

Climate targets, executive compensation, and corporate strategy

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Abstract Since the 2015 Paris Agreement, climate change – and wider environmental, social and governance (ESG) issues – have risen to board-level on the corporate agenda. Under increasing pressure from institutional investors, companies are reformulating their strategies for a climate-constrained world. A novel aspect of the emerging corporate response is that executive compensation is being linked to climate targets. At the world's largest energy companies, climate metrics now make up 8% of CEO's short-term incentive plans. This paper explains the case for corporate climate action, summarizes the use to date of climate-linked management incentives, and presents a framework for understanding their benefits and design challenges.

Keywords Balanced scorecard, corporate climate action, corporate strategy, ESG, executive compensation, management incentives

JEL Classification L21 (firm objectives), M12 (executive compensation), Q54 (climate change)

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