

Linking executive pay to sustainability goals: practical considerations

A joint ecoDa / EY Webinar



At a time when society (regulators, employees, and investors) is leaning on businesses to take the lead in addressing the world's sustainability challenges, the approach to corporate sustainability needs to change to achieve meaningful results. To accelerate the migration from narratives to concrete outcomes, one of the top priorities for governance transformation is remuneration. To help organisations plot a path to a bolder approach to sustainability-linked remuneration, ecoDa, and EY have organised a joint webinar on the 30th of March.

The third annual edition of the [EY Europe Long-Term Value and Corporate Governance Survey](#) highlights that less than half of organisations (47%) have made sustainability a significant element of remuneration. Yet, there is a broad consensus that remuneration is a catalyst for positive change. This year, one should foresee increased scrutiny from investors on remuneration policies due to the following factors:

- Increased stakeholder (investors, customers, employees, regulators, etc.) expectations to demonstrate ESG alignment and to take action;
- Heightened remuneration scrutiny due to the current challenging economic environment (e.g., cost of living crisis, high volatility, and unclear economic perspectives), and
- Increased institutional investor ESG scrutiny and say-on pay implications, which provide a means for shareholders to voice their disagreement on the company's overall governance and strategy (a negative votes against the Remuneration Committee Chair could also be foreseen). As a result, companies should pay attention to their ESG performance targets (boldness, transparency, and good narratives are critical) and to the executive/management and employee pay gap (that influences productivity and performance).

When building sustainable remuneration frameworks, board members should review the reasonableness of management's proposed KPIs for alignment with business strategy, and long term value creation, whilst taking into account materiality, durability, and measurability.

In addition, eight guidelines were developed to activate a sustainable remuneration framework along three foundational categories:

- Remuneration mechanisms:
 - Link ESG KPIs within variable pay: Incorporate ESG KPIs in variable pay (either by means of balanced scorecards, multiplier, or underpin/threshold);
 - Prioritize ESG KPIs within LTI (long-term incentives): Emphasise LTI within the executive remuneration mix to reinforce ESG's long-term and strategic implications;
 - Select material ESG metrics: Develop ESG KPI/metric materiality thresholds for incorporating ESG into variable pay programs - STI (short-term incentives) and LTI plans;
 - Identify impact-focused ESG metrics: Establish short-term ESG KPIs that are based on output assessments in support of long-term ESG goals and KPIs that are based on impact assessments.
- Governance:
 - Align corporate ESG and total remuneration: Align corporate ESG strategy with total remuneration strategy to support organization purpose and strategy;
 - Include ESG competence for Remuneration Committee selection criteria: Prioritise ESG as a core competency for Remuneration Committee membership selection criteria.
- Disclosures:
 - Link ESG metrics to reporting standards: Align ESG remuneration KPIs/metrics with reporting standards to support transparency and comparability;
 - Harmonize ESG disclosures and align with purpose: Harmonize and simplify all corporate ESG disclosures (i.e., strategic, sustainability, and remuneration reports).

Companies can use these guidelines to perform a maturity assessment to identify potential gaps and opportunities to elevate their ESG commitments.

Speakers: Martha Cook (*EY EMEIA Total Reward Center of Excellence Leader, People Advisory Services, EY*), Cinzia Donalisio (*Board member, Carel Industries*), Andrew Hobbs (*EMEIA Public Policy Leader, EY*), Katherine Savage (*Partner, People Advisory Service, EY*), Monica de Virgiliis (*Chairwoman, Snam*).

The recording of this webinar is available [here](#).

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