

March 2022 | Summary Report

How to align climate priorities with executive compensation ?



As companies acknowledge the need to transition to more sustainable business models, regulators, investors and stakeholders at large also expect board members to reflect ESG commitments into executive compensation frameworks. To this effect, ecoDa and WTW organised a joint webinar to help board members and remuneration committee members to drive climate transition strategies by meaningfully embedding climate priorities within remuneration schemes.

A presentation of WTW and the Climate Governance Initiative, [Executive Compensation Guidebook for Climate Transition](#), opened the webinar. While the regulatory actions vary by region, the direction of travel is clear, companies are expected to adopt sustainable strategies, encompassing related objectives and climate metrics appropriately linked to executive incentives.

If the move from a compliance approach to the adoption of a company-specific climate transition strategy and metrics is not easy, already 28% European companies incorporate environmental measures in their incentive plans. This can be achieved following a step-by-step approach, starting with aligning the priorities with the business strategy, defining climate goals and metrics (that are science-based, clear, ambitious, transparent, comparable and coherent) tied to the company's vision, designing the relevant incentive scheme and, eventually, by telling the story with robust disclosures.

As the GM season approaches, shareholders and investors will more than ever ask companies to align their roadmap with the Paris Climate Agreement as well as industrial milestones. Incentive plans are seen as a powerful tool in accelerating the transition and many investors will be tempted to use their votes against companies that do not include ESG metrics into compensation schemes.

If the pressure is probably less aggressive towards SMEs, it does not mean that the topic is however eluded, even quite the contrary. Younger companies tend to approach ESG as an entrepreneurial opportunity.

All companies will not be on the same maturity level and there is not a one size fits all approach when it comes to incorporating metrics into executive compensation. On the contrary, there are a few design alternatives based on the nature of the company, ranging from the type of key performance indicators (KPIs) to be considered (such as underpins, modifiers or separately weighted KPIs), to the type of incentive embedding them (whether in short-term incentive plans, long-term incentive plans or even standalone hyper-long-term incentive plans).

It is up to the board to select the relevant strategy aligned with the company's strategy and compensation philosophy. But this requires adopting an integrated perspective with the right culture, openness and collaboration between climate literate board members and external stakeholders.

The panelists also insisted on the «four M» challenges (mission, metrics, measures, measuring) and trade-offs arising from climate metric selection and target-setting. Identifying the right approach and determining what position the company wants to adopt (being a leader, a follower or laggard) is the first debate the board needs to tackle. As there are no commonly wide-accepted metrics yet, the board will have then to choose the metrics that reflect the company's operations and strategy. Concrete actions and transparency follow to avoid failing into the risk of greenwashing.

To conclude, the panelists compare the long ESG journey to a marathon: board members need to adopt a long term approach, they need to change the pace from time to time (accelerate actions sometimes, consolidate the achievements at other times) and, last but not least, they need to practice and train on these complex matters.

Speakers: Shai Ganu (Managing Director, WTW), Michael Hilb (Chair, International Board Foundation), Natasha Martsekis (Secretary General and Founding Member, The Non-Executive Directors Club in Greece), Manuel Montecelos (Executive Compensation & Board Advisory Senior Director Europe, WTW).

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

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