

Just 25% of European CEOs have environmental performance in their bonus

Submitted by: BlueSky Education

Wednesday, 17 May 2023

Just 25% of Europe's top CEOs have environmental performance as a key performance indicator included in their remuneration package, focused on tackling climate change and being environmentally friendly, according to new research by Vlerick Business School

(https://www.vlerick.com/en/?utm_source=google&utm_medium=cpc&utm_campaign=corporate-search_eu-en_aw_202201&)

These findings come from a study into the STOXX Europe 600, an index of 600 large European companies, including firms like Adidas, Unilever, L'Oreal and Volvo, where the researchers reviewed the remuneration packages for all CEOs.

However, the researchers did find that there has been a steady increase in the number of CEOs with short and long-term environmentally-focused incentives being built into their remuneration. In 2017, just 1% of top European CEOs had long-term incentives focused on the environment, and now - in the latest year reviewed, 2021 – 20% of CEOs had long-term environmental incentives. The same can be said for short-term incentives, with a growth from 6% of CEOs having this included in their remuneration in 2017, to 25% in 2021.

This research was conducted by Xavier Baeten, Professor of Reward and Governance at Vlerick Business School, and researcher, Marthe Van Hove, who examined how companies structure their pay packages for their CEOs.

A CEO's pay package includes a base salary, as well as long-term and short-term incentives linked to certain KPIs. Targets can be based on financial results, or non-financial results such as ESG targets, employee-related targets, or customer-related targets.

The findings show that CEOs' ESG targets often include reducing a business's carbon footprint, transitioning to renewable energy and improving the company's overall environmental rating.

“We see that with a lot of companies disclosure of ESG targets or KPIs is rather vague, and are not valued enough to the business to be a significant part of the CEOs remuneration. There should be an underlying sustainability strategy, which is still lacking in quite some cases. Companies must detail exactly what ESG targets the CEO is to meet to achieve their remuneration. To really highlight a dedication towards ESG goals and fighting climate change, companies need to rethink their target and incentives system – otherwise, it becomes clear that sustainability is not central to their organisational values.” emphasises Professor Baeten.

The researchers also found that European CEOs are generally paid just over €3.7 million annually, in their full remuneration packages. This is a steep increase from the year before, 2020, where the average remuneration was €2.9 million annually – however this year is skewed to a large reduction in short-term incentives, caused by the outbreak of the covid pandemic.

On average, the researchers found that long-term incentives yielded the most remuneration for CEOs,

whilst short-term incentives came second, and a base-level pay was the lowest form of remuneration for Europe's top CEOs.

These findings are part of an annual study by Vlerick Business School, where Professor Baeten delves into the remuneration packages of Europe's highest-paid CEOs, in order to understand where their incentives lie.

For more information on the research, or a copy of the study, please contact Alexandre Lopez at BlueSky Education on alex@blusky-pr.com or call on +44 (0)1582 797959