People Matter

# Reward

*Linking sustainability to pay*

World Business Council for
Sustainable Development

# Foreword

We believe that meeting the challenge of sustainable development will drive long-term value creation. For sustainability to support business performance, both leaders and employees need to understand how social and environmental issues matter to the business, and be enabled through training, incentives and a corporate culture aligned to sustainability.

Employee rewards are a powerful tool to drive performance on sustainability issues, such as energy efficiency, ethics and innovation. They communicate to everyone, from investors to shopfloor workers, that the company is serious about its sustainability commitments and deploys resources to meet these goals. Recent economic events have intensified the drive to align corporate incentive systems more closely with long-term value creation. Integrating environmental, social and ethical success factors into incentive structures helps to do this.

There is no single 'recipe' for successful incentive structures. Each company has to ask itself what to focus on, what to measure and how to reward performance. This briefing draws on the experience of companies that are pioneering ways to reflect sustainability in pay, bonuses and non-financial rewards. It outlines the business case, shares experience and offers design options and lessons for others just starting on the journey.

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# The business case

### The reward challenge

Employee and executive rewards are carefully-engineered packages designed to enable companies to:

1. **Compete for talent** – Attract and retain valued employees by providing a competitive employer proposition.

2. **Incentivize performance** – Motivate people to achieve the goals that will enable the business to succeed.

3. **Maintain long-term focus** – Provide a mechanism that links rewards to annual performance objectives and has a long-term impact.

4. **Reward innovation and value creation** – Encourage employees to act more like entrepreneurs, taking controlled risks and developing solutions that go beyond improving existing products and processes.

5. **Enable collaboration** – Reconcile individual reward with collective effort, and the fact that creating value relies on collaboration within and across teams.

6. **Meet the social contract expected between employer and employee** – Be seen as a good employer, in relation to local norms, laws and expectations about pay and conditions, security of employment, health and other benefits.

Reward strategies have evolved over the years in response to these diverse and complex challenges. Performance management processes have also become more sophisticated, involving continuous appraisal, data gathering and ongoing personal development.

### Sustainability and reward

Over the past thirty years, the general shift has been to link executive compensation more tightly to shareholder value, with a greater ratio of bonus to salary, and the provision of share options as key tools to align the interests of managers with those of shareholders. This has also led to a growing divergence of pay at the top from pay at the bottom of the hierarchy, which has been most pronounced in Anglo-Saxon economies.

In the wake of the financial crisis, this system has increasingly been challenged. Executive bonuses and corporate incentives tied to short-term shareholder value were blamed for encouraging excessive risk-taking and cost-cutting that created the conditions for the economic crisis and the subsequent economic recession.[1] The reality is somewhat more complex than the headlines about 'fat cat pay' suggest. For example the UK's *Turner Review* found that while "there is a strong prima facie case that inappropriate incentive structures played a role in encouraging behavior which contributed to the financial crisis. It is very difficult, to gauge precisely how important that contribution was. A reasonable judgement is that while inappropriate remuneration structures played a role, they were considerably less important than other factors [such as] inadequate approaches to capital, accounting, and liquidity."[2]

## What do we mean by reward?

Reward does not only refer to pay, but to the whole suite of incentives offered to employees, at every level, to support a sense of ownership and accountability for individual, business unit and corporate goals. This 'total reward package' can include a combination of guaranteed cash, performance related bonus, long-term incentives, and non-financial and intangible benefits including job security, career development and personal recognition.

As leading companies continue to recognize and integrate sustainability factors into their business strategies, some are also recognizing the business case for incorporating sustainable development measures into rewards and incentives.

Concern about how to ensure that rewards provide signals for long-term business success are not limited to the financial sector. Remuneration and incentives are a major business expense for all businesses and are a powerful tool for driving performance. Aligning incentives to corporate strategy is a key opportunity to improve performance and return on investment for this spending.

Debates over the best course to take for business often boil down to whether shareholder value should be the sole measure of what is best for business, or whether business decisions should reflect the concerns of other stakeholders – employees, customers and local communities. WBCSD member companies believe that these two goals are not contradictory. The business case for sustainability is that companies that anticipate and respond to societal concerns through their business strategy, and through partnerships across sectors, are able to gain a competitive advantage. In the long term, shareholder value and stakeholder value can be aligned.[3]

However, while some sustainability actions such as reducing waste and energy use can have immediate financial benefits, others such as upholding high safety, environmental labor and ethical standards can leave businesses exposed to undercutting by those with lower standards. This means that despite the recognition that a healthy business depends on a healthy society and environment, market signals are not enough to safeguard natural resources, adequate investment in health or education. The development of Corporate Responsibility, and its associated metrics, reports, ratings, voluntary standards, certification systems and multi-sector standards, has been a concerted effort to bring the short-term economic incentives facing business into closer alignment with the long-term growth drivers.

To date, this has generally stopped short of integration into employee incentives. Sustainability performance indicators are most often to be found in annual corporate social responsibility reports. However as leading companies continue to recognize and integrate sustainability factors into their business strategies, some are also recognizing the business for incorporating sustainable development measures into rewards and incentives.

## The business case

The case for linking performance evaluation and incentives to the business strategy for sustainability is becoming increasingly well recognized. As early as 2002, research by The Conference Board found that 68% of executives surveyed viewed the link between 'corporate citizenship' and performance appraisal as increasingly important, and 50% said that their companies were or were planning to include corporate citizenship as a performance evaluation category. More recently a global survey by Accenture for the UN Global Compact found that three quarters of executives said that companies should integrate sustainability objectives in employee performance assessment.[4]

Investors too are calling for companies to include sustainability in remuneration. The Dutch Association of Investors for Sustainable development VBDO, for example, has called on Dutch companies to base at least 60% of their remuneration on long-term goals and at least one third on sustainability targets.[5] In the US, Mindy Luber of the socially responsible investor network CERES says: "We need to tie compensation to sustainability performance in every company and across every sector. And we need to be sure the incentives are delivering tangible performance improvements".[6]

The benefits of linking executive and employee incentives to sustainability goals are:

- **Showing that sustainability means business.** Aligning incentives and rewards to sustainable development commitments is a powerful way of demonstrating, both internally and externally, that sustainability is taken seriously and is integrated throughout the business.

- **Achieving universal understanding amongst employees of what is expected.** Setting up a sustainability incentive system means developing clear goals and metrics of performance, with real-time measurement and regular updates. Such sustainability KPIs and individualized criteria help to make the intangible tangible and focus people's minds on the sustainability issues material to business success.

- **Empowering employees to invest time and resources into sustainability.** Integrating sustainability into performance reviews and rewards ensures that these issues are discussed, gaps and training needs identified, and that people are incentivized to pursue sustainability objectives through their workplace decisions.

- **Overcoming perverse incentives.** Identifying and addressing 'perverse incentives' in existing performance assessment and reward policies, where employee incentives and targets may be in conflict with stated policies, for example on health and safety or responsible sourcing. Without this reconciliation, employees are put into difficult positions, where their ability to comply with policy is undermined.

- **Encouraging innovation.** The challenge of finding new business models to help address urgent sustainability issues such as climate change, water security and maternal and child health means that the business drive to innovate must be harnessed. Incentive systems and corporate cultures must find the right balance between motivating people to excel in executing existing strategies and incentivizing innovation and adaptation in exploring new ones.

## Why is it so hard?

There is a strong case for integrating sustainability goals into incentive and reward systems. For some companies this is already an established practice as part of a 'balanced scorecard' approach, which identifies and rewards the skills and behaviors needed to execute corporate strategy.[7] However many companies are yet to take their first steps in this area.

A global survey of executives by the Economist Intelligence Unit in 2007 found that six out of ten said that they had not been given any specific sustainability goals for achievement, and less than two out of ten said their bonuses depended on hitting sustainability targets.[8] Three years later, an Accenture/UN Global Compact study still found that only half of the executives reported sustainability-linked remuneration measures were in place.[9] A recent study in Europe found that 29% of the largest listed companies in Europe include ESG (environmental, social and governance) factors in their executive remuneration policies, while a Canadian survey of the S&P/TSX Composite Index found that just 5% of TSX-listed companies incorporate environmental, social and governance factors into executive compensation.[10] Furthermore recent research comparing CEO pay and environmental pollution amongst US firms found that in practice companies with an explicit environmental pay-for-performance policy did not actually reward environmental strategies more than those

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**Peter Murphy**, Compensation and Benefits Manager, Akzo Nobel

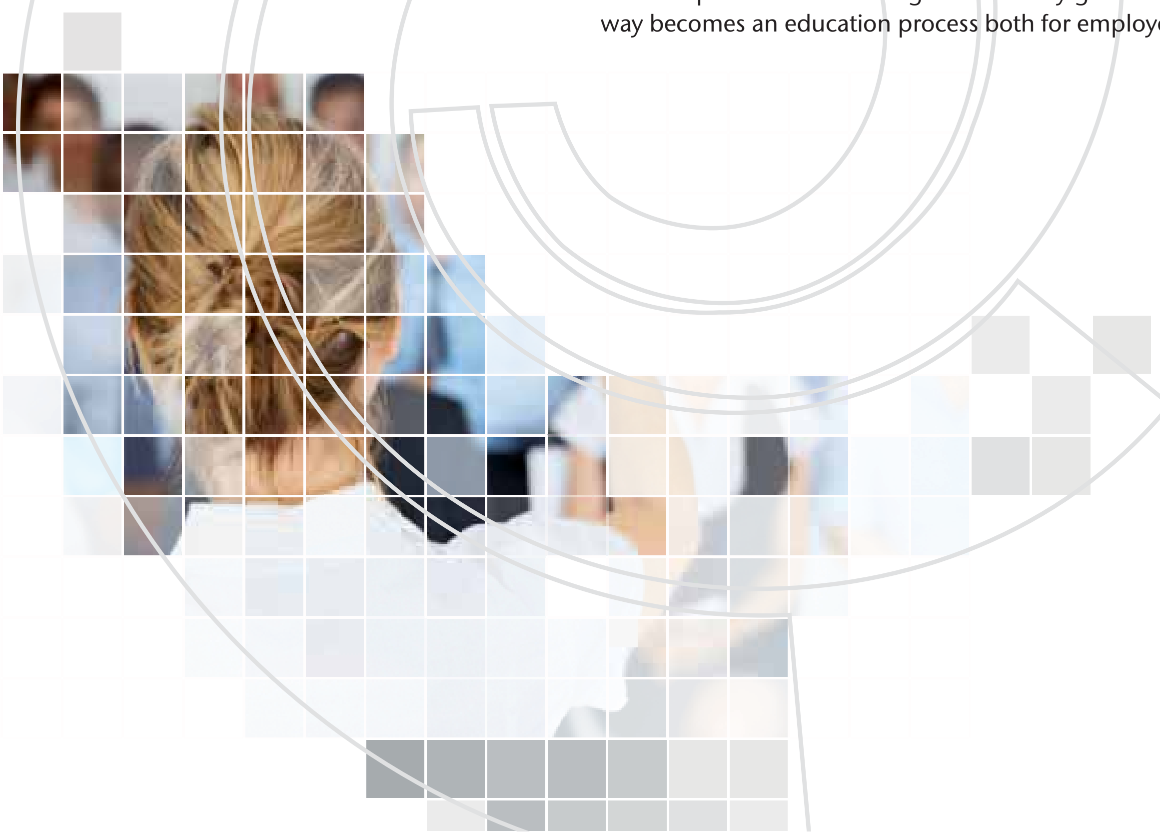
without such structures, suggesting that some of the mechanisms presently in place may play a merely symbolic role.[11]

Why has development and adoption of sustainability performance measures lagged, despite such high levels of support for the idea of linking incentives to sustainability? One reason is the inherent conservatism of the remuneration governance process. Remuneration is often driven by a combination of regulatory push and peer benchmarking and tends to be an area of conformity rather than differentiation between businesses. Sustainability, on the other hand, means different things to different companies, with a range of issues being material depending on the particular industry and business strategy. Therefore, there has not emerged a single measure comparable to financial measures such as Total Shareholder Return that could be widely adopted as a standard benchmark.

Of course this is the same challenge that faces any attempt to incorporate leading indicators of corporate strategy success into compensation. Creating bespoke reward models that cascade strategic objectives into individual targets is far from simple. There comes a stage in the cascade where individual accountabilities cannot be disaggregated, because objectives are shared or delivered collectively.[12] This is particularly true of sustainability issues, which often involve collaboration with partners outside of the company and its commercial relations.

Arguments are also made by some leading companies and investors against developing specific individual metrics and incentives for sustainability. They believe that if sustainable development strategy is closely linked to business strategy, success in achieving sustainability goals will translate into financial performance, and can be assessed in this way. This view is also reflected by many investors, who have shown a lack of interest in sustainability performance metrics. Only 12% of CEOs in the Accenture/UN Global Compact survey reported investor pressure as a significant driver for sustainability.

Developing sustainability incentives therefore needs to start by showing where sustainability performance is likely to be a leading indicator for long-term financial performance. Setting sustainability goals and monitoring them in this way becomes an education process both for employees and for investors.



# Learning from experience

Sustainability is finally coming to the reward table. As Peter Murphy, Compensation and Benefits Manager at Akzo Nobel notes: "Companies tend to be conservative on executive compensation. We follow the leaders. But in the sustainability area there is no history. There are no models. We need to start redefining success on our own terms." Recent years have seen an increasing number of companies integrating sustainability metrics into performance assessment and compensation, for C-level executives, for the next tier of senior management, and for the whole body of employees. For example:

- **Shell, TNT, DSM, NovoNordisk and Natura** all use a balanced scorecard as the basis for performance assessment and compensation. Natura for example bases their incentive system on the company's 5-year strategic plan which includes sustainability KPIs. The sustainability team works with each department in the company to select the most relevant sustainability KPI for their own unit. This is then included in their own planning which is linked to senior managers' annual bonuses through a balanced scorecard of measures.

- **Evonik, the German chemical company**, has a basket of performance measures linked to their three pillars of sustainability; economic, social and EHS that are fully integrated in HR objectives. These include areas such as training, safety, greenhouse gas emissions, water and waste.

- **SC Johnson, the US-based manufacturer of household cleaning products and products for home storage, air care and insect control**, links executive pay to performance in relation to the company's Greenlist™ program for product stewardship and reduction in use of more hazardous chemicals. This gives a clear line of sight between product formulation and the company's public message on this, and individual managers' incentives to green their own product portfolio.

- **Siemens, the German industrial giant**, has focused on integrating corporate responsibility metrics into performance evaluation, since this is a major priority for the company. Senior managers are rewarded for going beyond basic legal compliance to actively promoting a culture of anti-corruption and integrity.

- **Akzo Nobel, the Dutch chemical company**, has adopted the Dow Jones Sustainability Index as its benchmark of sustainability performance for the purpose of rewarding senior managers. 50% of their long term bonus scheme is tied to the company's position relative to its peers in this independent rating.

- **Areva, the French energy company**, is concentrating on non-financial rewards to encourage employees to get actively involved in sustainable development. The biannual AREVA Sustainable Development Awards recognize projects and initiatives that best incorporate the economic, environmental and social pillars of sustainable development. Projects are judged by an international panel of experts, and an Employees' Choice Award has been introduced.

Some leading companies with a firm commitment to sustainability have chosen not to set sustainability-linked incentives but rather to concentrate on refining the way that long-term business performance is translated into employee bonuses, and ensuring that a high proportion of executive compensation is deferred for the long term.[13] As Rolf Schlue, Corporate Vice President Human Resources at Henkel says: “Sustainability is part of our DNA. The way we operate is always resource-conscious, in people, financial, and environmental matters. The targets which are linked to bonuses are business targets”.

The case studies on the following pages highlight the experience of Akzo Nobel, SC Johnson and Siemens, who have each taken a different approach to sustainability incentives.

## Akzo Nobel

In 2008 Akzo Nobel became the world's largest paints, coatings and specialty chemicals company with revenues of 13 billion Euros and nearly 55,000 employees. The board of directors set the strategic goal of bringing the group together around a core purpose of value creation and sustainability. The company's sustainability goals are staying in the top 3 of the Dow Jones Sustainability Index (DJSI) for their business category, reducing its total recordable injury rate to 2 incidents/million hours and delivering a step change in people development.

Sustainability manager Elizabeth Stokes describes the new vision and the challenge of implementing it: "The goal was to redefine success and to build sustainable behaviors. We did not want to follow the typical approach of having sustainability driven by one single champion. We needed to set the standard for everyone." This meant training and incentivizing the company's top managers who drive sustainability performance.

In addition to integrating specific sustainability objectives into the personal objectives for employees across the company, Akzo Nobel sought to integrate sustainability objectives into the company's long-term performance incentive scheme. The Sustainability team worked with Compensation and Benefits and considered options such as linking GHG intensity and other operational sustainability measures to reward, but felt that there was not enough external data to offer a credible benchmark. They consulted with the board and remuneration committee on what approach to take. In the end they suggested the unusual step of adopting the Dow Jones Sustainability Index as their benchmark to link sustainability performance to executive pay.

The Dow Jones Sustainability Index was attractive because of its breadth, although it did not offer a perfect fit to the company's sustainability strategy. However staying on top of the Index did represent a key strategic goal for Akzo Nobel, and having an external benchmark was important to the company, as it gave a clear parallel to its existing financial performance measure.

The scheme developed by Akzo Nobel links half of the long-term performance bonus received by 600 top managers to the company's position in the Dow Jones Sustainability Index for chemicals companies. While it is still too early to assess the effect of the new incentives, Stokes reports that it has focused people's mind on the sustainability issues, and she has begun to receive more questions from business executives about how they can ensure that their businesses are not laggards in the index. "I try to deflect them from just focusing on the questions that the DJSI asks – that is not going to drive the performance of Akzo Nobel, we use it as a benchmark, not a standard to work to."

AkzoNobel
Tomorrow's Answers Today

### Key lessons

**Consultation is crucial**
Before you play with people's pay, you have to be sure you have their backing and that they can see the link between sustainability and business value.

**External benchmarks and incentives can be helpful as part of a broader system**
For Akzo Nobel, having an external benchmark was crucial to the system's credibility. However this sits alongside the company's own internal measurement and management systems aligned to its sustainability strategy.

**Make sure people understand the system**
The basis for compensation and how people can improve performance needs to be clear, transparent and well communicated to the managers whose behavior you are seeking to influence.

## SC Johnson – Greenlist™

For consumer products company SC Johnson, a critical part of its sustainability strategy is to continuously improve the formulation, and packaging design of its household products to make them more effective, better for the environment and for human health. This means optimizing each of the raw materials that goes into products, from surfactants to solvents and from propellants to insecticides, as well as packaging materials.

In 2001 the company wanted to formalize and accelerate this process, and to develop a way of communicating it to consumers and suppliers. SC Johnson's sustainability team consulted with environmental experts, but they also engaged with their own HR managers. Together they realized that what they needed was not just a technical 'green product standard' or a green marketing campaign, but a way to embed sustainability into the product development process.

To that end, Greenlist™ was created by SC Johnson to classify the materials and ingredients considered for use in its products and packaging based on their impact on the environment and human health. Through the Greenlist™ process, each raw material receives a rating from 'unacceptable' to 'best'. These ratings are linked to clear and transparent goals within the organization, for continually improving product impacts and have been built into the objectives of senior managers. When SC Johnson scientists create a new product or reformulation, they must aim to select materials rated 'Better' or 'Best' ingredients. Those with a low rating can only be used on a limited basis when there is no viable alternative. Whenever products are reformulated, the Greenlist™ ratings must be as good or better than the previous version.

These goals are reflected in employee appraisals and in the discretionary bonuses that many SC Johnson managers receive at the end of the year. There are clear measures for the CEO, Directors and Managers so that each manager understands the impacts they can influence. Of the top management in bonus-eligible positions (around 500 people), approximately 25% have a bonus objective related to Greenlist™.

Through the Greenlist™ process, SC Johnson has been able to remove nearly 48 million pounds of volatile organic compounds (VOCs) from the environmental footprint of the company's products in the past five years. SC Johnson moved from having 18% of materials used in the better/best categories in 2001 to 47% in 2008.

Chris Librie, Director, Global Sustainability at SC Johnson, says integrating sustainability into the incentives and appraisals of senior managers has been crucial to advancing greener product development. "When we started we didn't have it all figured out, but realized that we had to do something. Just making it explicit and incentivizing performance had a great benefit. We would not have been able to achieve this if it had not been part of the objectives of senior people."

The company is now working on how to develop high-level targets linked to employee performance objectives on a wider range of sustainability issues, beyond packaging and ingredients. They are trialing life-cycle assessment and carbon footprinting of emissions including from upstream and disposal phases.

### Key lessons

**Setting explicit measures of performance and incentives is a powerful tool for making sustainability strategy real**
Giving people something clear to aim for and making a transparent link between corporate objectives and individuals' roles.

**Internal incentives were able to drive performance ahead of competitive pressures**
SC Johnson decided to set incentives early on in the cycle of addressing the issue of product impacts in the company. This provided an economic signal to employees on safer materials before it became a competitive or regulatory issue, allowing them to shift gear early.

**Setting incentives was a learning process in itself**
By measuring and setting targets, the team was able to learn what assumptions and possibilities were realistic and to set better targets each time.

## Siemens – Compliance Program related Target (CPrT)

Siemens is a global powerhouse in electronics and electrical engineering operating in the industrial, energy and healthcare sectors. The company works in 190 countries including those where corruption is endemic, and its operations include the high-risk areas of government contracting and large infrastructure projects. In 2008, following official and internal investigations, Siemens was found to have engaged in a pattern of bribery on an unprecedented scale and as a result had to pay fines amounting to a record sum of USD 1.6 billion. The company had to rebuild with a stronger set of controls and a new compliance culture.[14]

The investigations found that in addition to weak enforcement of anti-bribery policies, procedures and compliance capacity, the incentives in place were an encouragement to corruption. There was no clear message from the top that the company would rather forego business opportunities and miss performance targets than win business corruptly. Therefore some managers saw illicit payments as a necessary business practice. Changes in policies that outlawed corruption did not relieve these managers of their ambitious business targets, or change the broader competitive environment in which they were operating, while sanctions were not severe.

Since 2006, the company has made changes, replacing many of its top managers, streamlining its organizational structure, overhauling and strengthening its compliance, legal and audit functions, and addressing internal controls gaps. The new President and CEO, Peter Löscher, made quite clear that: “Only clean business is Siemens business – everywhere – everybody – everytime. Compliance as part of Corporate Responsibility is first priority.” In 2008, as part of its quest to embed cultural change, compliance excellence was made a component of the incentive system. As such it has proven very helpful, especially in the strating phase of the revised Compliance Program. Compliance now accounts for 20% of the assessment of unit performance for 5,000 senior managers. The aims of this are to incentivize all senior managers to take an active part in implementing the Compliance Program, to help build a culture of integrity and firmly anchor compliance in all company processes.

The system is not designed to reward basic compliance with the law and internal regulations, since these are expected, but seeks to assess whether the managers are ‘going the extra mile’ in embedding a culture of compliance in their operations. Performance is judged at an entity level due both to the high number of senior managers, and because of the need for institutional not just personal change.

The key challenge was devising a way to assess such qualitative performance fairly and robustly. The solution was to decentralize assessments to local compliance staff but set clear global evaluation criteria and processes, including providing good practice examples and a format for ongoing monitoring. Individual pre-evaluations on 90 business units are brought together during an annual roundtable amongst compliance leaders across the corporation, and the final recommendations then go to the managing board for agreement. The whole process is audited by an independent accounting firm. The roundtable process ensures a balanced evaluation and also provides an opportunity for communication and discussion of best practice.

An anonymous survey held among a representative group of 90,000 employees in the summer of 2008 confirmed that the message that “Siemens’ business is clean business” is getting through. The vast majority of responses then confirmed that management was speaking clearly on compliance issues to employees, that the Compliance Program and employees’ responsibility for its observance were being understood and that violations were being taken seriously and sanctioned accordingly.

**SIEMENS**

### Key lessons

**Incentives need to be integrated with an overall approach to sustainability and the ‘tone from the top’**
Unless there is clear priority given from leadership, people can find their way around controls and systems.

**Quantitative measures are not always better**
Qualitative performance is harder to assess robustly and fairly, but can get closer to measuring the performance level that is important, as well as providing an opportunity for learning.

*The journey that sustainability is on is the journey from push to pull.*

**Chris Librie**, Director, Global Sustainability

# Getting started

The key message from those companies' experience is that compensation can be a powerful tool, within an overall approach to creating a culture of sustainability. Putting in place sustainability incentives starts with a process of establishing clear and measurable goals and communicating them across the entire organization. Reporting and accountability systems provide the real time updates, to keep performance on track.

However, it is clear that there is no common blueprint for sustainability incentives. Each company must make its own design decisions in setting up systems: considering whether sustainability metrics and rewards are needed, which issues to focus on, when in the cycle of addressing an issue should an incentive system be introduced, what metrics to develop, and whether performance should be assessed at the individual, business unit or corporate level, and who should be rewarded for sustainability performance.

### Designing sustainability incentives

| | | |
|---|---|---|
| **When to start?** | • Before an issue becomes a financial driver?<br>• After the link to financial performance is proven? | Are you seeking to reward leading performance indicators to get ahead of the market or lagging performance indicators to catch up with competitors and regulatory demands? |
| **What to focus on?** | • Overall performance of the corporation?<br>• Individual business units or teams?<br>• One or two sustainability priorities?<br>• A broad basket of issues? | Is the objective to support an overall culture of sustainability or to influence individual decision making more directly? |
| **What to measure?** | • Competencies, actions or results?<br>• Internal or external benchmarks of success? | How can sustainability performance be assessed consistently and robustly? |
| **How to motivate?** | • Long-term bonus?<br>• Non-financial rewards? | What best motivates employees in your company and how can sustainability be integrated with other aspects of performance assessment and reward? |

Answering these questions is not simply a technical question of what can be measured, but it is also a question of the company's strategic priorities, how sustainability can be integrated into existing incentives and what motivates employees within a particular corporate culture.

### When are incentives useful?

One of the key questions is when should incentives be developed. Should it be something done early on, when setting overall sustainability objectives or much later after all the other pieces of the plan for achieving them are in place? The case studies demonstrate different approaches. SC Johnson put its incentives in place early while using Greenlist™ to continuously improve its products, while for Akzo Nobel aligning incentives to sustainability goals was seen as a final step in reinforcing sustainability commitments and processes already established. For Siemens, the process of assessing how incentives were aligned to corporate commitments was arguably done too late, and was introduced as part of a package of measures in response to a crisis. The SC Johnson case highlights the key role that internal incentives can play in accelerating progress, and getting ahead of competitive and regulatory pressures. Incentivizing employees on safer materials before it became a competitive or regulatory issue allowed SC Johnson to shift gear early. "The journey that sustainability is on is the journey from push to pull," says Chris Librie, Director, Global Sustainability. According to the company, internal incentives were particularly important at the early stage of greening its products. Now that consumers have become engaged and are demanding transparency, sustainability has become part of the competitiveness framework.

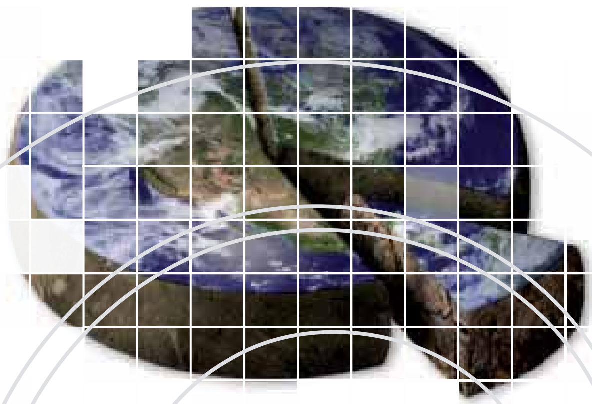
### Where to focus?
Measurement of performance needs to be manageable, practical and meaningful, and in line with broader performance incentives. The right design also depends on the issue and the goal: are you seeking to send a broad message that this is an important issue, or are you seeking to directly influence everyday decision making and job performance in particular functions? Single issues can give focus on particular priorities, but a 'balanced scorecard' approach reflects the overall strategy of the company.

### What performance to measure?
Finding the right measure, assessed at the right level, is crucial. The approach of Siemens shows qualitative measures of competencies and actions can be robustly assessed. They were developed using a robust process to assess qualitative standards. This took significant resourcing, but provides a valuable opportunity for learning. Indeed, if incentives are only limited to quantifiable performance indicators, there is a danger of missing out the most important factors. For example, training hours may be relatively easy to track, but say nothing about the quality of training or how new skills are being put into practice. Tools such as 'water footprints' assess the amount of water used by the company, but unless this is accompanied by an understanding of the different impacts of water use in different regions, it is not sufficient to guide sustainable water use. Robust external benchmarks are needed to provide a measure of whether the objective set is a 'safe' target easy to reach, or a stretch target compared both to competitors and to the overall scale of the sustainable development challenge. External benchmarks such as the Dow Jones Sustainability Index may help to partly bridge this gap. But companies will also need to relate their own targets to the local and global goals needed for sustainable development. BT, for example, has developed a 'Carbon Stabilization Index' to link its emissions intensity targets to the reductions that need to be made globally to avoid catastrophic climate change.[15] In setting and assessing targets, HR and sustainability teams also need to be aware of unintended impacts, such as underreporting of safety non-compliance, or pressure on employees to give a positive rating in a survey.

### How to reward?
Most companies target their sustainability incentives at particular groups of employees, although a few provide a company-wide bonus linked to a key issue such as greenhouse gas emissions. Linking incentives to a corporate-wide metric may be seen as acceptable in one company, where employees are accustomed to receiving a bonus based on overall corporate performance. But this approach may be greeted with frustration in another company, where employee bonuses are traditionally linked to individual or team performance. While most companies link sustainability incentives to annual bonuses, the power of non-financial incentives and recognition should not be discounted. Laundry and homecare company Henkel initiated a campaign to get all employees aware of the importance of innovation and their own potential to contribute new ideas. As part of the filtering process for new ideas, they made it clear that for a new product to move through the pipeline, it must show that it offers performance improvements based on sustainability.[16] The key reward to employees comes in terms of the pride and celebration of ideas that lead to new products. Employees who develop new products receive Henkel Innovation Awards and recognition through press releases and in company newsletters.

Systems for measuring and rewarding sustainability performance will continue to evolve, as new issues become material, and as compensation and benefits professionals, investors, remuneration committees and regulators address the broader question of refining incentive systems. Sustainability professionals should be part of these conversations, demonstrating how sustainability is linked to long-term business performance and advising on how best to translate this into individual measures of performance.

Questions about reward are also linked to a company's strategic priorities – how sustainability can be integrated into existing incentives and what motivates employees within a particular corporate culture



## Further resources

WBCSD resources

- WBCSD (2010), Vision 2050, The New Agenda for Business
- WBCSD (2009), Translating Environmental, Social and Governance Factors into Sustainable Business Value

Other key resources

- VBDO/Hay Group/DHV (2010), Sustainable remuneration: A guide for linking sustainable goals to executive incentives
- CSR Europe (2008), Valuing non-financial performance: A European framework for company and investor dialogue
- Strandberg C. (2009), The Role of Human Resource Management in Corporate Social Responsibility Issue Brief and Roadmap, Industry Canada
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- CERES (2010), 21st Century Corporation: The Ceres Roadmap to Sustainability

## Notes


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# About the WBCSD

The World Business Council for Sustainable Development (WBCSD) is a CEO-led, global coalition of some 200 companies advocating for progress on sustainable development. Its mission is to be a catalyst for innovation and sustainable growth in a world where resources are increasingly limited.

The Council provides a platform for companies to share experiences and best practices on sustainable development issues and advocate for their implementation, working with governments, non-governmental and intergovernmental organizations.

The membership has annual revenues of USD 7 trillion, spans more than 35 countries and represents 20 major industrial sectors. The Council also benefits from a network of 60 national and regional business councils and partner organizations, a majority of which are based in developing countries.

### Our objectives include

- **Business Leadership –** to be a leading business advocate on sustainable development;
- **Policy Development –** to help develop policies that create framework conditions for the business contribution to sustainable development;
- **The Business Case –** to develop and promote the business case for sustainable development;
- **Best Practice –** to demonstrate the business contribution to sustainable development and share best practices among members;
- **Global Outreach –** to contribute to a sustainable future for developing nations and nations in transition.

# About People Matter

Business leaders increasingly recognize the crucial role employees play in driving and delivering sustainable business strategy. But what does this mean in practice – how can companies inform, train, equip, direct, motivate and incentivize employees in a way that is aligned with sustainability principles and creating business value?

To address this challenge, the WBCSD's People Matter project is building a network of business experts to share experience and develop thought-leadership on talent, skills and sustainability. With 60 companies and 15 regional networks as members, it is led by Dupont, Henkel, Holcim, Infosys, Kimberly-Clark, PricewaterhouseCoopers and the National Business Initiative in South Africa. Alongside interviews, webinars and surveys, we are producing a series of issue briefs to build a bridge between sustainability professionals and those that deal with people and organizational development.

This is the second in the series and focuses on the links between sustainability and pay. It is an introduction to the topic, presenting the business case and highlighting best practice. It is designed for sustainability experts as well as human resources leaders in their quest to understand what sustainability challenges and opportunities mean for their work.

### People Matter Leaders Group


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www.wbcsd.org/web/peoplematter.htm


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