

CEP Magazine – November 2021 ESG bonus

By Sally March

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Sustainability is the watchword for investors and regulators alike. The United Kingdom Financial Reporting Council has long made the connection between ethical culture and sustainable business. It urged and then required boards to take responsibility for the culture of their organizations.

As environmental, social, and governance (ESG) issues move up the agenda in the boardroom, it is not surprising that ESG metrics are being added to executive incentive pay plans. Several recent surveys demonstrate this trend.^[1] Axa, a multinational insurance firm, has tied a portion of the CEO's pay to the company's rank in the Dow Jones Sustainability Index since 2016. Major companies like Mastercard and KBR have said they will start pegging some pay to ESG this year. It appears that European companies are moving faster than their US counterparts with 89% already including ESG metrics of some form in their incentive pay plans.^[2] Along with reducing carbon emissions and waste reduction, some of the metrics include diversity, human capital, and compliance with applicable laws.

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