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A little less conversation, a little more action

Once again, Covid-19 has demonstrated its ability to affect issues seemingly entirely removed from the auspices of a health crisis. In early October, Macfarlanes delivered a session to lawyers and industry representatives at the annual ProShare Conference titled "ESG and share plans - it's not all about the money". The tagline here refers to a trend in executive compensation that, while gaining traction over the past couple of years, has not yet attained the status of standard practice. The Coronavirus pandemic, with its track record of accelerating a range of global trends (such as developments in tech), may be about to change this.

Executive remuneration has traditionally been measured by reference to financial performance. Including ESG factors in remuneration arrangements allows for the assessment of performance against metrics beyond the purely financial. For more on the specifics, please see our recent note on this. While the conversation around introducing such metrics into executive remuneration had moved comfortably out of the shadows in early 2020, the fallout of the pandemic sharpened the focus on excessive reliance on short-term financial metrics. The 2020 Investment Association Principles of Remuneration, for instance, acknowledge that "the impact of ESG risks on the long-term value of companies is becoming increasingly apparent" and include substantive detail on shareholder expectations regarding the inclusion of ESG metrics in variable remuneration.

In advance of the ProShare conference, the Macfarlanes remuneration team undertook some fieldwork to obtain a sample of current practices in this area, comprising a review of the remuneration reports of each of the FTSE 100 companies. The survey showed that 44 companies made no mention of ESG at all. Of the 56 that did, only some disclosed whether it had a tangible impact on remuneration; where this was the case, 23 companies had included it in their short-term bonus awards while only 4 did so in their long-term incentive plan (and 8 had included it in both).

It is true that many ESG metrics are appropriate for inclusion in shorter term arrangements. But the reticence to include them in long-term plans to date may have reflected a nervousness about the future of this trend. Now though, the increasingly apparent longevity of Covid-19 - and its attendant devastating social and economic impact - has highlighted a range of societal problems with such ferocity that companies may find it hard to ignore them.

Companies are therefore likely to want to demonstrate their commitment to tackling, for instance, the exacerbated health and safety concerns of their workers or issues with working conditions in their supply chain, by embedding it in their remuneration arrangements. The generalisation in scope here is not accidental - there is no reason that this should be limited to any particular sector or industry. Indeed one asset manager went so far as to predict earlier in the year that: "no compensation plan will be left unchanged by Covid-19"

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