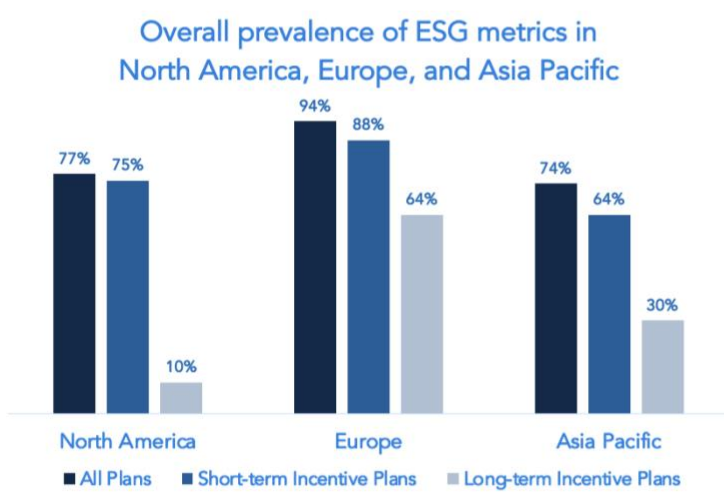
Embedding PROJECT

Key Takeaways: Including Sustainability Metrics in Remuneration

Key points from the Peer Discussion on March 25, 2026.

Background data and trends:

- **Including sustainability metrics in variable remuneration and incentives is becoming a widespread practice.** Data analysed by Willis Towers Watson (WTW) from over 1000 public companies in North America, Europe, and Asia Pacific indicates that more than 80% of companies used at least one ESG metric in their short-term and/or long-term incentive plans. Regardless of broader political shifts challenging the role of sustainability in business, the prevalence of the practice remained largely stable from 2023 to 2024 across North America, Europe, and Asia Pacific regions. However, there are indications that companies may be starting to retreat from the practice, particularly with respect to incentives tied to equity, diversity, and inclusion (EDI).



- **Common metrics.** Globally, 76% of companies had at least one social metric linked to executive compensation, such as employee engagement or EDI. 57% of companies featured at least one environmental metric linked to compensation, with the most common metric covering performance on GHG emissions targets. Lastly, 50% of companies showed at least one governance metric, with primary targets related to risk management, stakeholder relationships, and compliance.

What we heard in our conversation:

- **On their own, ESG incentives are unlikely to drive culture change, but they can help to reinforce organisational sustainability narratives.** Short and long-term incentive plans need to align with your company's sustainability narratives and goals. Without pre-existing efforts to create and reinforce a narrative that embeds the environmental, social, and governance issues of concern into your organisation's narrative infrastructure, incentives alone will likely be ineffective. However, they can be leveraged as a part of a broader toolkit to ensure the narrative infrastructure is better supported.
- **ESG incentive metrics need to be tied to material issues.** To ensure appropriate prioritisation and strategic allocation of resources, ESG incentives should align with your company's most material impacts and the areas that require executive attention and support. Align your ESG incentives with your public policies, goals, and transition plans. Outline minimum, expected, and stretch goals to ensure that minimum actions do not result in full incentive payouts.
- **Weighting matters.** Incentives appear to be more effective when they are specific to a particular topic or initiative with a meaningful weighting (more that 5% per item). When weightings for ESG metrics are low or when they are bundled, they appear to have less of an impact on decision-making. Setting a low weighting and low ambition for sustainability metrics can reinforce current patterns rather than prompting change. In some cases, differentiated weighting, where targets are allocated to specific individuals, can be used to send signals that these individuals are expected to act as stewards for this goal.
- **Focus on where you need to move the needle.** Keep reviewing and updating your ESG-related compensation metrics. If your company is already making good progress on a sustainability issue, determine whether ESG metric inclusion is still required to continue to drive behaviour or whether the focus should shift to emerging ESG issues. For issues where there is not a credible plan or sufficient resources available to achieve it, setting compensation targets may be premature. It is better to have no target than a weak target that reinforces the status quo.
- **Make sure incentives are driving change, not just increasing executive compensation**. Research also suggests that ESG metrics that lack specificity and sufficient ambition are easier to manipulate. Make sure that the targets are ambitious enough to drive better sustainability outcomes. If targets are not ambitious enough, including ESG metrics in executive compensation may only serve to increase income disparities between executives and workers.