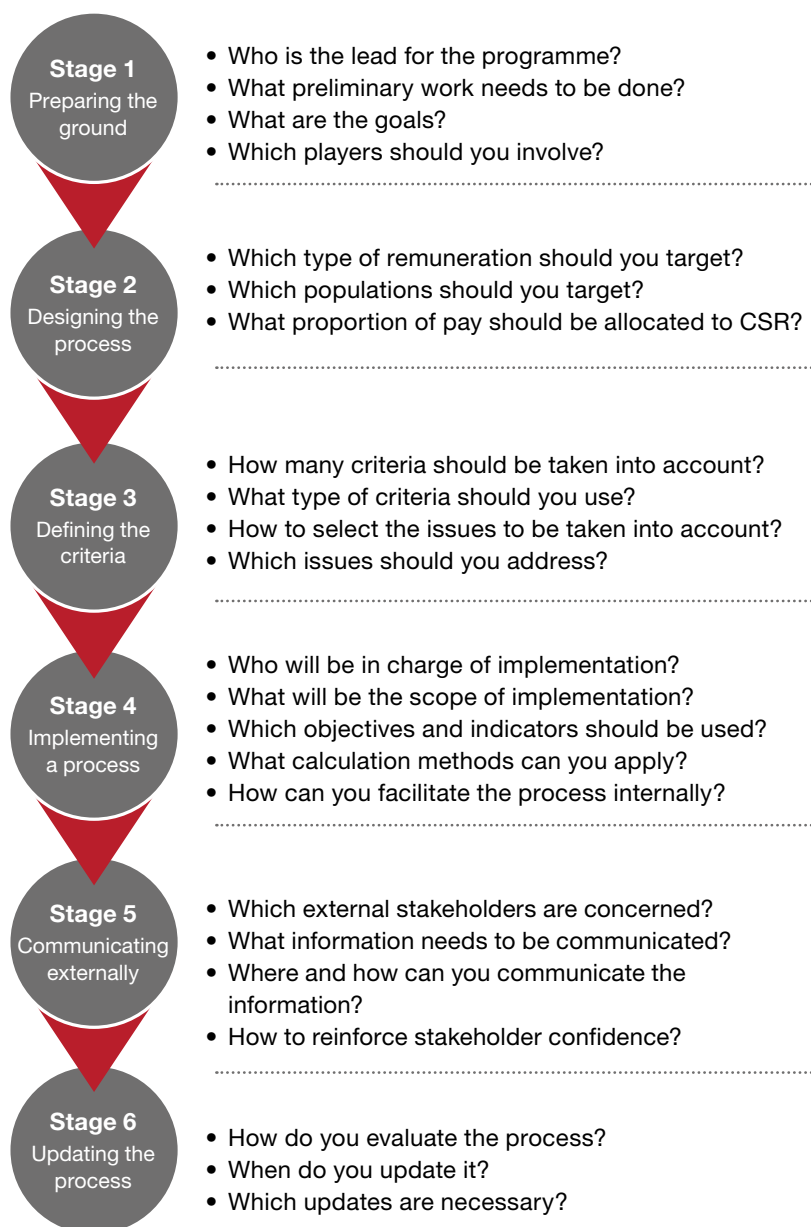
only 13% of companies communicate on the level of performance expected for each criteria.

Key learning points regarding practical aspects

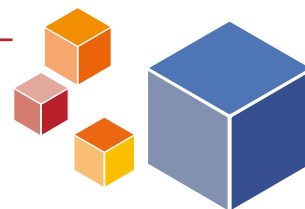
The document published by Orse and PwC consists both in a study and a practical guide, outlining best practices in French companies and giving some recommendations to be applied at each key stage of the design and implementation of their own process.

The guide aims to enable all parties concerned - CSR Committee members in the board of directors, senior managers, HR and CSR managers, employee and union representatives – to appropriate the issues connected to the integration of CSR criteria into the calculation of the variable pay component.

We have listed below the principal stages presented in detail in the guide:



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