ESG & Executive Remuneration in Europe

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Marco Dell'Erba
University of Zurich and New York University

Guido Ferrarini
University of Genoa, ECLE, EUSFiL and ECGI

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Keywords: Corporate purpose, ESG, Executive remuneration, Corporate scandals, Stakeholder capitalism, Shareholder value, ESG targets and metrics

JEL Classifications: G30, G32, G38, K20, K32, L21, M14, P12

Marco Dell'Erba
Professor of financial market law and corporate law
University of Zurich
Rämistrasse 71
Zürich, CH-8006, Zurich
e-mail: marco.dellerba@rwi.uzh.ch

Guido Ferrarini*
Emeritus Professor of Business Law
University of Genoa
Via Balbi, 22,
16126 Genoa, Italy
e-mail: guido.ferrarini@unige.it

*Corresponding Author

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Marco Dell'Erba ** **Guido Ferrarini*****

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✉ Marco Dell'Erba
marco.dellerba@rwi.uzh.ch

✉ Guido Ferrarini
guido.ferrarini@emeriti.unige.it

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** Professor of Law, University of Zürich, Zürich, Switzerland

Academic Fellow, Institute for Corporate Governance & Finance, New York University School of Law, New York, USA

Global Fellow, Wilson Center, Washington DC, USA

*** Emeritus Professor of Business Law, University of Genoa, Genoa, Italy

Fellow & Research Member, European Corporate Governance Institute, Brussels, Belgium

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1 Introduction

The relevance of sustainability has grown exponentially within society and financial capitalism. Key concepts such as stakeholder capitalism and sustainable finance have greatly contributed to the contemporary debate on the role of financial markets and corporations. Particularly in Europe, these concepts have gradually permeated the regulatory dimension. Stakeholder capitalism represents an alternative approach to the role of corporations, placing a greater emphasis on stakeholder value as opposed to a more traditional view that prioritizes shareholder value maximization. Complementary to stakeholder capitalism, sustainable finance has emerged as a new paradigm oriented towards the development of sustainable investments focusing on the long-term horizon and implementing Environmental, Social, Governance (ESG) parameters.[1] The challenges of stakeholder capitalism and sustainable finance are intertwined with traditional topics in corporate law and financial regulation, often intersecting the two. In the realm of corporate law, the debates surrounding the revamping of corporate purpose in recent years and the escalating significance of stakeholders in corporate governance have captivated the attention of scholars and policy makers across various jurisdictions.[2] This has spurred national and global discussions, involving prominent scholars, practitioners,[3] and both private[4] and public regulators.[5]

In this context, the role of managers and their duties towards shareholders and society at large remain subjects of ongoing discussion.[6] As part of these conversations, executive remuneration and its role as a catalyst for the adoption of sustainable practices within corporations have become focal points in debates surrounding sustainable corporate governance. In recent years, an increasing number of listed corporations have begun to devise new ESG metrics and targets with the aim of implementing more structured forms of ESG compensation within

[1] See European Commission (2023). For a historical analysis of the ESG dimension, see Pollmann (2022).
[2] See Business Roundtable (2019); Rock (2021); Fisch and Solomon (2021). For a historical analysis and a comparison between the United States and Europe, see generally Gelter (2011).
[3] Lipton (2017).
[4] In countries like Italy, Switzerland and the United Kingdom, corporate governance codes greatly contributed to the adoption of the 'sustainable success of the company' as a key notion to explain corporate governance mechanisms. See Ferrarini et al. (2023)
[5] As to the political discussion in the EU, see Ferrarini (2024b, forthcoming).
[6] See *infra* Section 2.

the overall executive compensation package. This article delves into the impact of ESG metrics and targets on overall executive compensation in the context of the most capitalized European companies listed in the FTSE 300.

Despite the increasing prominence of sustainable finance and stakeholder capitalism, significant concerns have arisen regarding these paradigms. Most of these concerns relate to the structural inconsistency, and according to some critiques, the perceived ‘emptiness’ of the ESG parameters. This inconsistency could potentially lead to financial risks, raising concerns about investor protection and systemic risk. From a broader perspective, this inconsistency might pose a threat to the effectiveness of these new approaches in driving change in corporate and market practices.

Critiques have emerged at multiple levels, including corporate governance mechanisms,[7] the inability of institutional investors to effectively pursue sustainability,[8] and greenwashing practices related to ESG. The lack of appropriate ESG ratings and, more generally, reliable gatekeepers further amplifies the risks associated with these new paradigms.[9] Amidst the uncertainty surrounding financial institutions and corporations, the possibility of tying executive compensation to ESG factors has emerged as an attempt to mitigate some of the problems emerging in the ESG economies. This is particularly aimed at addressing the perceived lack of incentives for executive managers to pursue alternative stakeholder value maximization strategies. Institutional investors have played a significant role in exerting downward pressure in this regard, urging corporations – especially American ones – to develop plans that align with this perspective.

Changes in executive pay are consistent with the trends emerging in the last years. A traditional view of executive remuneration suggests that it generally includes incentives directed to align managerial interests with those of shareholders.[10] From a shareholder value approach, executive remuneration should be structured in a way to maximize the value for shareholders. However, incentive compensation has undergone a double transformation which responds to stakeholder interests and sustainability concerns. Firstly, incentives are increasingly oriented to long-term value maximization, which should allow companies to satisfy stakeholder interests in the long run, while maximizing shareholder value. Secondly, parts of the incentives are often linked to ESG metrics, such as either the company’s impact on climate change and other environmental issues, or its impact on employees’ welfare and society in general. This is consistent with a modern view of the company, where profit remains a medium to long-term objective that executives must pursue, but the purpose of the company (corporate purpose) goes beyond profit and includes creating social value through satisfying the interests of the main stakeholders of the company.

[7] For an overview of the current debate, see Bebchuk and Tallarita (2021); see also Gatti and Ondersma (2021); Fisch and Solomon (2021).
[8] Tallarita (2023).
[9] See Dell’Erba and Doronzo (2023).
[10] Jensen and Meckling (1976), p 323. See also Hill and Yablon (2002), p 295.

In line with the critiques on stakeholder capitalism, recent scholarship on the topic has casted doubts on executive compensations tied to ESG, emphasizing a relevant lack of effectiveness surrounding the first observable developments.[11] According to this line of thought, ESG compensation is not an exception as similar problems have emerged in other ESG-related contexts, particularly in the areas of ESG ratings and data providers, and of portfolio structure.

To better understand the developments concerning executive compensation and ESG, this article proposes both qualitative and quantitative analyses. Firstly, it highlights the key issues related to executive compensation and contextualizes them in different periods of time, briefly considering how remuneration practices evolved and their relationship with corporate governance theories, spanning from the traditional idea of shareholder value maximization to more progressive approaches such as shared value and social value primacy. Furthermore, the article offers a quantitative analysis of how major corporations in Europe are integrating ESG factors in their remuneration policies. It analyzes all the companies of the FTSEurofirst 300 Index, which includes the 300 largest companies ranked by market capitalization in the FTSE Developed Europe Index. The hand-coded dataset identifies specific parameters in the different 'E', 'S' and 'G' contexts, considers their impact on executive compensation and looks more precisely into plans to implement long-term incentives as well as to change the structure of compensation, with an emphasis on fixed versus variable compensation. Consistent with other areas of ESG finance, the data suggest a lack of clear patterns emerging from corporate practice, highlighting the need for consolidation even in this context. Finally, in commenting on the data emerging from the dataset, the article proposes some policy recommendations.

2 Executive Remuneration in Context

Executive remuneration is a fundamental tool in corporate governance, contributing to the performance of business organizations while mitigating agency problems, and aligning the interests of managers and the company. Approaches to executive remuneration evolved over time, also in connection with the advancements and the different perspectives emerging in finance, economics and management. From a quantitative perspective, executive remuneration experienced a significant growth starting from the mid-1970s till the 2000s. Partly in connection with this, executive remuneration also evolved in terms of structure (fixed salary, stock options, long-term plans). Furthermore, it gradually became central to the political debate, with regulations affecting the ability of remuneration committees to design the most efficient compensation policies, and public opinion and press coverage also contributing to affecting executive compensation structures without impacting the overall compensation levels.

[11] See Bebchuk and Tallarita (2022).

2.1 Quantitative and Structural Evolutions

Looking at its historical evolution from a quantitative perspective, executive pay has dramatically grown over the time. The CEO-to-worker compensation ratio from the post-World War II to contemporary times suggests the emergence of different trends. Until the 1970s, compensation remained stable, with CEOs being paid 20 times more than average workers. From the mid-1970s to the late 1990s, pay grew dramatically, reaching a peak of 376 times more than average workers in 2000, experiencing a steady decline in 2001-2002. From 2001 to 2014, median CEO pay ceased to grow for S&P500 CEOs, while it continued to rise for mid-cap and small-cap CEOs.[12]

These trends identify a shift in the philosophical approach surrounding the role of the managers.[13] Corporations promoted the professionalization of the apical managerial roles by competing in the selection of the most qualified managers for leading increasingly complex business organizations. The evolution of the executives' roles in corporations corresponded to fundamental changes in the overall structure of executive compensation, and greatly contributed to the exponential growth in the relative amounts taking place especially in the 1980s and 1990s.[14] Edmans et al. show that in the period between 1936 and 1950s, executive compensation key components were salaries and annual bonuses.[15] Long-term incentive plans became more significant starting from the 1960s, while stock options were established as a practice during the 1980s, until they became the largest component of executive pay in the 1990s.[16] However, after the end of the technology boom of the 1990s and the stock market decline of 2000-01, the use of options declined in relative and absolute terms, while restricted stock dramatically increased, replacing conventional time-vesting stock with grants for which the number of shares vested depended on one or more performance measures.[17]

Similar changes in the levels and structure of executive compensation are the result of different views emerging over several decades in corporate theory, all routing around the notion of shareholder value maximization, which is consistent with the abovementioned professionalization of top executives. Adopting a shareholder primacy approach, the network of corporate contracts is functional to maximizing the value for shareholders. Therefore, the competitive market for

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[12] See Edmans et al. (2017), p 389 ff.

[13] On the rise of investor capitalism and changing cultural conceptions of the role of the CEO, see Khurana (2002).

[14] See Gabaix and Landier (2008), p 49, finding that in recent decades the size of large firms explains many of the patterns in CEO pay, across firms, over time, and between countries. In particular, the sixfold increase of US CEO pay between 1980 and 2003 can be fully attributed to the sixfold increase in market capitalization of large companies during that period.

[15] Edmans et al. (2017), p 388.

[16] Looking at the United States, this shift was also favored by tax reforms. For a discussion of the 1993 tax reforms and their impact on the composition of remuneration, see Perry and Zenner (2001).

[17] Edmans et al. (2017), p 399; Walker (2016), p 395.

executives is crucial to the design of adequate incentives, and incentive contracts are essential for attracting managerial talent. The shareholder value approach was the basis for developing performance-based pay, which became the dominant form of executive compensation in the 1990s.[18] Not surprisingly, performance-based pay relied on massive stock-option plans, and contributed to an exponential growth in top salaries. According to Jensen and Murphy's theory of pay for performance,[19] shareholders would benefit when management compensation is significantly at risk, so that a high level of compensation is dependent on a high level of corporate performance.[20] The performance-pay approach corresponds to a technique in corporate law attempting to align the self-interest of managers with the interests of shareholders, rather than overcoming managerial self-interest.[21]

2.2 Corporate Scandals and the Increased Debate on Executive Compensation

Despite the season of corporate scandals in the US and Europe, this approach continued to be implemented. The Enron and WorldCom scandals, among others, had the effect of questioning the structure of executive pay, rather than the underlying rhetoric of performance-based pay which remained intact.[22] However, these corporate scandals proved that performance-based pay could perversely incentivize executives to maximize their own wealth at the expense of the company, its shareholders and other stakeholders.[23] Interestingly, when analyzing the causes of the Enron scandal, great emphasis was placed on the gatekeeping failure. Arthur Andersen was in charge of auditing the financial statements of the company, while at the same time its affiliate Andersen Consulting provided consulting services to Enron for millions of dollars, creating an unprecedented situation of conflicts of interest. While the role of gatekeepers greatly contributed to making the discovery of the malfeasance impossible, misaligned incentives were at the roots of the Enron scandal. Executive performance-based bonuses were anchored to specific stock-price targets, which created incentives to implement manipulative strategies so as to inflate Enron's profits, ultimately triggering an increase in the stock prices which would then meet such targets.[24]

After these corporate scandals, executive compensation became a hot topic in public opinion, receiving relevant press coverage. Kuhnen and Niessen documented that in the period 2002-2008, the negativity of press coverage of CEO

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[18] See generally Edmans et al. (2017), p 400.
[19] Jensen and Murphy (1990).
[20] See Yablon (1999), p 273.
[21] See Hill and Yablon (2002). As the authors explain, two other alternative techniques are fiduciary duties, and the reliance on governance techniques (such as independent directors, remuneration committees, and shareholders' control).
[22] Ibid., p 295.
[23] See Coffee (2005), p 198; specifically on European experience, Ferrarini and Moloney (2005), p 304.
[24] See Eichenwald (2002), p 1.

pay varied significantly, with stock options being the most criticized pay component.[25] Interestingly, they found that after more negative press coverage of CEO pay, firms did cut option grants, but replacing them with other forms of pay, including higher salaries, so that overall compensation did not change.[26]

The enhanced political debate also led to increased regulatory scrutiny of executive compensation, with the introduction of so-called 'say on pay' in the United Kingdom[27] and the Company Law Action Plan of the European Commission explicitly addressing the problem of remuneration in the 2004 Recommendation on directors' remuneration (2004)[28] and the Recommendation on the role of non-executive directors (2005).[29] As a step towards a comprehensive regulation of executive compensation and in an attempt to improve shareholder engagement,[30] the Directors' Remuneration Report Regulations required directors of a listed company to prepare a directors' remuneration report for each financial year and lay the report before the general meeting for shareholder approval,[31] with their vote designed as an advisory vote, and pay awards not conditional on the resolution being passed.[32] The Recommendation on directors' remuneration contained enhanced disclosure rules for remuneration policy and for individual directors' remuneration packages, in addition to providing shareholders with a (binding or non-binding) vote on remuneration policy.[33] Different from the post-scandal American approach, the UK and EU reforms sought to align shareholder and managerial interests by elevating the role of shareholders and strengthening their rights in the context of executive pay.[34]

2.3 From the Financial Crisis of 2008 to the Present

The financial crisis of 2008 triggered further policy and regulatory debates on corporate governance mechanisms in relation to protecting investors and avoiding systemic risk concerns. In the pre-crisis time, 'standard executive pay arrangements' contributed to an excessive short-term focus, limiting long-term value creation.[35] As a reaction to this approach, firms, investors and regulators tried to tie compensation to long-term results, limiting excessive risk-taking.[36]

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[25] Kuhnen and Niessen (2012), p 1249.
[26] Ibid.
[27] The Directors' Remuneration Report Regulations 2002, S.I. 2002/1986 (UK) (now found in s. 439 of the Companies Act 2006 (UK)). See generally Ferri and Maber (2013); Gordon (2009).
[28] [2004] OJ L385/55.
[29] [2005] OJ L52/51.
[30] Gerner-Beuerle and Kirchmaier (2018), p 7. For an overview of investors' preferences in the context of say-on-pay votes, and the role of proxy advisors in the context of FTSE 100 companies in the period 2013-2021, see Gomtsian (2024).
[31] The obligations are now contained in ss. 420-422 and 439 of the Companies Act 2006.
[32] Ibid., s. 439(5).
[33] Ferrarini et al. (2009), p 26.
[34] Ibid., p 28.
[35] See Bebchuk and Fried (2004), ch. 14.
[36] Bebchuk and Fried (2010).

Excessively risky strategies were especially detrimental for financial institutions, contributing to their collapse, despite prudential policies and risk management practices in place.[37] These spectacular crashes also affected the political debates, with movements such as Occupy Wall Street in the US and Podemos in Europe contributing to shaking public opinion and regulators, determining a shift in the market prices of major financial institutions and corporations.

These mixed financial, social and political tensions contributed to creating the basis for the current debates on sustainability and ESG issues and the possibility of adopting a multi-stakeholder capitalism.[38] During this time, multiple heterogeneous groups including investors, employees, consumers, ESG rating agencies and data providers exercised downward pressure on companies to pursue more stakeholder-oriented business strategies, with an impact also on executive compensation. Therefore, corporate boards started to incorporate non-financial dimensions as well as ESG performance measures as part of their incentive plans.[39]

The regulatory activity gradually reflected these changes. Reforms also pursued more structured long-term oriented plans, with a view to implementing stakeholder-oriented strategies, as well as discussing a more concrete application of shared value and shareholder welfare theories as they emerged in the corporate governance literature.[40] The European Shareholder Rights Directive II intended to increase shareholder engagement, while favoring long-term investments and mitigating excessive risk-taking.[41] The more recent European proposals looking at sustainable corporate governance will likely contribute to implementing an important step forward in the sense of designing a different corporate governance approach to sustainability and ESG-related issues. The EU proposals on corporate sustainability due diligence require the company's strategy to take into account adverse impacts on human rights and the environment arising from its own operations.[42] These measures drastically change the role of managers, and the way they have to calibrate their choices, as the explicit reference to the company's strategy would suggest. The implementation of these reforms will increasingly affect executive compensation, and lead to an enhanced importance of all those metrics and targets related to the ESG dimension.

Recent proposals from governments and securities regulators are further contributing to enhancing the policy debate on ESG executive remuneration. In the United Kingdom, where the government put significant emphasis on the net-zero

[37] See generally Fahlenbrach and Stulz (2011). See also Bebchuk and Spamann (2010). See also generally Financial Stability Forum (2009).
[38] See Spierings (2022). See also Washington (2022); and Mitchell et al. (2021).
[39] Ibid.
[40] See, for the classic view, Hansmann and Kraakman (2001); for a critical perspective, Fried (2015), providing an excellent review of the literature and corporate governance reform; as to the recent trends, Ferrarini (2024a, forthcoming).
[41] See Directive (EU) 2017/828 of the European Parliament and of the Council of 17 May 2017 amending Directive 2007/36/EC as regards the encouragement of long-term shareholder engagement.
[42] See Ferrarini et al. (2023).

transition,[43] the Financial Conduct Authority has put downward pressure on firms requiring to reflect their sustainability strategies in their incentive structures,[44] due to the importance of 'remuneration … to help align corporate outcomes with long-term sustainability aims'.[45] In the United States, SEC Commissioner Crenshaw highlighted the importance for the SEC to know 'how ESG measures are utilized in executive pay packages', 'whether there is sufficient insight into the methodologies behind the measures on which ESG compensation targets are based', and 'about the use of targets based on measures of performance with qualitative or discretionary inputs', for the purposes of (re)calibrating pay and performance disclosures.[46] The SEC eventually amended its 'pay versus performance' requirements, and required all registrants to disclose the relationship between executive compensation and financial performance with an emphasis on ESG compensation.[47] The Basel Committee on Banking Supervision has emphasized the necessity for banks to promote alignment in their remuneration and bonus systems, ensuring that they support both immediate and enduring objectives in addressing climate change.[48]

A traditional approach to evaluate the impact of those reforms is by examining how they affect the overall economic efficiency of corporate organizations and ultimately the financial system. Jensen and Murphy look at the way politics led to unintended transformations of executive compensation as a consequence of specific regulations adopted in the United States.[49] The two authors distinguish 'Ugly', 'Bad' and 'Good' regulations, promulgated at different times with some overlap. This classification relies on the ability of such regulations to cause damage in terms of economic efficiency, and 'thus would have the highest benefit to outright appeal'. In the period 1980s-2006, 'Ugly' regulations were those provisions in the US tax code implemented to regulate and punish CEO pay, and the pre-2006 accounting treatment for stock options. In the period 2002-2017, 'Bad' regulations were the prohibitions on executive loans, disclosure rules, say-on-pay and other provisions of Dodd-Frank. According to the authors, the Ugly and Bad regulations significantly restricted the Compensation Committees in designing effective pay practices for top-level executives, and some 'Good' regulations issued by accident had positive effects on the compensation policies.

3 Data on Executive Compensation and ESG

[43] Transition Plan Taskforce (2022), p 25.
[44] Financial Conduct Authority (2023), paras. 1.15, 3.59.
[45] Ibid., para. 1.16.
[46] Crenshaw (2022).
[47] See, generally, Securities and Exchange Commission (2022). As Morgan Lewis suggested, this might trigger consequences for corporations as they might have to 'explain why ESG goals are included as part of the executive compensation program, how they comport with the company's fiduciary responsibilities, and how they will move the needle on the company's performance'. McGeorge RC et al. (2023).
[48] Basel Committee on Banking Supervision (2022), para. 13.
[49] Jensen Murphy (2018).

How does ESG affect the remuneration practices of European listed companies? To answer this question, we examine the companies listed in the FTSE EuroFirst 300 Index, which comprises the 300 largest companies by market capitalization in the FTSE Developed Europe Index. We analyze their remuneration reports for the year 2020.

Out of 300 companies, 183 (61.6%) take ESG into account for purposes of defining executive compensation. We split them into two groups. The first group consists of 35 companies stating in their remuneration report that they currently do not adopt any ESG metric for determining the overall compensation of managers but will take such metrics into account starting from 2021-2022. The remaining 148 companies already consider ESG metrics when defining executive compensation. Given the nature of ESG-related matters, it is not surprising that the great majority of these companies consider ESG metrics as part of their non-financial performance, while only 4 include them in their financial performance.

3.1 Targets and Metrics

Looking at the content of such metrics, consistent with the findings of Bebchuk and Tallarita in their study of the US market, we see that the trend is to target specific stakeholders – particularly employees (with a focus on their composition and treatment), customers, suppliers, local communities, and the environment – and to address specific interests for each category of stakeholders. Furthermore, for each of these categories, the metrics tend to focus on a limited number of dimensions that struggle to fully capture the complexity of the interests associated with such large stakeholder groups, which encompass a broad range of different (and sometimes even conflicting) interests and expectations towards corporations.

Recurring dimensions are: (i) for **employees**, diversity (sometimes explicitly referring to the role of women in top positions) and inclusion, and their treatment, mostly health, safety, reduction of accidents, and well-being, with a few references to training and talent development; (ii) for **customers**, satisfaction and experience; (iii) for the **environment**, metrics related to CO2 emissions, decarbonization, and sometimes more general references to sustainability and circular economy practices; (iv) for **communities**, metrics related to corporate social responsibility, and – given the historical circumstances – some very general references to human rights and ethics.

Table 1. Dimensions of Stakeholder Welfare in ESG Metrics

Employee Composition

Company	Dimensions
Allianz	-diversity
Antofagasta	-diversity and inclusion
ASML	-diversity
	-inclusion

Astra Zeneca	-diversity and inclusion
Atlantia	-equal opportunities
	-gender equality
Atlas Copco Group	-gender diversity
Aviva	-inclusion
AXA	-gender diversity
BAE Systems	-diversity
Barclays	-inclusion
Beiersdorf	-gender diversity
BMW	-diversity
Bouygues	-gender diversity
Capgemini	-diversity
Credit Suisse Group	-diversity and inclusion
Daimler AG	-diversity
Danske Bank	-women in senior leadership positions
Dassault Systems	-proportion of women on the board
Deutsche Boerse	-diversity
Equinor	-inclusion and diversity
Eurofins Scientific	-diversity
Generali	-diversity and inclusion index
Henkel KG Pref	-diversity
Hermes International	-gender diversity
HSBC Holdings	-diversity
Iberdrola	-increase of female presence in significant positions
Kinnevik A Redemption Shares	-gender diversity
London Stock Exchange	-female representation at board level and senior management positions
National Grid	-inclusion and diversity
Novartis	-LGBTI equity
	-disability equity
	-race and ethnicity
Novo-Nordisk	-diversity and inclusion
OMV	-diversity
Orsted	-diversity
	-inclusion and talent development
Partners Group	-diversity
Polymetal International	-diversity
Prosus	-diversity and inclusion
Prudential	-diversity and inclusion
Renault	-gender pay gap ratio
Roche Holdings	-diversity
Rolls-Royce	-diversity
Schroders	-diversity and inclusion
Smith & Nephew	-diversity
Smurfit Kappa Group	-diversity and inclusion
SSE	-diversity and inclusion
St Gobain (Cie De)	-representation of women among managers and executives
Total SE	-diversity
UBS Group AG	-diversity
Verbund Österreich	-advancement of women
Vinci	-diversity in management and in its advertising campaign

Vivendi	-diversity in management and in its advertising campaign
Wolters Kluwer	-diversity
	-equity and inclusion

Employee Treatment

Company	**Dimensions**
Aéroports de Paris	-implementation of the collective termination agreement (RCC)
	-project to adapt employment contracts and standards applicable to ADP SA employees
	-occupational health and safety
Airbus	-support suppliers at risk
Allianz	-satisfaction
Anglo American	-safety
Antofagasta	-reduction of accidents
Arcelor Mittal	-health and safety
ASML	-employee engagement
	-talent retention
Astra Zeneca	-being a great place to work
Atlantia	-safety
	-reduction of accidents
Aviva	-engagement
AXA	-engagement
	-well-being
	-remote working
	-safety
	-proactive communication
BAE Systems	-safety
Barclays	-physical and well-being
	-equal pay regardless of gender, age, ethnicity, disability, sexual orientation
	-covid-19 sickness provisions
	-flexibility for, e.g., parents
Bayer AG	-attract, develop and retain talents
BMW	-attractiveness as an employer
Bouygues	-health and safety
CNH Industrial	-health and safety
Compass Group	-safety
Continental	-good working conditions
Credit Suisse Group	-talent management
Croda International	-safety and health
Daimler AG	-engagement
Danone	-engagement
Danske Bank	-employee engagement
Dassault Systems	-employees' pride and satisfaction
Deutsche Boerse	-satisfaction
Deutsche Telecom	-employee satisfaction
Deutsche Wohnen	-satisfaction
DiaSorin	-people training
	-talent

	-leadership
Enel	-safety
Eni	-safety
	-reduction of accidents
Equinor	-training and safety
	-security
Eurofins Scientific	-health and safety
	-talent
Ferrovial	-health and safety
Fortum	-safety
Fresenius Medical Care	-health and safety
Fresnillo	-safety, reduction of accidents
Generali	-digital and cultural transformation
Glencore	-safety
Henkel KG Pref	-leadership team development
Holcim	-health and safety
HSBC Holdings	-employee engagement
Iberdrola	-more training hours
ING Group CVA	-health and safety
Kering	-talent management
Koninklijke Philips	-engagement
London Stock Exchange	-well-being support
	-engagement
Lloyds Banking Group	-culture and engagement
	-develop digital and leadership skills
Münchener Rückversicherung	-employee satisfaction
National Grid	-engagement
NatWest Group	-responsible and responsive employer
Nexi	-satisfaction
Nokia	-employee engagement
Novartis	-engagement
Novozymes	-workplace
Orange	-employee experience
Partners Group	-training on ethics issues
Polymetal International	-health and safety
Prudential	-employee empowerment
Puma	-health and safety
Randstad NV	-engagement
Renault	-health and safety
Rentokil Initial	-colleague retention
Rolls-Royce	-employee engagement
Royal DSM	-engagement
Royal Dutch Shell	-safety
Royal KPN	-employee engagement
SAP	-employee engagement
Schroders	-talent retention and succession plans

Siemens Gamesa Renewable Energy	-employee engagement
Smith & Nephew	-engagement
Smurfit Kappa Group	-engagement
Snam	-gender diversity
Sodexo	-occupational health and safety
	-talent management
SSE	-employee engagement and safety
St Gobain (Cie De)	-rate of accidents
	-management of the pandemic: health and safety of employees,
	-e-learning training
Teleperformance	-employee engagement
Terna	-health and safety
UCB Cap	-happy
	-healthy
	-safe
UniCredit	-engagement
Uniper SE	-human resources development
Veolia Entertainment	-health and safety
	-training, employee commitment
Verbund Österreich	-employee satisfaction
Vinci	-employee anticorruption training
	-personal data protection measures
Vivendi	-employee anticorruption training
	-personal data protection measures
Wolters Kluwer	-engagement

Customers

Company	Dimensions
Admiral Group	-customer specific
Aéroports de Paris	-passengers' satisfaction
Allianz	-satisfaction
ASML	-customer satisfaction
Aviva	-customer trust
AXA	- insurance provided to 'emerging' customers
Barclays	-financial support
BMW	-customer focus
BT Group	-customer experience
Bunzl	-satisfaction
Continental	-good product quality
Credit Suisse Group	-client satisfaction
Daimler AG	-satisfaction
Danske Bank	-customer satisfaction
Deutsche Boerse	-satisfaction
Deutsche Telecom	-customer satisfaction
Deutsche Wohnen	-satisfaction
Eurofins Scientific	-customer satisfaction and retention
Generali	-Responsible Consumer Initiative
HSBC Holdings	-customer satisfaction and support in sustainable transition
ING Group CVA	-customer growth

Julius Baer Group	-client focus & centricity
Lloyds Banking Group	-customer experience
NatWest Group	-honesty and fairness towards clients
Nokia	-satisfaction
Orange	-customer experience
Poste Italiane	-customer experience
Renault	-customer satisfaction
Rentokil Initial	-satisfaction
Rolls-Royce	-customer metric for each business
Royal KPN	-customer loyalty and satisfaction
SAP	-customer satisfaction
Skandinaviska Enskilda Banken	-satisfaction
Société Générale	-customer satisfaction
	-client experience
Ubisoft Entertainment	-player protection and gender diversity of teams
UBS Group AG	-client satisfaction
UCB Cap	-many solutions and access to them
Unicredit	-customer satisfaction
Uniper SE	-customer orientation
Wolters Kluwer	-customer satisfaction

Environment

Company	**Dimensions**
Aéroports de Paris	-preparation of the ACA4 certification of the Île-de-France airports, use of sustainable alternative fuels by 2022 and preparation for the arrival of H2 planes
	-feasibility studies for energy projects on a regional scale
	-preparation of a pathway for reducing greenhouse gas emissions
Ahold Delhaize	-carbon emissions
	-food waste
Airbus	-sustainability
Allianz	-sustainability
	-climate protection
Anglo American	-greenhouse gas emissions
	-climate change
	-tailing facilities
Antofagasta	-CO2 emissions
ASML	-responsible use of resources
	- minimize waste
	-recyclable products
	-GHG emissions

	-carbon footprint
	-energy consumption
Astra Zeneca	-GHG emissions
	-renewable energy
Atlantia	-decarbonization
	-renewable energy
	-climate change
Atlas Copco group	-reduce CO2
Aviva	-climate change
AXA	-footprint
	-green finance
Barry Callebaut	-sourcing of sustainable cocoa
BASF	-CO2 neutral
Bayer AG	-integrate sustainability into divisional strategic plans and elevate sustainability objectives
Beiersdorf	-sustainability
BMW	-reduction of carbon emissions
Bouygues	-climate
BP	-low-carbon electricity and energy
	-resilient and focused hydrocarbons
	-sustainability
BT Group	-carbon emissions
Caixa Bank	-sustainability and environmental risk management
Capgemini	-carbon footprint
Carlsberg	-CO2 and zero water waste
CNH Industrial	-CO2 emissions
Coca-Cola HBC	-GHG emissions
Continental	-climate protection
	-clean mobility
	-circular economy
	-sustainable supply chains
	-green and safe factories
Credit Suisse Group	-climate change
	-environmental opportunities
	-natural capital
	-pollution and waste
Croda International	-reduction of carbon emissions and land use
Daimler AG	-sustainability
Danone	-climate ambitions
Danske Bank	-CO2 emissions
Dassault Systems	-new licenses having a positive impact on the environment and the CO2 footprint
Deutsche Boerse	-carbon emissions reduction
Deutsche Wohnen	-energy efficiency of stock houses, sustainability rating
Enel	-CO2 emissions
	-renewable sources net consolidated installed capacity

Eni	-CO2 emissions
	-energy transition
	-decarbonization
	-circular economy
Essilor Luxottica	-environmentally responsible practices
	-GHG emissions
Essity Aktiebolag	-reduce emissions of carbon dioxide in energy utilization and purchased electricity
Eurofins Scientific	-ESG
Ferrovial	-sustainability
Fortum	-CO2 emissions and reduction of coal generation capacity
	-climate
Fresenius Medical Care	-sustainability
Generali	-greenhouse gas emissions
	-climate change
	-green and sustainable investments
Glencore	-progress towards 2035 CO2 targets
Henkel KG Pref	-climate positivity and circular economy
Hermes International	-industrial energy consumption
Holcim	-reduction of CO2 emissions
	-re-use of waste-derived resources
	-reduction of freshwater
HSBC Holdings	-reducing the environmental impact of their operations
KBC Group	-climate policy
Kering	-sustainability
Kinnevik A Redemption Shares	-establishing a clear climate strategy
	-including emission reduction targets
National Grid	-CSR
NatWest Group	-climate change
Neste OYJ	-GHG emissions
	-renewable products
Nokia	-environmental and sustainability
Novartis	-environmental targets for their supply chain
Novo-Nordisk	-100% renewable power across all production sites
Novozymes	-climate
	-water and circular
OMV	-carbon reduction
Orange	-renewable electricity rate and change in CO2 rate per customer use
Orsted	-GHG emissions
	-sustainability ratings
Polymetal International	-sustainability
	-GHG emissions
Prudential	-carbon exposure and footprint
	-climate change
Puma	-CO2 emissions
RELX	-reduction of carbon emissions, energy and fuel consumption
	-renewable energy purchase

	-reduction in waste
Renault	-environmental commitments
	$-CO_2$ emissions
Rentokil Initial	-vehicle fuel intensity
Roche Holdings	-sustainability
Royal DSM	-energy
	-GHG emissions
Royal Dutch Shell	-energy transition
	-net carbon footprint
Royal KPN	-energy reduction
SAP	-GHG emissions
Schroders	-operate on carbon-neutral basis
Sika	$-CO_2$ emissions
Skandinaviska Enskilda Banken	-sustainability
Smith & Nephew	-recycle
	-renewable energy
	-zero waste to landfill
Smurfit Kappa Group	-water
	$-CO_2$ and waste reduction
Snam	-natural gas emissions
	-climate change
Sodexo	-DJSI
SSE	-carbon intensity
	-renewable output
	- electric vehicle infrastructure
	-climate action
	-clean energy
St Gobain (Cie De)	-identification of 2030 targets in the context of the CO_2 roadmap towards carbon neutrality by 2050
Swedish Match	-GHG intensity reduction
Terna	-new underground or submarine power lines
	- removal of obsolete overhead lines and reduction of CO_2
Thales	-environmental responsibility
Total SE	-steering of the hydrocarbon strategy
	-development of the low-carbon businesses
	-CSR performance
UBS Group AG	-carbon footprint and corporate waste
UCB Cap	-low-carbon and green economy
Unicredit	-ESG rating
Uniper SE	-sustainability
Veolia Entertainment	-climate
	-hazardous waste treatment
Verbund Österreich	-expansion of renewable energy generation

	-reduction of specific greenhouse gas emissions
	-availability of hydropower plants
Vinci	-greenhouse gas emissions
	-preservation of natural environments and the circular economy
Vivendi	-reduction of carbon footprint
Wolters Kluwer	-environmentally sound practices

Local Communities

Company	**Dimensions**
Ahold Delhaize	-healthy products
Airbus	-contribution to broader society in different forms including sourcing and carrying millions of masks with Airbus flight test aircraft
	-designing and manufacturing ventilators and visors
	-sustainable ways of working under stricter and evolving sanitary conditions
	-support for humanitarian actions of its NGO partners
	-transporting medical supplies in addition to organizing aid transports and providing satellite imagery following devastating floods and hurricanes around the world.
Allianz	-social responsibility
Anglo American	-jobs to the communities of operations
Anheuser-Busch	-CSR
Antofagasta	-social performance programmes
Astra Zeneca	-covid-19 response
	-ethics
	-transparency
AXA	-distribution of covid-19 vaccines
Barclays	-donations for communities affected by covid-19
BMW	-social responsibility
BT Group	-improve digital skills of people
Compass Group	-food safety
Continental	-corporate citizenship
Credit Suisse Group	-tax transparency
Dassault Systems	-jobs preservation and financial support for small and medium companies
Deutsche Boerse	-corporate social responsibility
Essilor Luxottica	-corporate social responsibility
	-charitable initiatives
Ferrovial	-corporate social responsibility
Fresenius Medical Care	-anti-bribery and anti-corruption
	-data privacy and security
	-human rights
Fresnillo	-good community relations
Generali	-Human Safety Net Activity
Henkel KG Pref	-management of the covid-19 pandemic
Hermes International	-regional integration
Julius Baer Group	-regional achievements
Kering	-corporate social responsibility
National Grid	-culture agenda
NatWest Group	-good citizen
Nokia	-social and governance measures
Novartis	-expand access to healthcare for low-income populations
Novo-Nordisk	-corporate social responsibility
Polymetal International	-social partnership in host regions
Poste Italiane	-support the country’s social and economic development
Prosus	-data privacy and security
Renault	-corporate social responsibility
Siemens Gamesa Renewable Energy	-corporate social responsibility
Sika	-health and safety
Société Générale	-corporate social responsibility
Sodexo	-corporate social responsibility
SSE	-fair tax and decent work for all

Teleperformance	-management of the covid-19 pandemic
Terna	-social responsibility initiatives
Thales	-social responsibility initiatives
Total SE	-corporate social responsibility
UBS Group AG	-corporate social responsibility
UCB Cap	-societal value
Veolia Entertainment	-ethics

Suppliers

Company	Dimensions
ASML	-RBA standard (ethics, labor, health and safety, and environment)
Fresenius Medical Care	-sustainable supply chain
NatWest Group	-honesty and fairness towards clients
Novartis	-environmental targets for their supply chain
RELX	-diverse suppliers
Terna	-sustainability among the supply chain

A further question is whether these targets and metrics contribute to the overall external reviewability of performance goals. Bebchuk and Tallarita propose three key elements that performance goals should have: (i) they should be clear and objective, (ii) their outcomes should be disclosed, and (iii) their context should be meaningful. [50] We tested these variables and concluded that 48 companies (32.4%) provided reviewable ESG targets and metrics. We considered as reviewable those companies that satisfied at least two out of three criteria. Out of these 48 companies, 39 met all three criteria, and the remaining 9 companies satisfied two out of three. These results are consistent with the findings emerging in North American companies.

Table 2. Outside Reviewability of ESG Targets and Metrics

Companies	Clear and objective goals?	Outcome disclosed?	Meaningful context?	Outside reviewability?
ASML	0	0	0	0
AXA	0	0	0	0
Admiral Group	0	1	0	0
Aena (report in Spanish)	0	0	0	0
Aéroports de Paris	1	0	1	0
Ahold Delhaize	0	1	1	1
Airbus	0	0	0	0
Alcon	0	0	0	0
Allianz	0	0	0	0
Amadeus IT Group	0	0	0	0
Anglo American	1	1	1	1

[50] Bebchuk and Tallarita (2022), pp 33-34. As the authors explain in footnote 74, their proposal of the ‘outside reviewability framework is consistent with the approach recommended by major asset managers’. As they further explain, also referring to Galloway (2022): ‘Vanguard recommends “the use of quantitative metrics, but in cases where qualitative ones are used . . . [there should be] disclosure about how the metrics will be assessed” [stressing] that “[i]nvestors need to be able to evaluate whether incentives tied to metrics can actually drive company performance” ’; and it urges companies ‘to thoroughly explain any discretionary adjustments and to use metrics that are “measurable, reportable, and clearly linked to a company’s strategy and risk mitigation efforts”.’

Anheuser-Busch InBev	0	0	0	0
Antofagasta	1	1	1	1
Arcelor Mittal	0	0	0	0
Associated British Foods	0	0	0	0
Astra Zeneca	1	1	1	1
Atlantia	1	1	0	1
Atlas Copco group	0	0	0	0
Aviva	1	1	1	1
BAE Systems	0	1	0	1
BASF	1	1	1	1
BMW	0	0	0	0
BP	1	1	1	1
BT Group	1	1	1	1
Barry Callebaut	0	0	0	0
Barclays	0	0	0	0
Bayer AG	0	0	0	0
Beiersdorf	0	0	0	0
Bouygues	0	0	0	0
Bunzl	0	0	0	0
Bureau Veritas	0	0	0	0
Caixa Bank	0	0	0	0
Capgemini	0	0	0	0
Carlsberg	0	0	0	0
CNH Industrial	0	0	0	0
Coca-Cola HBC	0	0	0	0
Compass Group	0	0	0	0
Continental	0	0	0	0
Credit Suisse Group	0	0	0	0
Croda International	1	1	1	1
Daimler AG	0	0	0	0
Danone	0	0	0	0
Danske Bank	0	0	0	0
Dassault Systems	1	0	0	0
Deutsche Bank	0	0	0	0
Deutsche Boerse	0	0	0	0
Deutsche Post	0	0	0	0
Deutsche Telecom	0	0	0	0
Deutsche Wohnen	0	0	0	0
DiaSorin	0	0	0	0
Enel	0	0	0	0
Eni	1	0	1	0
Essilor Luxottica	0	0	0	0
Essity Aktiebolag	0	0	0	0
Equinor	1	1	1	1
Eurofins Scientific	0	0	0	0
Ferrovial	0	0	0	0
Fortum	0	0	0	0
Fresenius Medical Care	1	0	1	0
Fresnillo	1	1	1	1
Generali	0	0	0	0
Genmab	0	0	0	0
Glaxo Smith Kline	0	0	0	0
Glencore	0	0	0	0
HSBC Holdings	0	0	0	0
Henkel KG Pref	0	0	0	0
Hermes International	0	0	0	0
Holcim	1	1	1	1
ING Group CVA	0	0	0	0
Iberdrola	1	1	1	1
Inditex	0	0	0	0
InterContinental Hotels	0	0	0	0
Intesa Sanpaolo	0	0	0	0

Julius Baer Group	1	varies by region/division	1	1
KBC Group	0	0	0	0
Kering	0	0	0	0
Kinnevik A Redemption Shares	1	0	0	0
Koninklijke Philips	1	0	0	0
London Stock Exchange	1	1	1	1
Lloyds Banking Group	1	1	1	1
Moncler	0	0	0	0
Münchener Rückversicherung	0	0	0	0
NN Group	0	0	0	0
National Grid	0	0	0	0
NatWest Group	1	1	1	1
Neste OYJ	0	0	0	0
Nexi	1	1	1	1
Nokia	0	0	0	0
Novartis	0	0	0	0
Novo-Nordisk	1	1	1	1
Novozymes	0	0	0	0
OMV	0	0	0	0
Orange	0	0	0	0
Orsted	1	1	1	1
Partners Group	0	0	0	0
Polymetal International	1	1	1	1
Poste Italiane	1	1	1	1
Prosus	1	1	1	1
Prudential	1	1	1	1
Puma	0	0	0	0
RELX	1	1	1	1
Randstad NV	0	0	0	0
Recordati	0	0	0	0
Renault	1	1	1	1
Rentokil Initial	0	0	0	0
Roche Holdings	0	0	0	0
Rolls-Royce	0	0	0	0
Royal DSM	1	1	1	1
Royal Dutch Shell	0	0	0	0
Royal KPN	1	1	1	1
SAP	1	1	1	1
SSE	1	1	1	1
STMicroelectronics	0	0	0	0
Schindler Holding	0	0	0	0
Schneider Electric	1	0	0	0
Schroders	1	1	1	1
Siemens AG	0	0	0	0
Siemens Energy	0	0	0	0
Siemens Gamesa Renewable Energy	0	0	0	0
Sika	1	0	0	0
Skandinaviska Enskilda Banken	0	0	0	0
Smith & Nephew	0	1	0	0
Smurfit Kappa Group	1	1	1	1
Snam	1	1	1	1
Société Générale	1	1	1	1
Sodexo	1	1	1	1
St Gobain (Cie De)	0	1	1	1
Suez	0	1	0	0
Swedish Match	0	0	0	0
Swiss Life	0	0	0	0
Swiss Re	1	0	1	1
Symrise AG	0	1	0	0

Teleperformance	0	0	0	0
Terna	1	1	1	1
Thales	0	0	0	0
Total SE	1	1	1	1
UBS Group AG	1	1	1	1
UCB Cap	0	1	0	0
Ubisoft Entertainment	1	0	1	1
Unicredit	1	1	1	1
Uniper SE	0	0	0	0
Veolia Entertainment	1	1	1	1
Verbund Österreich	0	1	1	0
Vinci	1	1	1	1
Vivendi	1	1	1	1
Vodafone Group	0	0	0	0
Wolters Kluwer	1	0	1	1
Zurich Insurance Group	0	0	0	0

3.2 Short-Term vs. Long-Term Incentives

Considering the time horizon of ESG metrics, the data show that 91 companies (61.90% of the sample) tie short-term incentives to ESG performance; 37 companies (25.2%) tie both long-term and short-term incentives to ESG performance; the remaining 12% connect only long-term incentives to ESG performance. The alleged long-term orientation of stakeholder capitalism would suggest a prevalence of long-term incentives tied to ESG. However, some ESG-related targets may not necessarily require a long-term horizon to be implemented, such as equal gender representation on boards of directors and in management. On the contrary, more complex targets, such as shifting the business model to zero emissions, may require a multi-year business plan for implementation.

Table 4. Long-Term vs. Short-Term Incentives

Companies	**ESG performance part of the LTI**	**ESG performance part of the STI**	**Both**
ABB	0	0	0
AP Moller	0	0	0
ASML	1	1	1
AXA	1	1	1
Admiral Group	0	1	0
Aena (report in Spanish)	0	1	0
Aéroports de Paris	0	1	0
Ahold Delhaize	1	0	0
Airbus	0	1	0
Alcon	0	1	0
Allianz	0	1	0
Amadeus IT Group	0	1	0
Anglo American	1	1	1

Anheuser-Busch InBev	0	1	0
Antofagasta	1	1	1
Arcelor Mittal	0	1	0
Associated British Foods	0	1	0
Astra Zeneca	0	1	0
Atlantia	1	1	1
Atlas Copco group	0	1	0
Aviva	1	1	1
BAE Systems	0	1	0
BASF	1	0	0
BMW	0	1	0
BP	1	1	1
BT Group	0	1	0
Banco Bilbao	0	0	0
Barry Callebaut	0	1	0
Barclays	1	1	1
Bayer AG	0	1	0
Beiersdorf	0	1	0
Bouygues	1	1	1
Bunzl	1	1	1
Bureau Veritas	0	1	0
Caixa Bank	0	1	
Capgemini	0	1	0
Carlsberg	0	1	0
Cellnex Telecom	0	0	0
CNH Industrial	0	1	0
Coca-Cola HBC	0	1	0
Compass Group	0	1	0
Continental	1	0	0
Credit Suisse Group	0	1	0
Croda International	1	1	1
Daimler AG	0	1	0
Danone	1	1	1
Danske Bank	0	1	0
Dassault Systems	0	1	0
Deutsche Bank	1	1	
Deutsche Boerse	0	1	0
Deutsche Post	0	1	0
Deutsche Telecom	1	1	1
Deutsche Wohnen	0	1	0

Diageo	0	0	0
DiaSorin	1	0	0
Enel	1	1	1
Eni	1	1	1
Essilor Luxottica	0	1	0
Essity Aktiebolag	1	1	1
Equinor	0	1	0
Eurofins Scientific	0	1	0
Ferrovial	0	1	0
Fortum	1	1	1
Fresenius Medical Care	0	1	0
Fresnillo	0	1	0
Geberit	0	0	0
Generali	0	1	0
Genmab	0	1	0
Givaudan	0	0	0
Glaxo Smith Kline	0	1	0
Glencore	1	1	1
HSBC Holdings	1	1	1
Henkel KG Pref	0	1	0
Hermes International	0	1	0
Holcim	1	1	1
ING Group CVA	0	1	0
Iberdrola	0	1	0
Imperial Brands	0	0	0
Inditex	1	0	0
Infineon Technologies	0	0	0
InterContinental Hotels	0	1	0
Intesa Sanpaolo	0	1	0
Julius Baer Group	0	1	0
KBC Group	0	1	0
Kering	0	1	0
Kerry Group	0	0	0
Kingspan Group	0	0	0
Kinnevik A Redemption Shares	0	1	0
Koninklijke Philips	0	1	0
Legal and General Group	0	0	0
Legrand	0	0	0
London Stock Exchange	0	1	0
Lonza Group	0	0	0

Lloyds Banking Group	1	0	0
MTU Aero Engines	0	0	0
Merck KgaA	0	0	0
Moncler	1	0	0
Mondi	0	0	0
Münchener Rückversicherung	0	1	0
NN Group	N/A	N/A	N/A
National Grid	0	1	0
NatWest Group	0	1	0
Nestle	0	0	0
Neste OYJ	1	0	0
Nexi	0	1	0
Nokia	0	1	0
Novartis	0	1	0
Novo-Nordisk	1	1	1
Novozymes	1	0	0
OMV	0	1	0
Ocado Group	0	0	0
Orange	1	1	1
Orsted	0	1	0
Partners Group	1	0	0
Persimmon	0	0	0
Polymetal International	0	1	0
Poste Italiane	0	1	0
Prosus	0	1	0
Prudential	1	0	0
Publicis Groupe	0	0	0
Puma	0	1	0
RELX	0	1	0
Randstad NV	0	0	0
Reckitt	0	0	0
Recordati	0	1	0
Renault	0	1	0
Rentokil Initial	0	1	0
Rio Tinto	0	0	0
Roche Holdings	0	1	0
Rolls-Royce	0	1	0
Royal DSM	1	1	1
Royal Dutch Shell	1	1	1
Royal KPN	1	1	1

SAP	0	1	0
SGS S.A.	0	0	0
SSE	1	1	1
STMicroelectronics	0	1	0
Schindler Holding	1	0	0
Schneider Electric	1	1	1
Schroders	0	1	0
Segro	0	0	0
Siemens AG	1	0	0
Siemens Energy	1	0	0
Siemens Gamesa Renewable Energy	1	1	1
Siemens Healthiness	0	0	0
Sika	0	1	0
Skandinaviska Enskilda Banken	0	1	0
Smith & Nephew	0	1	0

Short-term incentives are, therefore, the main ESG incentives in corporate practice. They include annual bonuses, in both cash and share awards. As for long-term ESG remuneration, most remuneration reports refer to long-term incentive plans, and a minority to long-term variable pay.

A further point is the incidence of ESG metrics and targets on the overall executive remuneration package. ESG targets determine more than 20% of remuneration in almost one third of companies in the sample (30.4%), and 15-20% in one fifth of them (21.6%). Therefore, most companies show an impact on at least 15% of the total compensation, confirming a trend towards increasing economic relevance of ESG-related compensation. As for the remaining companies, 17% of the total do not provide any percentage for the ESG impact on remuneration, 3% show an ESG impact on 0-5% of remuneration, 12.9% on 5-10%, and 6.4% on 10-15% of the total remuneration amount.[51] These data suggest that ESG remuneration in Europe carries more weight than at a global level (accounting for 10% of the total compensation according to Gosling and others,[52] and 13% of the short-term annual bonus, with just below 16% of the long-term variable component).[53] However, the effective impact on compensation may be much lower. As Walker critically notes looking at CEO compensation in a sample of US corporations, the median weight of the ESG component in variable executive compensation was only 0.2 percent in 2020.[54]

[51] An annual survey of asset managers by the proxy advisor Georgeson shows that about eight in ten respondents think that 20% is the right weight of ESG metrics in executive compensation. See Marsh (2022).
[52] Gosling et al. (2021), p 15.
[53] Cohen et al. (2023), pp 809, 814-815, 822-823.
[54] Walker (2022), p 339.

Data also show that the same companies introduced either malus (19% of the total) or clawback provisions (1.4%) or both (22.3%) in ESG-based compensation. A clawback is a contractual mechanism under which an employee who has already been paid by an employer is required to return the relevant funds and possibly pay a penalty in the case of serious breaches of her duties. Companies commonly include clawback provisions in employment contracts for performance-based compensation, such as bonuses. In contrast, malus provisions enable a company to decrease or cancel an executive's bonus or share award before its actual payment or issuance. The presence of similar clauses in ESG compensation confirms the strategic relevance of ESG targets in the business strategy of listed companies.

Table 5. Percentage of the Remuneration, Penalties & Clawback Rules

Companies	Percentage of the remuneration	Penalties - Clawbacks
ASML	10	0
AXA	up to 30	0
Admiral Group	(+)(-) 20	malus & clawback provisions
Aena (report in Spanish)	N/A	0
Aéroports de Paris	25% of EUR 100,000	0
Ahold Delhaize	0-150%	clawback provisions
Airbus	0.2	clawback provisions
Alcon	CHF 50,000 for the Chair and 25,000 for each member	0
Allianz	0.8 - 1.2	0
Amadeus IT Group	up to 30	0
Anglo American	up to 20% in annual bonus and up to 20 LTIP weighting	malus and clawback provisions
Anheuser-Busch InBev	N/A	malus provisions
Antofagasta	20% + 12.5% share awards	0
Arcelor Mittal	0.1	clawback provisions
Associated British Foods	150% of salary max together with other metrics	0
Astra Zeneca	10%	0
Atlantia	20/100 points + 30/100 points	a multiplier of ±10% is applied to the final value of the incentive thus calculated, depending on the assessment of the quality of individual performance
Atlas Copco group	N/A	0
Aviva	20% LTIP, 10% awards	0

BAE Systems	0.25	0
BASF	N/A	0
BMW	0.7 of target amount (value between 0 - 1.8)	0
BP	no bonus for 2020 (20% safety + 20% environment) but 15% safety + 15% environment for 2021	0
BT Group	0.3	malus and clawback provisions
Barry Callebaut	0.1	0
Barclays	N/A	0
Bayer AG	0.8 - 1.2	malus and clawback provisions
Beiersdorf	30	0
Bouygues	N/A	0
Bunzl	20% annual bonus	0
Bureau Veritas	10% out of 40% all non-fin. criteria	0
Caixa Bank	0.075	malus and clawback provisions
Capgemini	up to 20%	0
Carlsberg	0.1	0
CNH Industrial	0.2	0
Coca-Cola HBC	0.15	malus and clawback provisions
Compass Group	0.05	malus and clawback provisions
Continental	0.7 - 1.3	malus and clawback provisions
Credit Suisse Group	0.33	malus and clawback provisions
Croda International	30% of PSP	malus and clawback provisions
Daimler AG	(+)(-) 10 non-financial, 0-25% transformational targets	malus and clawback provisions
Danone	0.2	0
Danske Bank	N/A	malus and clawback provisions
Dassault Systems	0.15	0
Deutsche Bank	up to 30% individual component together with other KPIs + 33.33% LTA	clawback provisions
Deutsche Boerse	N/A	malus and clawback provisions
Deutsche Post	0.125	
Deutsche Telecom	N/A	0
Deutsche Wohnen	0.2	0
DiaSorin	N/A	clawback provisions
Enel	10% LTI + 25% STI	clawback provisions
Eni	25% STI and 35% LTI	clawback provisions

Essilor Luxottica	0.1	clawback provisions
Essity Aktiebolag	9% STI, 9% LTI	0
Equinor	N/A	clawback provisions
Eurofins Scientific	20-30% bonus	0
Ferrovial	30% annual variable	0
Fortum	percentage of the STI may vary to reflect the local market practice as well as specific nature of the position	0
Fresenius Medical Care	0.2	0
Fresnillo	points for each criterion, up to 100 points in total	0
Generali	0.2	malus and clawback provisions
Genmab	15-25%	clawback provisions
Glaxo Smith Kline	N/A	malus and clawback provisions
Glencore	30% annual bonus and LTI comprehensive underpin focused on a holistic review of the overall business and ESG performance	malus and clawback provisions
HSBC Holdings	N/A	malus and clawback provisions
Henkel KG Pref	personal target achievement, bonus multiplier 0.8 - 1.2	0
Hermes International	0.1	0
Holcim	15% annual incentive and N/A LTI	clawback and malus provisions
ING Group CVA	0.25	clawback provisions
Iberdrola	0.5	0
Inditex	0.1	0
InterContinental Hotels	N/A	0
Intesa Sanpaolo	N/A	0
Julius Baer Group	20	clawback provisions
KBC Group	at least 10%	0
Kering	0.3	0
Kinnevik A Redemption Shares	0.5	0
Koninklijke Philips	0.2	0
London Stock Exchange	30-40%	0
Lloyds Banking Group	0.66	0
Moncler	N/A	0
Münchener Rückversicherung	€2.100m = 0% achievement of objective €2.800m = 100% achievement of objective €3.500m = 200% achievement of objective	0
NN Group	N/A	0

National Grid	50% of the individual component (50% of up to 125% of salary)	malus and clawback provisions
NatWest Group	N/A	malus and clawback provisions
Neste OYJ	N/A	0
Nexi	0.1	0
Nokia	STI: minimum payment is 0% of base salary, maximum payment is 281.25% of base salary	clawback provisions
Novartis	40% of CEO's annual incentive	0
Novo-Nordisk	N/A for STI, 20% of LTI	0
Novozymes	0.2	clawback provisions
OMV	N/A	0
Orange	50% STI + 20% LTI	0
Orsted	70% together with business and leadership targets	0
Partners Group	N/A	malus and clawback provisions
Polymetal International	35%, and discretion to disapply or reduce the 1.2x multiplier where it is felt that the outcomes are not appropriate	0
Poste Italiane	0.3	0
Prosus	0.05	clawback provisions
Prudential	0.2	malus and clawback provisions
Puma	0.05	0
RELX	0.1	0
Randstad NV	0	0
Recordati	0.2	clawback provisions
Renault	0.52	0

4 Emerging Issues

4.1 Few Stakeholders and Narrow Dimensions

Data would suggest that companies are converging towards similar strategies in identifying key stakeholders. ESG targets and metrics for remuneration exclusively focus on specific stakeholders, such as employees, customers and, more generally, the environment and local communities, addressing their respective needs and interests. This may be surprising as one would expect the emergence of multiple diverging strategies, even as part of a broader ESG business strategy, due to the uncertainties surrounding ESG-related matters. Moreover, the adopted lexicon varies significantly amongst companies, contributing to difficulties in understanding the relevant practices.

The convergence towards types of stakeholders and the emphasis on similar dimensions is consistent with the findings from S&P 100 North American companies.[55] In line with the scholarly interpretation of the corresponding US data, one potential criticism could be that European companies' executive remuneration policies fail to fully capture the complexities associated with stakeholder capitalism, in the sense of considering the heterogeneity of stakeholders as a class. However, an alternative and more optimistic view would be to consider the novelty of these practices and the challenges in accurately defining their core elements. From this point of view, the identification of limited stakeholder groups and their related narrow interests can be explained by the argument that corporations have taken a pragmatic approach. They are cautious not to set overly ambitious targets and only highlight the most relevant stakeholders in their remuneration policies. By carefully identifying the most relevant stakeholders and taking into account their most relevant dimensions, each company contributes to an effective representation of stakeholder capitalism, where a plurality of stakeholders exist. In doing so, each company more concretely and directly engages only with the most relevant categories of stakeholders, rather than creating a general engagement with stakeholders, which would be unrealistic and impossible to implement.

4.2 Measurability & Reviewability

Despite focusing on specific stakeholders and selecting narrow sub-interests, the adopted ESG targets and metrics are generally not easily reviewable and comparable. They often lack clear and objective goals, so that it is difficult to understand the reasons for adopting these metrics and targets, while companies fail to disclose outcomes and provide relevant contextual information. The narrowness of their dimensions and the difficulty of external review highlight the inherent problems in identifying and structuring appropriate metrics and targets.

Moreover, these metrics and targets frequently rely on vague and general indicators, making quantification challenging. This is a common problem for both North American[56] and European companies. Examples of vague indicators include 'honesty and fairness' as an indicator of service quality for clients (NatWest Group), 'societal value' for community services (UCB Cap), and 'climate change' for environmental sustainability (Anglo American). Additionally, certain targets employ generic expressions like 'strategic objectives', 'initiatives', 'strategies', 'roadmaps', 'programs', 'sustainable development objectives', 'priorities', 'plans' and 'strategic aspirations'.

The measurability issue is common to many elements in ESG practice and affects multiple entities, as suggested by a review of ESG ratings and data

[55] See generally Bebchuk and Tallarita (2021).
[56] Ibid.

providers.[57] In the context of ESG compensation, the lack of measurability of ESG targets and metrics makes it difficult to assess and review such mechanisms. As a result, hypothetical external gatekeepers, or even shareholders attempting to review executives' choices and strategies, are not best positioned to provide an objective assessment of those practices.

4.3 The Short-Term Contradiction

Considering the fundamental problem of time-horizon incentives, the prevalence of short-term incentives is a crucial aspect of ESG compensation. Since the post-scandal reforms of 2004, European regulators have introduced references to long-term value creation in executive remuneration policies. However, as recently stressed by Roe and others, it is essential not to conflate 'time-horizon problems with externalities and distributional concerns'.[58]

Indeed, the creation of short-term incentives does not necessarily conflict with the pursuit of ESG-related goals or the establishment of sustainable practices within complex business organizations. Not all targets require a long-term time horizon; even those that necessitate a multi-year strategy for implementation can be broken down into micro-stages to achieve in the short term. For example, Aéroports de Paris identified the 'preparation of a pathway for reducing greenhouse gas emissions' as a target. While this goal is part of a long-term strategy oriented towards reducing greenhouse emissions, it can still be implemented within a short time horizon. Therefore, the creation of short-term incentives for pursuing this goal makes sense and, to some extent, should be encouraged as a good practice which is functional to a long-term strategy directed at limiting or eliminating gas emissions. Furthermore, short-term targets and metrics could contribute to mitigating the problems generated by their frequent vagueness. In fact, short-term objectives can be more easily monitored, assessed, and corrected if needed, than long-term ones.

4.4 A Cultural Shift?

Similar to the problem of identifying a limited number of stakeholders and their narrow interests, the lack of measurability and, as a direct consequence, reviewability can be analyzed through two different approaches, prompting important questions regarding the financialization of sustainability and its limits. The first approach views the lack of external reviewability as a major issue, contributing to the amplification of traditional agency problems.[59] This absence of external reviewability would result in reduced transparency and increased information asymmetry concerning boards and executives. Ultimately, it could lead to an increase in boards and managerial discretion, posing a threat to an effective shift towards sustainable strategies within business organizations.

[57] See Dell'Erba and Doronzo (2023).
[58] Roe et al. (2020).
[59] Bebchuk and Tallarita (2022).

An alternative approach is to question whether the establishment of discretionary mechanisms for directors and executives, alongside the partial lack of external reviewability, is inherently negative. In many jurisdictions, the business judgment rule – or similar mechanisms – empowers directors and managers with the discretion to take business decisions. Executives, being insiders, find themselves in a position to implement the best business strategies. If ESG-related matters are an increasingly important component of business strategy, it should be deemed acceptable to extend a similar level of discretionality to ESG-related problems and strategies.

A more general consideration pertains to the nature of ESG targets and metrics for executive compensation within the debate on stakeholder capitalism. A first question is whether precise ESG targets and metrics for executive compensation are the most effective way to drive managerial change in corporations. This aspect is linked to a fundamental issue, namely, the overreliance on financial approaches and methodologies to explain the shift towards stakeholder capitalism or new paradigms implementing an alternative view to shareholder capitalism.

Is transposing such financial approaches to the area of stakeholder capitalism the most effective method for elucidating and monitoring the intricate transformations affecting the social dimension of corporations? Indeed, it is questionable whether this conventional financial approach would be suitable to properly emphasize other, more complex considerations concerning the necessity of undertaking a profound cultural shift within business organizations.

If the priority is contributing to the implementation of a cultural shift, even vague and difficult-to-measure targets would be important for triggering more critical approaches to traditional business culture, potentially leading to even more fundamental changes in the long run. As a result, ESG metrics and targets in remuneration policies would provide guidance for managers in their decision-making, particularly at this early stage of development characterized by uncertainty in measuring ESG factors. In the future, as higher levels of constructive standardization in sustainable/ESG finance are achieved, these metrics would not only contribute to the long-term objective of promoting a cultural shift, but also realistically become tools for better monitoring and assessing the way managers operate. This extends to a broader view, considering ESG ratings and indexes, in evaluating how corporations perform in relation to sustainability.

This is consistent with a view on the function of executive compensation, which is no longer solely about incentivizing executives to maximize value for shareholders, but also about incentivizing them to create social value. This result is achieved by linking the measure of compensation not only to the financial performance of the company but also to its social performance. In fact, if the measure of compensation depends exclusively on financial parameters, managers are incentivized to maximize only the economic results of the company. However, if a substantial part of the compensation is linked to the creation of social value, executives are specifically incentivized to pursue sustainability objectives as well.

When determining the measure of ESG compensation as part of the total compensation, it is essential to consider the ESG objectives that executives are pursuing in the financial management of the company. This is demonstrated by the theory of enlightened shareholder value, which requires maximizing the interests of the main stakeholders of the company in order to maximize its value in the medium to long term. The parameters of ESG compensation can therefore relate to non-financial performance measures that reflect the satisfaction of certain stakeholders, regardless of the impact of them on financial performance. To the extent that, for example, certain behaviors are adopted by the company to comply with certain international standards even at the cost of affecting profits, it may be beneficial to incentivize executives to adopt such behaviors by referring to non-financial performance parameters. This perhaps explains why the measure of ESG compensation is within 15-20 percent of the total compensation. In fact, the reference to financial parameters reflects, to some extent, the creation of social value that is functional to maximizing the company's value. The remaining 15-20 percent should instead concern non-financial performance parameters compliance with which does not maximize (indeed, in certain cases decreases) the company's profits while satisfying its responsible management.

5 Policy Options

The goal of capturing the complexity of stakeholder capitalism by enlarging the number of constituencies to consider for remuneration purposes is not necessarily the best long-term objective for corporations and regulators. Policy makers could promote a debate aimed at guiding corporations towards the adoption of the best ESG metrics in executive compensation, depending on their activities, leading to the identification of specific stakeholders and dimensions realistically connected to the context where they operate. Although such an approach would seem to be far from strengthening the link between more ambitious definitions of corporate purpose and executive compensation, it would foster a debate on the identification and the valorization of the most relevant stakeholders and their needs for each corporation, thereby contributing to an effective implementation of a broader corporate purpose.

Another major issue is standardization. Interestingly, when considering how companies identify stakeholders and their interests, we observe substantial convergence. However, formulations systematically differ. While standardization would lead to the adoption of more homogeneous formulas, it is questionable whether such homogeneity would ultimately contribute to higher levels of reviewability. In fact, standardization could be a formal advancement, but what matters most is external reviewability. To pursue this goal, business organizations would need to better justify and contextualize the adoption of their targets and metrics. If the priority for regulators is to achieve higher levels of standardization, which might enhance measurability, comparability and reviewability of managers' practices, ad-hoc disclosure mechanisms should be created. This could be a way to enhance homogeneity within the field and foster stronger private initiatives that pursue the same goal of standardization.

The lack of reviewability and measurability at the level of remuneration policies also raises the issue of establishing independent external review mechanisms for ESG practices. This could involve enhancing the role of external auditors or advisory bodies to objectively assess companies' ESG metrics and targets. An increasingly prominent role by established and properly independent market actors in this area would contribute to the establishment of corporate governance practices, bringing clarity in multiple areas. The current financial and regulatory debate[60] on ESG ratings and data providers will be beneficial under many respects, and it will contribute to fostering ESG-related corporate governance matters.

6 Conclusion

This article has offered a qualitative and empirical analysis of the ways in which the major 300 largest corporations by market capitalization in Europe (from the FTSEurofirst 300 Index) implement ESG factors in their remuneration policies. Consistent with other areas of ESG finance, data suggest a lack of clear patterns emerging from corporate practice, highlighting the need for consolidation in this context. Few metrics are clearly measurable, and there is a general lack of appropriate metrics and targets.

This situation can be dealt with under two substantially different approaches. First, a negative view would suggest that the problems emerging with ESG targets and metrics expose investors and the financial system to specific risks, as a consequence of increased agency problems in the context of executive pay. From this perspective, ESG targets and metrics would be a way of perpetuating directors and managers' discretion. Second, a more optimistic view would be to consider directors and managers' ESG strategy as part of their business decision-making, thus necessitating its treatment and protection on par with any other business decision. ESG targets and metrics in the context of executive compensation would reflect this type of discretion. From a broader and more philosophical perspective, a fundamental question is whether the transposition of purely quantitative methodologies and approaches, which are used for explaining specific economic and financial phenomena, to a more general field of business culture like ESG can produce positive results. Indeed, ESG metrics and targets

[60] See the activity of IOSCO, promoting an international debate on ESG ratings and data providers, as well as the European Commission's proposal for a Regulation of the European Parliament and of the Council on the transparency and integrity of Environmental, Social and Governance (ESG) rating activities (13 June 2023), https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52023PC0314.

could have a more abstract value, in the sense of enhancing a cultural shift towards sustainable practices within business organizations.

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