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# GETTING TO NET ZERO: THE ROLE OF REWARD

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## 1.0

# INTRODUCTION

The concept of 'Net Zero' has moved up the political agenda rapidly during the 2020s. Following a significant shift in public awareness, triggered in part by increasingly severe climate events, 2021 was the year political and economic commentators created real focus on both the necessity of reducing emissions and the sheer amount of effort and investment required. As the impact of the Covid pandemic diminished, Net Zero (re)emerged as humanity's next great challenge.

Most of the major advanced economies now have Net Zero targets enshrined in law, and those that don't have stated their intention to do so. 2050 is the most common deadline but some have committed to going earlier. The task is significant – an unprecedented challenge, the scale of which may not yet have been understood or acknowledged.

Significant progress has been made in reducing emissions but most of this has come from electricity generation. This is invisible to most businesses and households. But to have any hope of reaching the Net Zero targets, transport, buildings and industrial processes must be decarbonised. This will have a much greater impact on people's lives and on the day-to-day operations of businesses.

Many companies have already set environmental targets and claim that they are making significant progress towards decarbonising their operations. Investors, too, say that they are on the case, demanding that environmental and stewardship criteria should figure more prominently in executive reward plans.

More than three-quarters of Europe's 50 largest companies now include some form of carbon target in their executive incentive arrangements.

**Already, though, questions are being raised about the amount of difference this is actually making.** Most of the scientific organisations monitoring progress on emissions are critical of the world's major corporations. Few companies are making the sort of changes that would be needed for the countries in which

they are based to meet their Net Zero targets. Most assessments of corporate performance range from 'not doing much at all' to 'could do better'. It is difficult to find examples of major organisations that are 'doing Net Zero really well'.

It may even be that the performance measures set by companies and encouraged by their investors are detracting from the problem and making matters worse by encouraging senior executives to focus on the wrong things. There has been significant criticism of measures captured under the broad label of 'Environmental, Social and Governance' (ESG) for their overall ambiguity and for the fact that sometimes the E, S and G aspects may lead to targets that are in conflict with each other. While many of the criticisms of ESG are valid, the backlash they have created has also been used by some opponents of Net Zero to discredit the overall concept.

In this, they have perhaps been assisted by an apparent tendency of firms to make incentive payments based on targets that have contributed very little progress towards Net Zero. A study by PwC and London Business School in 2023 found that most business leaders appeared to be achieving their 'green bonuses'. Half were paid out at 100% of the total reward opportunity, while the average payout was 86% of maximum. As the report's authors remarked:

*"Current levels of payout don't seem consistent with the slow progress we're making on climate change."*

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**Companies may 'hit the target but miss the point'.** Part of the problem has been due to companies setting incentive plan targets linked to broadly defined ESG goals, rather than specifically focused on the delivery of Net Zero. In a rush to be seen to be doing something, inappropriate 'off the shelf' measures are often used. Executive reward must provide a critical focus to support the required changes.

There are already signs that politicians and international bodies are starting to lose patience with the lack of progress. Hitherto, governments have set broad goals and demanded some reporting from the largest companies but, by and large, they have left businesses to get on with deciding on their own targets.

**However, the last eighteen months has seen a shift.** The publication by the United Nations of detailed Net Zero requirements for non-state bodies, and the enactment of the EU's most far-reaching directive on companies reporting obligations, are signs of the direction of travel. The EU's regulatory pull, even outside its immediate jurisdiction, and the fact that majority public opinion appears to support greater intervention, suggest that there will be more of it over the coming years.

## 1.1

### PURPOSE AND SCOPE OF REPORT

The purpose of this report is therefore to:

- examine the environmental measures companies are currently using in executive incentive plans and why these might not be achieving the intended outcomes; and
- assess the changing regulatory environment and look at ways companies might more clearly focus their targets and incentives on the longer-term achievement of Net Zero.

We do not propose to rehearse the arguments for and against Net Zero. In line with the vast majority of climate scientists, we take it as read that global warming is happening, and that the world needs to reduce its greenhouse gas emissions to slow it down. This report will also not get into the debate about the speed of the transition, nor the detail of the economic trade-offs that will need to be made. We will only briefly cover the political,

social, and economic context for Net Zero, referring back to the greater detail in our 2021 [Building a Future-Fit Workforce](#) report.

This report therefore takes as its starting point the fact that Net Zero targets are enshrined in law, that public and political pressure will increase as climate events become more severe, resulting in the focus on companies to do more and do it quickly throughout the rest of this decade.

In **Section 2** we look at the increasing urgency and the scale of the task in achieving Net Zero.

**Section 3** focuses on the real challenges for the business sector, how most of the progress so far has come from the greening of electricity generation, and how the burden will now shift to other sectors.

In **Section 4** we cover the extent of the progress that companies are making, and the disconnect between their stated intentions and their actual achievements.

**Section 5** looks at the performance measures and financial incentives in use and examines why ESG measures may have unintentionally diverted attention from what really needs to be done.

**Section 6** looks at the shift to more prescriptive legislation and other recent critical regulatory changes.

**Section 7** will draw together the key themes and summarise the areas companies might consider for further action.

### ACKNOWLEDGEMENTS

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- **Andrew Page**, Partner, PwC's People and Organisation Practice
- **Georg Ringe**, Professor of Law and Finance and Director of the Institute of Law & Economics, University of Hamburg
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- **Sophie White**, Partner at Eversheds Sutherlands Employment Labour and Pensions Group
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*If the 2010s saw the balance of public opinion on climate change shift to serious concern, the 2020s are seeing that concern turn to fear.*

## 2.0

# CONTEXT: THE SCALE OF THE NET ZERO CHALLENGE

### 2.1

#### WHAT IS NET ZERO?

The objective of Net Zero is to cut greenhouse gas (GHG) emissions to as close to zero as possible. We reach Net Zero when the amount of GHG we add is no more than the amount being re-absorbed from the atmosphere. GHGs are gases in the Earth's atmosphere that trap heat. Carbon dioxide accounts for most GHG emissions (around 75%) with methane and nitrous oxide being the other major components.

In December 2015 most of the world's governments signed [the Paris Agreement](#), committing them to hold:

*"the increase in the global average temperature to well below 2°C above pre-industrial levels,"*

and pursue efforts:

*"to limit the temperature increase to 1.5°C above pre-industrial levels."*

Since then, many governments have set legally binding targets to achieve Net Zero emissions. [Most advanced economies have committed to Net Zero by 2050](#), with some going for 2045 (Germany and Sweden), 2040 (Austria and Iceland) and 2035 (Finland). Of the G7 countries, only Italy has yet to set a date in law. According to the Oxford-based [Net Zero Tracker](#) (a collaboration between four research institutes), 89% of the world's population and 92% of its GDP are now covered by national Net Zero targets. Opinion is divided about the feasibility of meeting these targets; nevertheless, they give a clear indication of the direction of travel. There is a consensus that the cost of doing nothing will soon (if it hasn't already) outweigh the cost of reducing emissions.

### 2.2

#### WHAT IS THE IMPERATIVE?

In setting these targets, governments are responding to public pressure and to what is now clearly becoming an imminent threat. The early years of this decade have seen a sharp increase in climate incidents such as floods, wildfires and [record-breaking heatwaves](#) that have brought the reality of climate change to many people's doorstep. If the 2010s saw the balance of public opinion on climate change shift to serious concern, the 2020s are seeing that concern turn to fear. Majorities in many countries now think that global warming will impact them personally over the coming decade. Climate change is no longer something that is happening somewhere else.

Global warming is starting to have a [significant impact](#) on growth and productivity. Factories, warehouses and transport infrastructure were not designed to operate in the severe heatwaves that have become a recurring feature of the summer months. Droughts, fires, and floods are also diverting resources away from more productive activity. Data from [Europe](#) and [the US](#) show the economic losses from climate related events rising over the last decade – and increasing sharply during the 2020s. Over the next quarter century, the costs of doing nothing are likely to be severe. Oxford Economics calculates [a 20% hit to global GDP by 2050](#) if no action is taken. That would, of course, be accompanied by incalculable human misery and loss of life.

## 2.3

## THE UNFAVOURABLE ECONOMICS OF THE TRANSITION

The scale of the task is daunting. Getting to Net Zero will mean dismantling the very basis on which 250 years of industrialisation have been built. As Sky News Economics Editor Ed Conway put it:

*“If Net Zero is going to happen we need to re-do the industrial revolution all over again. It’s hard to express how big a deal this is. Unlike in the Industrial Revolution, which was really spread out over centuries, we are aiming to do this in a matter of decades.”*

A further key difference is that previous industrial revolutions have improved living standards and the human condition by enabling us to produce more, build bigger, travel further, and live longer. The one required now will, at least in the short-term, simply enable us to do what we do now – but without destroying the planet. This makes Net Zero a difficult sell both economically – and electorally!

Eventually, it is likely that these investments will pay off in the form of lower energy costs, as the cost of low carbon energy falls below that of fossil fuels. A number of attempts have been made to project the point at which these investments will start to pay off. Recent rises in the cost of fossil fuels have shifted the calculations in favour of green energy. Projections from the International Energy Agency, the European Commission, the UK’s Office for Budget Responsibility (OBR) and the Climate Change Committee’s Sixth Carbon Budget show break even points around 2040. Other estimates point to significantly later dates due to uncertainty about the rate at which climate change will render business-as-usual untenable, when the financial cost of doing nothing will kick in. Business as usual also carries risks, with the OBR warning that *“dependence on gas could be as expensive fiscally as completing the transition to net zero”* and that delaying action and then introducing it abruptly carries a greater fiscal cost than early action.

## 2.4

## NET ZERO INVOLVES AN INTERGENERATIONAL TRADE-OFF

Essentially, Net Zero involves an intergenerational trade off – a large investment for which many workers and taxpayers of the 2020s may not see a return. As Ed Conway put it:

*“Net Zero involves a generational sacrifice. To pretend otherwise would be dishonest.”*

Politicians talk about ‘green growth’ as though the significant investment required will act as a fiscal stimulator in the way that previous large-scale state spending, such as re-armament in the 1930s, boosted GDP. Green investment is already boosting some sectors but, for the wider economy, there will be transition costs to offset. As independent think tank the Resolution Foundation pointed out, it is unlikely that we will see these benefits at a whole economy level until well into the next decade.

*“The Net Zero transition’s main macroeconomic effect in the short term is neither to significantly increase or reduce the level of GDP, but instead to change its composition. In the short term the transition is best seen as a significant invest-to-save process, as we pay in the coming years for the new infrastructure needed to allow us to heat our homes and travel without burning hydrocarbons.*

*This will not be a major boost to growth in the short term because it involves replacing large parts of our capital stock rather than adding to it. In the longer term that infrastructure will be cheaper to run and if Net Zero-driven technological change leads to abundant, secure, and cheap electricity generation that would provide a major boost to growth. But an economic strategy cannot come down to counting on the latter materialising during the 2020s. Overall, Net Zero cannot be relied upon to deliver an economic silver bullet.”*

A 2023 report by the Confederation of British Industry (CBI) takes a slightly more optimistic view, arguing that the Net Zero transition may boost economic growth sooner. It estimated that growth opportunities linked to the development and adoption of green technologies could increase UK GDP by 1.6-2.4% in 2030. However, it also pointed out that this would require a significant increase in both public and private investment.

## 2.5

## AND REALLY BAD TIMING

The timing is far from serendipitous, coming during a prolonged period of synchronised stagnation and high debt among the advanced economies. Many of the factors behind the period of growth before the 2008 financial crisis have now gone into reverse. As the OBR said:

*“Fiscal tailwinds from a post-World War II baby boom, global economic integration, and easing of Cold War tensions have switched to headwinds in the first part of this century. Public finances are now under growing pressure from ageing populations, disappointing economic growth, a warming planet, and rising geopolitical tensions. Amidst these pressures, many governments have struggled to rebuild their fiscal resilience during the increasingly brief interludes between global crises.”*

Eventually, the green transition will lower operating costs – but it will take time for this to happen, and the up-front investment needed will be significant. Governments will either have to borrow still more or increase taxes to provide the investment needed for the Net Zero transition. It is very likely, therefore, that they will lean on companies and admonish them to ‘do more’, in the hope that the gap between the Net Zero target and the government’s ability to fund the transition can be plugged. If Net Zero is a challenge for governments, it will become just as much of a challenge for businesses.

None of this is to say that governments and companies should not prioritise a shift to Net Zero. As the OBR and others have stated, the economic risks of inaction are likely to outweigh the costs of action and procrastination and sudden policy shifts give us the worst of both worlds.



### 3.0

## THE CHALLENGES FOR BUSINESS

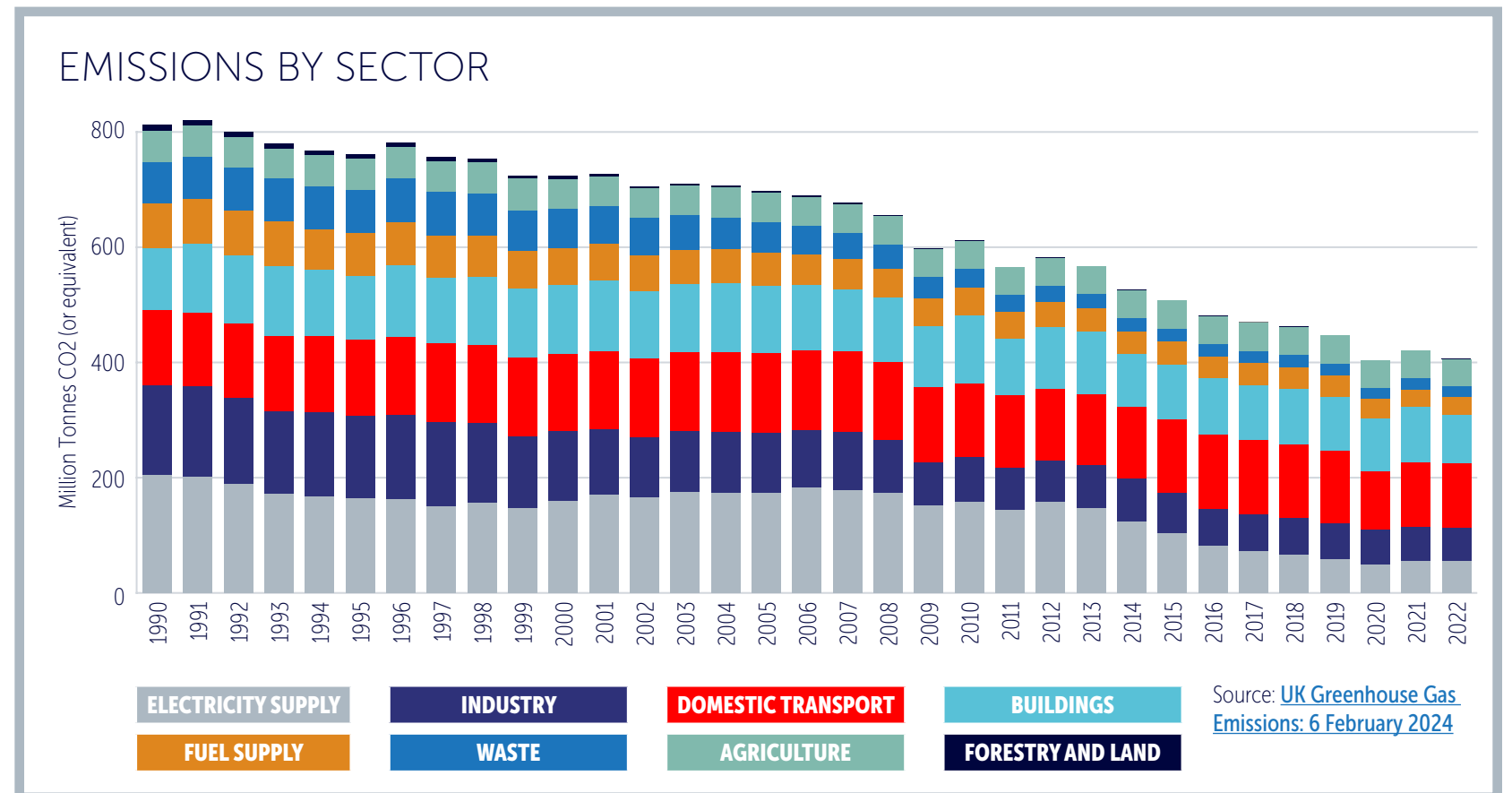
Public pressure on governments inevitably turns into political pressure on business. Even if governments don't impose Net Zero targets on companies, it is likely that institutional investors will do so.

Until recently, Net Zero has had little direct impact on most companies and consumers. We have seen wind turbines and solar farms appearing across the landscape, but most people have felt little direct effect. As long as the electricity kept flowing, few people gave much thought to where it was coming from.

Great progress has however been made on decarbonising energy supply. Most of the advanced economies, including

all the G7 and most of the EU, are now **past 'peak fossil fuel' electricity generation**. In the UK, GHG emissions have halved since 1990 but the majority of that decrease has come from the reduction of fossil fuel use in electricity generation. Electricity supply was the biggest single contributor to the UK's GHGs in 1990 and has reduced its emissions by 70%. So far, the power generating industry has done most of the heavy lifting to move us towards Net Zero.

*To have any chance of meeting the Net Zero targets, the next stage of the transition must focus on transport and buildings.*



**To have any chance of meeting the Net Zero targets, the next stage of the transition must focus on **transport** and **buildings**.**

There has been lots of public discussion about transport, particularly railways, aviation, and electric cars. It is only recently that commentators have begun to look at the scale of the transition needed in buildings. It is very unlikely that any country can achieve a carbon Net Zero position by 2050 while still using fossil fuels for heating. The EU's Science Advisory Council calculated that 25% of Europe's carbon emissions come from heating and cooling buildings.

Reducing emissions from transport and buildings will have a much more direct impact on businesses and households. This will be where the Net Zero process becomes part of people's homes and workplaces. This presents companies with a number of challenges.

**a** They will need to de-carbonise their own processes, supply chains, buildings and energy supply. For many companies, this is likely to have a knock-on effect on the nature of their products and services, which may, in turn, have a negative impact on their customers' experience.

**b** It is also likely that the transition will create significant Human Resource challenges. Shrinking working-age populations will mean that there will be less spare capacity in the economy. As Giles Wilkes remarked, for all the talk of high-tech solutions and artificial intelligence, much of the work involved in the transition to Net Zero *"is bluntly physical in its nature"*. For example:

- The UK's construction industry estimates that it will need to retrofit 29 million residential and commercial buildings by 2050. To meet this target it believes it will need to recruit and train 350,000 extra workers by 2028, an increase of around 13%.
- A report by the UK's energy industry estimates the need for 117,000 new roles over a similar period.

**c** The Net Zero targets being similar in most advanced economies suggests that many countries will be needing to do the same things at the same time. They will therefore be looking for the same skills. Those countries that have relied on importing skilled workers from abroad may find that those workers can find jobs that are as well-paid much closer to home. The UK government estimates that one-in-five jobs will be affected by the move to Net Zero, either in

terms of job replacement or of new skills needed. It is likely, therefore, that periodic skills shortages will become a regular feature in most of the advanced economies. Again, help from governments is likely to be limited. In a tight labour market, there is likely to be a renewed emphasis on employee development, with the associated investment required.

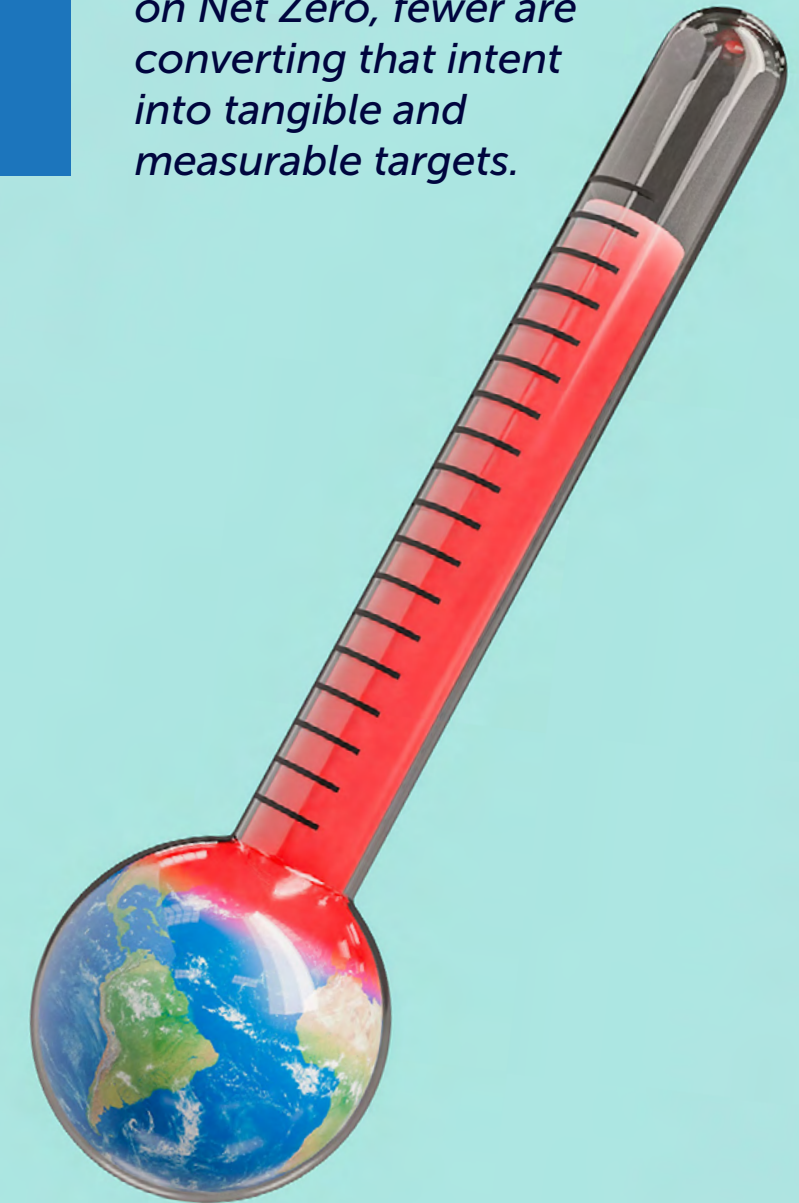
**d** All this comes against the background of the synchronised stagnation and low growth outlined in Section 2. Many companies will be under financial pressure as the need to transition to Net Zero becomes more imperative. Some companies will face the added pressure of stranded assets. Net Zero will make formerly high-value assets worthless. In 2020, the oil industry wrote off \$145bn in assets in recognition of the fact those assets are essentially now valueless. Unexploited fossil fuel resources, once valued at billions, can never now be extracted. From vast fossil fuel power plants and gas pipelines to roadside garages and petrol stations, expensive assets will be worthless or reduced in value by the end of the decade. As Carbon Tracker put it:

*"Around a quarter of equity markets are linked to the fossil fuel system. So cement, steel, aviation, shipping, obviously transportation and power, and about half of the corporate bond market. All of that essentially gets turned over in the next decade."*

Climate change will also create stranded assets, as increased heat and flooding makes farmland and buildings untenable. This amounts to the destruction of private property on a scale usually only experienced in wartime.

As we discussed in Section 2, the transition to Net Zero requires significant investment and the payback periods are long. The potential pitfalls for companies are significant. It is perhaps unsurprising, then, that many have been slow to make specific pledges and to commit to measurable targets. As we cover in the next section, while more and more companies are making clear statements of intent on Net Zero, fewer are converting that intent into tangible and measurable targets.

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## 4.0

HOW MUCH PROGRESS  
ARE COMPANIES MAKING?

Companies are keen to talk about their environmental credentials. Investors are equally keen to keep up the pressure by insisting on environmental targets. But the consensus among organisations set up to monitor progress is that *far too little* has been achieved.

## 4.1

THE GAP BETWEEN INTENT  
AND PROGRESS

An increasing number of companies are declaring their intent to achieve Net Zero by 2050. As [Net Zero Tracker](#) (NZT) noted in November 2023, of the Forbes Global 2000 companies, the number with Net Zero targets had risen by more than 40% in 16 months, reaching half of the world's largest corporations by November 2023. This equates to 66% of the total annual revenue generated by the Global Forbes 2000 being represented by Net Zero commitments. It commented:

*"We can say for certain that most of the world's largest companies have shifted to the right side of the line on Net Zero intent."*

However:

*"Despite continued progress on the quantity of corporate target-setting, the NZT warns that the integrity of company mitigation targets should urgently improve if they are to be achieved in line with the Paris Agreement's temperature targets."*

Commenting on the Financial Services sector, the Bank of International Settlements noted:

*"There is a 'cognitive dissonance' between the increased acceptance of the materiality of climate-related risks by financial institutions, and the relative weakness of their actions in response."*

In October 2023, [Climate Action 100+](#), the world's largest investor engagement initiative on climate change, reported that *"most companies are not moving fast enough to align with the goals of the Paris Agreement"* and noted *"continued progress on ambition contrasted by a lack of detailed plans of action"*. Among the findings in its [report](#), covering 170 major companies:

- More companies are disclosing details on their Net Zero transition plans, but quantification of individual decarbonisation levers is lacking. Further progress is needed on quantifying the contribution of these actions to their GHG reduction goals.
- Companies are making steady progress on long- and medium-term target setting, but most of these targets are not sufficiently comprehensive or Paris aligned.
- More companies than ever are setting out the actions they will take to decarbonise, but most fail to quantify how these will contribute to their emissions reduction targets.
- Only 5% of companies' Boards have sufficient capabilities/competencies to assess and manage climate-related risks and opportunities.
- Only 3% of companies have transition plans developed in consultation with key stakeholders.



*"Continued progress on ambition contrasted by a lack of detailed plans of action".*  
CLIMATE ACTION 100+



## 4.2

## CLEAR PLANS ARE LACKING

The gap between intent and progress can be explained by the absence of clear plans from many companies.

In February 2023 the [New Climate Institute](#) published its assessment of 24 global companies that have put themselves forward as climate leaders and which therefore serve as role models for other businesses around the world.

*“Most companies’ climate strategies are mired by ambiguous commitments, offsetting plans that lack credibility and emission scope exclusions, but replicable good practice can be identified from a minority.”*

Again, the criticism is of a disconnect between ambition and detailed plans of action. The report found that only 5 of the 24 companies had credible plans to commit to decarbonise their emissions by at least 90% by their Net Zero target years.

In summary, the methodologies and sample sizes may differ but the overall theme of these studies is that many companies are making statements of good intent and are setting headline targets, but a lot fewer have been able to demonstrate that those targets are taking them any closer to Net Zero. Terms like ‘ambiguity’, ‘lack of integrity’, ‘good intentions’ and ‘weak pledges’ crop up frequently in these assessments, that indicate difficulty in operationalising their fine words on reducing emissions.

As a 2023 paper by Stanford Business School and climate-focused investor Galvanise remarked:

*“A promise to reduce emissions does not necessarily mean that emissions reduction targets will be met or that management teams have the appropriate incentives to drive the transition. In practice, few companies have developed a tactical plan to decarbonize or even to fulfil stated commitments.*

*While 2030/2050 goals are long-dated, companies will be forced to publicly reckon with whether their commitments are credible in short order. Boards and management teams*

*will be asked – by regulators, consumers, and stakeholders – why they continue to allow their companies to affirm commitments not supported by robust or credible plans.”*

**So, while half of the world’s major companies having Net Zero targets might sound impressive, most are not backed up by credible plans to achieve them. Nor do they have clearly measurable targets built into performance plans, or focused reward packages for those charged with implementing them.**

As the pressure mounts on businesses not only to ‘do something’ but to demonstrate that what they are doing is making a difference, there will be less tolerance for this sort of ambiguity. **Companies will need to show that they are focusing on the right things and that, in doing so, they are using their Reward Strategy and reward practices to best effect.**

We turn to these challenges in the next section.

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## 5.0

## PROBLEMS WITH MEASURES AND INCENTIVES

It is clear that interest in linking performance measures and incentive plans to Net Zero is increasing. However, it is still far from clear how much impact this is making or is likely to make.

Politicians and campaign groups are criticising companies for their lack of effective action, while investors are sounding warnings about reputational risk and regulatory reaction.

There is clearly a disconnect between the expectations of companies, their statements of intent, and their measurable progress towards Net Zero. This has been due to a number of factors:

- 1 There is no clear link between the strategic imperatives defined by governments and international agencies – and what companies need to do.
- 2 The way that performance measures and metrics are defined – in both annual and longer-term incentive plans – do not link clearly to strategic Net Zero objectives.
- 3 ESG has complicated the picture.
- 4 The metrics used may produce unintended consequences.

*There is clearly a disconnect between the expectations of companies, their statements of intent, and their measurable progress towards Net Zero.*



5.1

THE LINK BETWEEN GOVERNMENT TARGETS AND CORPORATE ACTIONS

While there has been significant criticism of companies for moving too slowly, in mitigation there has been relatively little 'concrete' guidance from governments or international bodies. There appears to be no clear link between the strategic imperatives defined by international agencies – and codified into law by governments – and the specific actions that companies need to take.

Governments have, so far, avoided using the law to force companies to reduce their emissions. In their reluctance to be prescriptive, governments have also said very little about what they expect from companies. PwC's UK executive compensation leader Andrew Page explained:

*"Governments' approach to Net Zero has been in line with the low regulation environment of recent decades. They set the broad direction then assume that public and shareholder pressure will drive what companies do. There is no top-down pressure saying: 'we need businesses to reduce emissions by X%'. Companies have been left to work it out for themselves."*

It is perhaps not surprising, therefore, that company targets have been directional and non-specific too. As the FT's Kristen Talman put it:

*"Most companies aren't purposely evasive or not invested in hitting targets – in many cases, they're lost at sea for their next steps without explicit guidelines."*

Where governments have mandated corporate action, it is usually based on the 2001 Greenhouse Gas Protocol, which has become the most widely used standard for assessing greenhouse gas emissions. It defines three categories of emissions from organisations:

**Scope 1 emissions** The GHG emissions that a company makes directly from operations it owns or controls. This covers emissions from a company's industrial processes, its boilers and furnaces, and its own vehicles.

**Scope 2 emissions** The emissions that a company causes indirectly. These derive from how the energy the company buys and uses is produced. By using this energy, an organisation is therefore indirectly responsible for the release of the resulting GHG emissions.

**Scope 3 emissions** The emissions not covered in Scope 1 or 2 that a company is responsible for throughout its value chain.

The latter is a broad definition. Examples range from the carbon produced by the extraction, processing, and transport of raw materials to company investments and employee commuting.

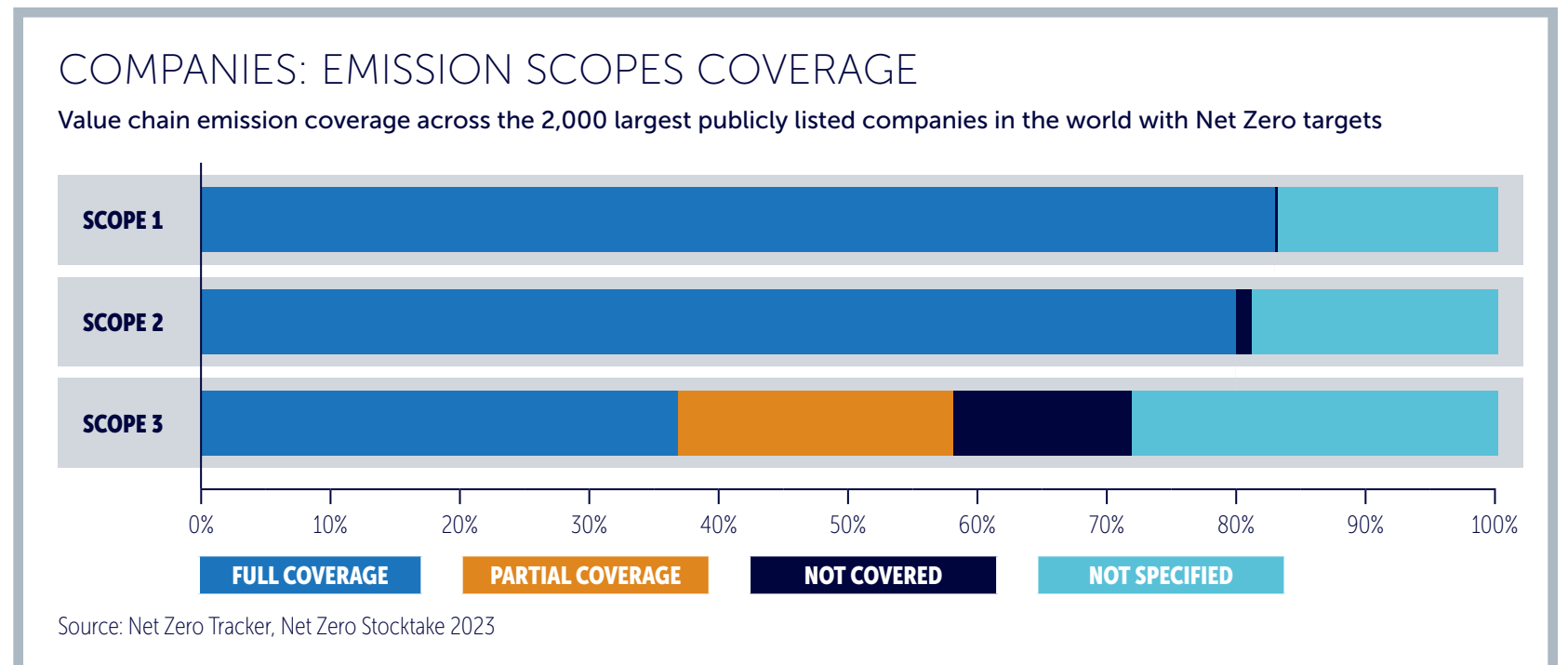
**The challenge for businesses is that management sight and control become weaker as the scope widens.** Scope 1 emissions are fully under the control of a company's executives. Scope 2 can be controlled to a large extent, for example by changing energy suppliers. Scope 3 is more difficult, as there is often little to choose between suppliers in the extraction and transportation of raw materials.

The measurement and management of Scope 3 emissions runs into many of the problems we discussed during PARC's [Performance Measurement Trilogy](#) events in 2022-23. Even if an organisation can measure it, establishing how much of its reduction (or increase) is due to the actions of the executive management is very difficult. It is perhaps not surprising, therefore, that companies have been reluctant to set Scope 3 objectives at anything more than the most general level. Until recently, most governments have not required companies to report on Scope 3 emissions, and even with the reporting of Scope 1 and 2, it has been left to companies to define their own measures, and to decide whether to build them into incentive plans.

As Net Zero Tracker's 2023 Stocktake noted, most of the world's largest companies are still not reporting on Scope 3 emissions. Even among the companies that have Net Zero targets, those that attempt to measure Scope 3 emissions are in a minority.

Yet Scope 3 emissions are often the most significant component of a company's carbon footprint. As the UK government's Department for Energy Security and Net Zero noted:

*"Scope 3 GHG emissions can account for anywhere between 80-95% of the total value chain of an organisation's footprint."*



But:

*"Calculating Scope 3 emissions can be difficult and complex; they are both the most significant and most challenging source of emissions for businesses to identify, quantify and address."*

Julie Baddeley, Chair of Chapter Zero, agrees:

*"Net Zero is all about Scope 3. Scope 1 and 2 targets only take you so far. Companies need to account for emissions from their entire value chain."*

As Nick Hay of Net Zero Tracker pointed out, integrating decarbonisation into company value chains and holding boards formally accountable prevents the challenge of decarbonisation being left for successive leaders. The lack of Scope 3 emissions coverage is undermining the credibility of corporate Net Zero targets.

*"The low integrity of most company targets leaves a large proportion of executive leaders exposed – as their commitments are not sufficiently credible to drive decarbonisation. This severely hampers the ability of companies to realise the largest opportunity of the 21<sup>st</sup> century – to shape the coming net zero economy."*

Furthermore, a lack of focus on Scope 3 means that companies can achieve their Scope 1 and 2 targets by outsourcing their emissions to unlisted entities that are not covered by the reporting requirements. [Research by Georg Ringe](#), Professor of Law and Finance at the University of Hamburg, found that a number of companies were meeting their Net Zero targets by transferring their polluting assets to firms that operate under less pressure from investors, stakeholders, and regulators – either because of their ownership structure or the jurisdiction in which they are located.

As he noted:

*"All the scrutiny and investor pressure is focused on listed firms. Private firms are largely exempt from the disclosure requirements. This invites arbitrage. Suddenly, your company looks good but the emissions are lurking somewhere else."*

It is unsurprising, then, that the thinking among governments is moving towards requiring companies to account for Scope 3 emissions and extending the regulatory scope to cover unlisted entities. We cover this in more detail in Section 6.



## 5.2

### THE DEFINITIONS OF PERFORMANCE MEASURES DO NOT LINK CLEARLY TO STRATEGIC NET ZERO OBJECTIVES

Even where companies have measures, they do not always translate into targets that are appropriate for executive incentive plans.

The [Paying for Net Zero](#) report by London Business School and PwC in February 2023 noted that the "Environmental" element of ESG is the most advanced, in terms of having the strongest investor consensus, the most well-developed strategies, and the best comparability between companies. One might therefore expect this to be the area where the link between incentives, targets, and relative organisational performance is clearest.

**However, of the 50 of Europe's largest companies studied, only 7 had environmental targets that were significant, measurable, transparent, and with a disclosed link to strategy.**

**Despite this, payouts against 'environment' related incentives were higher than those linked to other targets**, which would imply a higher level of achievement against environmental targets than against other critical performance measures. As the report noted:

*"Payouts on carbon targets in 2022 averaged 86% of maximum with over half paying out at 100%. This compared with typical average incentive pay-outs on other measures of around 75% over a number of years."*

Just over half of the companies had an explicit carbon measure in their executive pay, but in only 18 was that measure worth more than 10% of the incentive.

Furthermore, in 18 of the 50 companies the carbon target formed part of the annual incentive but not the long-term plan. At first sight, it seems odd that a long-term objective like Net Zero should be translated into targets in short-term incentive plans. However, the argument is sometimes made for using short-term targets to get a longer-term project off the ground.



As Sue Whalley, Chief People Officer at ABI remarked:

*"We have published an overall group Net Zero target for 2050 or earlier. Our businesses are very diverse and many of them have other critical ESG priorities aligned to their strategies and to where they can make the most difference. Their targets are based on what is most material for them and the only way we will achieve them is if we make tangible progress each year. We encourage local teams to focus on practical projects that make a real difference this year and in the coming few years. We include these in the short-term incentive plan targets and hold leaders and their teams accountable for what they can deliver now, not future targets by which time they may not be in role."*

In the US, specific targets on GHG measures are even less likely to be found in long-term incentive plans, if they are found at all. As Andrew Page noted:

*"In the US it is almost unheard of to have environmental measures in long-term incentives. Most ESG targets are in short-term incentives and are more likely to be linked to social factors, the S rather than the E."*

We discuss the case for building a 'Net Zero Critical Path' into incentive plans in the next section.

## 5.3

### THE TERM 'ESG' HAS COMPLICATED THE PICTURE

The debate on corporate environmental targets has been confused somewhat by the prevalence of the ESG terminology. The term Environmental, Social and Governance, usually shortened to ESG, has its origins in a 2004 UN report, but it rose to prominence towards the end of the 2010s as the concept of 'corporate social responsibility' broadened and deepened. Investors as well as executives were deemed to be responsible for the stewardship of the organisation, and the range of stakeholders widened to include the wider society in which an organisation is based.

The assumption behind the E component was that political and social pressure would encourage companies to prioritise their GHG emissions as part of a range of ESG actions. However, there is growing evidence that the Environmental element of ESG might be losing out to the others when it comes to incentive target setting.

**The backlash has opened the way for critics of Net Zero to condemn the entire ESG process as unworkable.** Labelled as 'woke capitalism' by the right and 'greenwashing' by the left, the ambiguity inherent in ESG has enabled its opponents to charge through the gaps.

Julie Baddeley agrees that the nebulous nature of ESG has given opponents ammunition with which to attack the idea of setting corporate Net Zero objectives.

*"The ESG acronym has been unhelpful. It has given some people an excuse to disparage the whole idea of environmental targets."*

Performance measures in incentive plans have been linked to broader and more diverse ESG goals rather than to specific GHG emissions targets. This has enabled executives to earn significant payments from incentive plans for things that get them no closer to Net Zero – which in turn has added to the chorus of ESG condemnation.

An in-depth report in The Economist was scathing about ESG, arguing that by not acknowledging the contradictions between its separate elements, it "fosters delusion" and avoids a hard discussion about the trade-offs involved. It called for the scrapping of ESG, for companies to "*measure less but better*", and for a clear focus on emissions:

*"It is better to focus simply on the e. Yet even that is not precise enough. The environment is an all-encompassing term, including biodiversity, water scarcity and so on. By far the most significant danger is from emissions, particularly those generated by carbon-belching industries. Put simply, the e should stand not for environmental factors, but for emissions alone."*

Unusually for a publication that was founded to champion free market liberalism, it called for tougher regulation:

*"It is government action, combined with clear and consistent disclosure, that can save the planet, not an abbreviation that is in danger of standing for exaggerated, superficial guff."*

The financial advisers' publication IFA Magazine reached a similarly blunt conclusion:

*"Unless global emissions are reduced significantly over the next few decades, everything else of a social or governance nature becomes, frankly, irrelevant. If simultaneous droughts result in the global food distribution network breaking down, it is unlikely that we will care how diverse the Board of a company is. Focusing on ESG ratings without understanding their parameters and limitations may lead to much-needed capital not flowing to where it is most needed for the transition to a low carbon economy. The absurd result in the long term could be that humanity faces a terrible, yet still strangely compliant, mass level extinction."*

## 5.4

## METRICS MAY PRODUCE UNINTENDED CONSEQUENCES

Even where incentive plans are linked to environmental goals, if they are not clearly tied to specified emissions targets they can have unintended consequences. As the Stanford and Galvanise paper noted:

*“There is the risk that overt specificity misses the overall objective of the effort, particularly if the chosen metrics misframe an organization’s environmental responsibility.”*

*Consider Marathon Petroleum’s awarding of full environmental incentive pay to executives in the same year that 1,400 barrels of diesel fuel spilled in Indiana. In this case, incentive metrics accounted for the number of significant oil spills, rather than the volume of oil spilled, and as such in 2018 Marathon’s CEO received the full environmental pay-out and was deemed to have achieved ‘excellence in environmental, personal safety and process safety improvement’ that year.*

*As with any incentive program, emissions-linked compensation schemes can be gamed or yield incongruous results. For example, in our research respondents noted that metrics that are consistently met year after year are perhaps not sufficiently rigorous or demanding.”*

However in mitigation, as Julie Baddeley points out, there was no road map for Net Zero. Companies have had to make it up as they go along, and the lack of progress does not necessarily signify a lack of good intent:

*“This was all very new to the people setting these targets. In 2018/19, even the remuneration advisers didn’t know how to set a robust carbon target so it’s not surprising that they weren’t always well designed. It was difficult to judge the integrity of these measures because no-one had done this before. Four years on, boards are much better educated.”*

Sue Whalley has a similar view:

*“It is still relatively early days with much to be learned around the relative merits of quantitative and more qualitative input and output-based targets and the extent to which they are included in short- and longer-term plans. It needs to be worked through from first principles, based on what is most material, and this is likely to vary by business too. It is critical however to try to avoid perverse incentives which ultimately end up rewarding the wrong outcomes and retaining discretion to adjust payouts where this is the case.”*

If companies are improving their ability to set Net Zero targets, that is timely because investors, governments, and international bodies are showing signs of impatience. As we saw in Section 2, the imperative for Net Zero has gathered momentum since the end of the Covid pandemic and there is a more interventionist consensus among governments.





# UNDERSTANDING

## 6.0

### THE CHANGING REGULATORY ENVIRONMENT

As already highlighted, in the last eighteen months there has been a perceptible shift, with governments and international bodies giving clearer direction and moving towards regulation.

## 6.1

### CLEARER GUIDELINES AND INCREASED PRESSURE ON COMPANIES TO REPORT

The UN's [Integrity Matters](#) report, published at COP27 in 2022, is an attempt to clarify what companies and investors should consider when setting and implementing their Net Zero targets. As UN Secretary General Antonio Guterres said when launching the report,

*"Net Zero suffers from a deficit of credibility and a surplus of confusion."*

The report contains a series of recommendations for non-state organisations, including the setting of targets for 2025 and every five years thereafter. These targets must include emissions reductions from the organisation's full value chain and activities. It calls on companies to disclose *"comprehensive and actionable Net Zero transition plans"* with the actions that will be taken to meet these targets.

There is a useful summary of the report at [Net Zero Tracker](#). Its main points are that companies should:

- Make a public Net Zero Pledge
- Break the Pledge down into Interim Targets for 2025, 2030 and 2035
- These Interim Targets should include emissions from the company's entire value chain and activities (Scope 3)
- Account for all Greenhouse Gases
- Make the overall Pledge reduction target consistent with the IPCC's pathway for limiting Global Warming to 1.5C
- Update transition plans every 5 years.

The UN has published an implementation checklist for businesses. See Appendix 2 for more details.

This aligns with investor expectations. As the Paying for Net Zero report by London Business School and PwC in 2023 found, investors are increasingly looking for targets focused specifically on GHG emissions and for those targets to be linked to long-term carbon goals. This lack of clear and phased transition plans is one of the major criticisms of corporations we covered in Section 4.



## 6.2

## THE NEED FOR A DETAILED TIMETABLE

Companies are making grand statements of intent but with little detail about how that intent will be reached. One of the reasons for this is that 2040 is still a long time away in terms of most companies' horizons. As Andrew Page put it:

*"Given average tenure, sixteen years would see three CEOs for a typical company. The way to make 2040 credible and achievable is to break the targets down into a Critical Path on a year-by-year basis, then build the Critical Path into longer-term incentive plans. This would enable a company to set ambitious goals but to translate them into the timeframe of its existing managers."*

Here, the balance between long-term and short-term incentives becomes important. Net Zero might be a long-term goal but as Tom Gosling of London Business School points out:

*"Longer-term climate commitments like Net Zero 2050 are meaningless without shorter-term goals to get there. Executive pay can be used as a forcing mechanism to create accountability for action this decade to ensure we get where we need to be by mid-century."*

This approach is coming to be seen as good practice in many organisations. Writing in a report for the UK's Financial Conduct Authority (FCA), Tom Taylor, Head of Climate Finance at Aviva Investors Sustainable Finance Centre for Excellence notes:

*"There is a long time between a pledge made in 2021 and a target date in, say, 2050. To close the implementation gap and to incentivise immediate as well as long-term action on climate change, a number of key elements of best practice are emerging.*

*These include prioritising taking immediate steps to decarbonise rather than reliance on offsets and the setting of meaningful interim targets for decarbonisation that are consistent with a scientific pathway to Net Zero.*

*These mean that while answering the ultimate question of whether a target for 2050 is achieved might be one for the CEO several appointments down the line, the current leadership can be judged on whether action is being taken now."*

As the FCA concludes:

*"A transition plan can be used to demonstrate milestones and track short-term actions to achieve long-term Net Zero aims."*

If governments start to encourage or mandate five-year interim reporting, it could encourage companies to adopt this sort of Critical Path thinking – and create a tighter and more visible link to long-term incentive plans.

The UN's emphasis on milestones, transition plans and implementation is in line with a wider recognition that statements of intent by companies based on 2040 aspirations are unlikely to move things forward unless clear goals are set for the incumbent management of companies. The Integrity Matters report also makes an explicit call for more specific government regulation – one which appears to align with recent government thinking around the world.

***"Net Zero suffers from a deficit of credibility and a surplus of confusion."***

UN SECRETARY GENERAL  
ANTONIO GUTERRES

***Investors are increasingly looking for targets focused specifically on GHG emissions and for those targets to be linked to long-term carbon goals.***



## 6.3

## THE MOVE TO REGULATION AND LEGISLATION

Until recently, governments had been reluctant to force the pace of Net Zero reporting. In most advanced economies, only the largest quoted companies are obliged to report on Scope 1 and 2 emissions. However, recent developments have shown a move towards clearer target-setting by governments and the use of legislation to increase the reporting of GHG emissions by corporations.

The most significant development is the European Union's [Corporate Sustainability Reporting Directive](#) (CSRD), which comes into force for EU listed companies reports in 2025 and for unlisted large companies from 2026. This means that it will also cover large subsidiaries of firms based outside the EU, giving the Directive significant reach. The CSRD has been incorporated into all EU countries' laws. The penalties for non-compliance have been left to individual states, with France threatening prison and heavy fines for directors who fail to submit their company's CSRD reports to an external auditor. Described by the FT as "[the most far-reaching climate data rules in the world](#)", the Directive will oblige companies to report Scope 3 emissions.

Many multinationals based in the UK, US, Japan and elsewhere will have to comply with the Directive. As the FT notes:

*"At least 10,300 companies outside the EU will eventually be caught by these rules, including more than 3,000 American companies, according to analysis by Refinitiv, part of the London Stock Exchange Group."*

As the Directive is extended to smaller companies from 2027-29, it will catch more subsidiaries and affect more companies worldwide. Beyond that, there is the well-documented [Brussels Effect](#), which sees EU standards adopted around the world by countries and companies well outside EU jurisdiction. As Nick Hay of Net Zero Tracker put it:

*"The EU Directive is a big step forward. Governments are increasingly encouraging the engines of their economies – corporations – to transparently disclose their emissions footprints, and in turn to deliver their fair share of reductions. The engagement of the corporate sector in climate mitigation is an urgent imperative for countries to deliver on their national Net Zero commitments. The shadow of legislation is looming."*

This "[crackdown on greenwashing](#)" is also seeing a greater willingness of campaigners to use legal action against companies making misleading environmental claims. The signs are that governments, investors and campaigners are running out of patience with vague and unsubstantiated environmental announcements.

*"The shadow of legislation is looming."*

NET ZERO TRACKER, NICK HAY



## 6.4

## DIVERGENCE BETWEEN THE US AND THE REST OF THE G7

That said, after astounding the business world in 2000 with talk of ‘embracing purpose’ and serving society at large, the US corporate sector seems to have lost some of its enthusiasm for the environmental aspect of ESG. This shift in the business zeitgeist in the United States has led to a divergence between the US and the rest of the G7. BlackRock, which led the charge on corporate purpose in 2020 and which joined Climate Action 100+ the same year, announced in January 2024 that it is pulling out as a corporate member and scaling back its involvement. JP Morgan and State Street Global Advisors, who also joined the group in 2020, have recently quit.

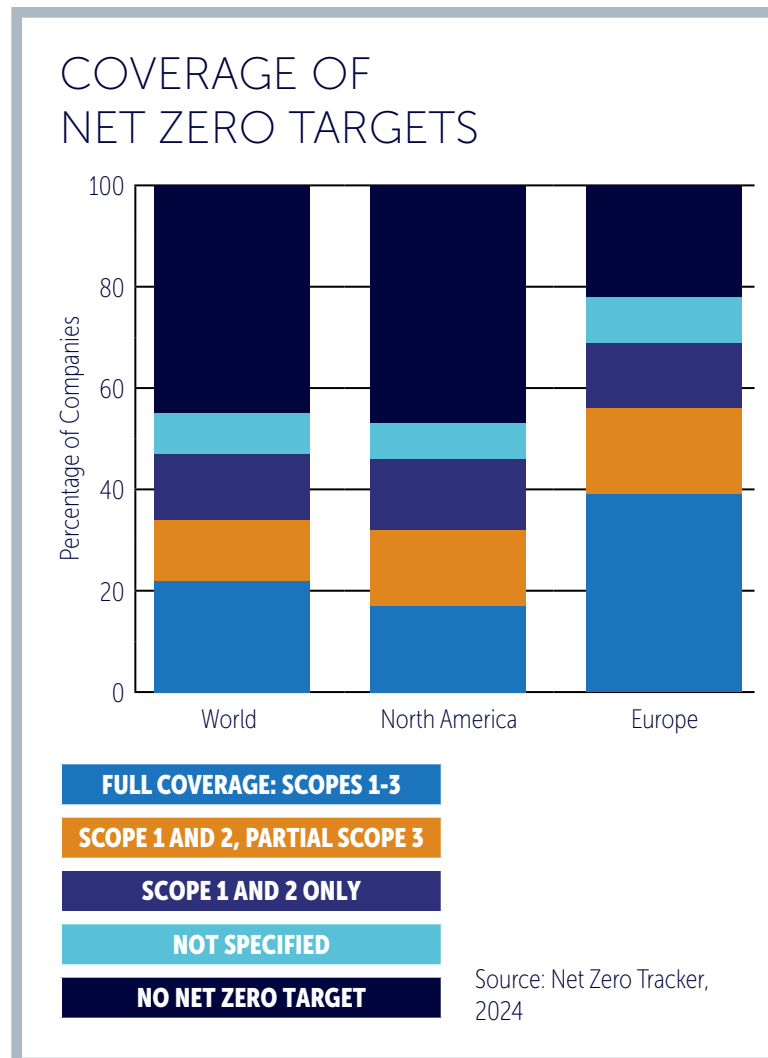
Reports in the Financial Times and New York Times point to Republican controlled states, such as Texas and West Virginia, refusing to do business with Climate Action 100+ aligned firms and threats of legal action against investors on the grounds of collusion between investors.

As headline political pressure and corporate opinion have swung against ESG, the result seems to be a more sceptical (or even hostile) attitude to Net Zero targets. In March 2024 the Securities and Exchange Commission dropped Scope 3 emissions from its new rules requiring listed companies to report their emissions. Whilst the rules will still include Scope 1 and 2 emissions, even this may be subject to legal challenges. The SEC approach is in sharp contrast to the EU’s directive.

While political pressure in a headline grabbing election year has doubtless played a part, there has been less enthusiasm for corporate environmental targets in the US for some time. Even companies with ESG targets have placed more emphasis on other factors, often at the expense of environmental targets. As Andrew Page remarked:

*“While Europe and the rest of the G7 have become more aligned, the US is becoming more of an outlier.”*

This is reflected in the data on Net Zero targets at Net Zero Tracker. Based on data from the world’s largest companies, the profile for North America looks more like the rest of the world. Europe has a higher percentage of companies with Net Zero targets and with targets covering Scope 3.



Studies by US investors and reward consultants largely bear this out. There is some evidence that the use of Net Zero metrics is increasing but it is from a low base.

Furthermore, other ESG targets are still taking precedence. A 2023 study by Reward consultancy Semler Brossy found that, of the ESG performance measures used in incentive plans by S&P 500 companies, there was a **concentration on social rather than environmental metrics.**

*“Overall, Human Capital Management is the most prominent category of metrics, with 68% of the S&P 500 incorporating these metrics into incentive plans. D&I is the most prominent metric in this category and in the S&P 500.*

*Consistent with prior years, environmental metrics are the least prevalent ESG category considered in 35% of S&P 500 compensation plans, but also the fastest growing in prevalence. **Carbon Footprint and Energy Efficiency** continue to emerge as the environmental metrics of choice.*

*Other ESG metrics consist of operational, consumer-focused, and broader social measures and represents the second most prominent category, with 41% of the S&P 500 implementing these measures, the same amount of companies as last year.”*

A 2023 paper by Stanford Business School and climate-focused investor Galvanise remarked:

*“Over 50% of the S&P 500 today links ESG goals to some aspect of executive pay. **Links between executive pay and environmental objectives are less common than other forms of ESG-linked pay.**”*

Equally, a Willis Towers Watson study in January 2024 noted that:

*“**Metrics related to human capital remain the most popular across all ESG categories,** used by 70% of S&P 500 companies and 75% of TSX 60 companies. Europe is ahead of North America in its emphasis on the environmental and climate areas”.*

Furthermore:

*“In Europe, the use of ESG metrics in LTI plans is common. The majority of European companies now include ESG metrics in their LTI plans, mostly in the environmental and climate areas. This represents a 35%-point increase from 21% to 56% in the past three years.”*

Much of the backlash against ESG in the US may just be politically driven – and against the overall direction of travel. There are already signs of a *“backlash against the backlash”* as [businesses](#) and [investors](#) push back and public opinion, [even among Republican voters](#), is found to be broadly in favour of business action on environmental issues.



## 7.0

## CONCLUSIONS

**Recent years have seen an increased sense of urgency from governments and international bodies leading to stronger criticism of slow progress and calls for greater government regulation.** The Net Zero imperative has clearly gathered momentum in the first half of the 2020s. More severe climate events and increasing public concern have prompted a collective realisation that Net Zero targets set for 2050 will require action to start during this decade. The laissez-faire orthodoxy of the last three decades has given way to a significantly more interventionist approach.

**The UN has called for transition plans, with measurable five-year milestones and the reporting of emissions across a company's entire value chain.** Governments are responding with legislation, led by the recent EU directive creating the strongest Net Zero reporting regime yet – one that is likely to be emulated in other jurisdictions.

**This transition could hardly come at a worse time for the advanced economies** – as we noted in Section 2. Elevated government debt from the 2008 financial crisis and the Covid pandemic leave governments with little room for manoeuvre. Stagnating economies and shrinking working age populations make the likelihood of a growth boost and a tax receipts bonanza less likely. Even optimistic projections suggest that any fiscal stimulus and economic savings from government green investment may not reach break-even point until 2040. It is likely, therefore, that government support will have to be funded by tax increases, which, when implemented at a time when people will also be asked to change habits and lifestyles, are likely to be unpopular. As the former President of the European Commission Jean-Claude Juncker put it:

*"We all know what to do, but we don't know how to get re-elected once we have done it."*



**Nevertheless, a consensus is building that the risks of doing nothing are now greater than the costs of a transition to Net Zero.** The increase in temperatures and extreme climate incidents over the last five years has heightened public concern and raised the sense of urgency among governments. Governments are finding themselves compelled to act, just at the point when they are under severe financial constraints.

**It is therefore likely that the political and public pressure on businesses to do more will increase.** As politicians see the imperative but become more reluctant to raise and spend government revenue, they will admonish companies to fill the gap. Consequently, aspirational statements from companies won't cut it anymore. This pressure is only likely to increase. Public opinion is broadly behind this move towards greater intervention and expects more of corporations than it did even five years ago. Investors are responding by requiring greater transparency and clearer critical paths from organisations. Some of this may come as a shock to many organisations. So far, the power generation industry has done most of the Net Zero heavy lifting. The focus will now shift to other sectors and to transport and buildings in all companies. Likewise, unlisted and medium sized companies will soon find themselves under scrutiny too.

**For companies looking for a framework, the UN's Integrity Matters report is a good place to start.** Breaking the Critical Path down into five-year targets will ensure that today's managers focus on tomorrow's problems. International bodies, investors and, increasingly, governments want to see action now. Aspirational statements are no longer enough. Companies will need to develop clear plans and clear incentives. No-one will be convinced by anything less.

Most organisations manage large scale projects with milestones and key deliverables. What the UN Integrity Matters report is asking is that the same methodologies are used to produce credible and deliverable plans to reduce Greenhouse Gas Emissions. Some of the Scope 3 measurements may be a challenge but companies are making a start. New techniques will be developed as this becomes more of an imperative.

The UN's Integrity Matters report and the EU's Corporate Sustainability Reporting Directive have set the direction of travel for corporate action on Net Zero. These documents may well set the standard for legislation and regulation for the rest of this decade.

To comply with this suggested way forward, companies will be required to do five key things:

- 1 REPORT ON SCOPE 3 EMISSIONS**  
emissions from the company's entire value chain, not just the impact from its own operations.
- 2 PUBLISH A NET ZERO PLEDGE**  
a commitment to reduce emissions to Net Zero by 2050 or earlier, made publicly by the company's leaders.
- 3 PUBLISH A TRANSITION PLAN**  
a plan with clear phases and timing to remove GHG emissions from the company's operations and value chain.
- 4 BREAK THIS TRANSITION PLAN DOWN INTO 5-YEAR TARGETS**  
publish the targets which need to be achieved by 2025, 2030 and 2035 for the 2050 goal to be credible.
- 5 PUBLISH THESE 5-YEAR TARGETS AS PART OF A CRITICAL PATH TO NET ZERO**  
the Critical Path should show the key steps to meet each of these interim targets.

The scale of this task for an individual company depends on the point it has reached on the Net Zero pathway so far. For some organisations, there will be a significant amount of preparation needed before any of this work can be undertaken. For some it may require cultural and mind-set shifts at Board level and throughout the management population.

It may therefore take some time to get to Step 5 – the 5-year targets – but only then can these be built into credible longer-term incentive plans. Creating the plan and setting the Critical Path is therefore a pre-requisite for creating any meaningful link between 'Reward' and the achievement of the overarching Net Zero objective.





## APPENDIX

Here are some organisations quoted in this report which track the progress of corporations and which provide useful information for developing Net Zero action plans.

### CARBON TRACKER

*Non-profit think tank with offices in the US and UK.*

Carries out in-depth analysis on the impact of the energy transition on capital markets and the potential investment in high-cost, carbon-intensive fossil fuels.

[www.carbontracker.org](http://www.carbontracker.org)

### CHAPTER ZERO

*Not-for-profit membership group owned by Hughes Hall College, Cambridge University. Aimed at Chairs and Non-Executive Directors of UK companies.*

Has a [Knowledge Hub](#) with toolkits for the entire journey, from developing strategy to [setting credible Net Zero targets](#) and [planning the transition](#).

[www.chapterzero.org.uk](http://www.chapterzero.org.uk)

### CLIMATE ACTION 100+

*Investor-led initiative ensuring the businesses they own cut emissions and accelerate the transition to Net Zero emissions by 2050 or sooner. Made up of 700 global investors.*

[www.climateaction100.org](http://www.climateaction100.org)

### EUROPEAN COMMISSION

*Explainer on the EU's new [Corporate Sustainability Reporting Directive](#).*

[www.commission.europa.eu/index\\_en](http://www.commission.europa.eu/index_en)

### NET ZERO TRACKER

*Oxford-based collaboration between four research institutes.*

Useful information on the [status of Net Zero activity](#) among the world's largest companies.

Summary and explainer of the [UN's Integrity Matters report](#).

[www.zerotracker.net/about](http://www.zerotracker.net/about)

### NEW CLIMATE INSTITUTE

*Germany based not-for-profit institute.*

Tracks Net Zero progress at country level and produces the [Corporate Climate Responsibility Monitor](#).

<https://newclimate.org>

### RACE TO ZERO

*UN campaign to encourage non-state actors to adopt the [Integrity Matters](#) proposals and to halve emissions by 2030.*

[www.racetozero.unfccc.int/system/race-to-zero](http://www.racetozero.unfccc.int/system/race-to-zero)

## IMPLEMENTING THE RECOMMENDATIONS OF THE UN INTEGRITY MATTERS REPORT

Following the launch of the [report](#), the UN outlined steps to implement the recommendations. Companies can assess their alignment with the report using the implementation checklist.

Recommendation	Checklist Criteria	Link to Recommendation	Yes / No
<b>1 PLEDGE: Components of a Net Zero Pledge</b>			
Announce a Net Zero Pledge	Pledge must be made public, by the leadership	<a href="#">Recommendation 1</a>	
	Interim targets: 2025, 2030, 2035	<a href="#">Recommendation 1</a>	
	Science: 1.5°C with no or limited overshoot – IPCC or IEA	<a href="#">Recommendation 1</a>	
	Net Zero: 50% reduction by 2030, Net Zero by 2050 the latest or accelerator sooner, sustained thereafter	<a href="#">Recommendation 1</a>	
	Coverage: Scopes 1-3, all operations alone its value chain, in all jurisdictions	<a href="#">Recommendation 1</a>	
	Progress: Publicly disclose and report	<a href="#">Recommendation 1</a>	
	Methodology: Use a robust method	<a href="#">Recommendation 1</a>	
Phase Out of Fossil Fuels and Scale Up of Renewable Energy	Pledge includes specific targets aimed at ending the use and/or support for fossil fuels – aligned with IPCC or IEA 1.5°C limited or no overshoot	<a href="#">Recommendation 5</a>	
<b>2 PREPARE: Get ready for the mandatory components of a transition plan</b>			
Set Net Zero Targets	Short, medium and long-term absolute (and, if relevant, relative) emissions reduction targets	<a href="#">Recommendation 2</a>	
	Aligned with latest IPCC or IEA – limited or no overshoot	<a href="#">Recommendation 2</a>	
	Set target within a year of pledge	<a href="#">Recommendation 2</a>	
	First target set for 2025	<a href="#">Recommendation 2</a>	
	Include all GHG emissions and separate targets for non-CO <sub>2</sub> GHG emissions	<a href="#">Recommendation 2</a>	
	Include all scopes (1-3)	<a href="#">Recommendation 2</a>	
	Embedded emissions (fossil fuel reserves, land-use, sequestration)	<a href="#">Recommendation 2</a>	
	Datasets for Scope 3	<a href="#">Recommendation 2</a>	
	Methane emissions from the energy sector – coal, oil and gas production – should be reduced by at least 63% by 2030 from 2020 levels to be consistent with global modelled pathways that limit warming to 1.5°C with no or limited overshoot as assessed by the IPCC’s 6 <sup>th</sup> Assessment Report	<a href="#">Recommendation 5</a>	
	Restrict Use of Voluntary Carbon Credits	Must not be used to meet the Net Zero Target, and is only permitted for beyond value-chain mitigation	<a href="#">Recommendation 3</a>
Phase Out of Fossil Fuels and Scale Up of Renewable Energy	On coal for power generation, end: (i) expansion of coal reserves (ii) development and exploration of new coal mines (iii) extension of existing coal mines, and (iv) coal plants by 2030 in OECD countries and 2040 in the rest of the world	<a href="#">Recommendation 5</a>	
	On oil and gas, end: (i) exploration for new oil and gas fields (ii) expansion of oil and gas reserves, and (iii) oil and gas production	<a href="#">Recommendation 5</a>	
	Renewable energy procurement targets should be included as part of Net Zero transition plans	<a href="#">Recommendation 5</a>	







Align Lobbying and Advocacy	Encourage associations to advocate for positive climate action and have an escalation strategy, including the option of leaving the association if changes are not made	<a href="#">Recommendation 6</a>
	Contribute to investor, supplier, consumer and employee engagement and work with peers	<a href="#">Recommendation 6</a>
Include People and Nature in the Just Transition	If material land-use emissions: achieve and maintain operations and supply-chains that eliminates deforestation peatland loss by 2025 the latest, and other remaining natural ecosystems by 2030	<a href="#">Recommendation 7</a>
	Anticipate the final guidance of the Taskforce on Nature-related Financial Disclosures by factoring in nature risk and dependency to all elements of their transition plans	<a href="#">Recommendation 7</a>
	Invest in the protection and restoration of ecosystems beyond emissions reductions	<a href="#">Recommendation 7</a>

**3 PLAN: Components of a Credible Net Zero Transition Plan**

Create a Transition Plan	Publicly disclose transition plan	<a href="#">Recommendation 4</a>
	Update transition plan every five years	<a href="#">Recommendation 4</a>
	Report on progress annually	<a href="#">Recommendation 4</a>
	Include short-, medium- and long-term absolute emission reduction targets (and, if relevant, relative emissions reduction targets) and demonstrate actions to meet the targets	<a href="#">Recommendation 4</a>
	Include all Scopes (1-3) and include separate targets for non-CO <sub>2</sub> GHG emissions	<a href="#">Recommendation 4</a>
	Detail the third-party verification approach and audited accuracy	<a href="#">Recommendation 4</a>
	Detail the alignment with latest IPCC and IEA – limited or no overshoot	<a href="#">Recommendation 4</a>
	Explain emission reductions and carbon removals (as needed)	<a href="#">Recommendation 4</a>
	Disclose how capital expenditure plans, research and development plans and investments are aligned with all targets (e.g. capex-alignment with regional or national taxonomy) and split between new and legacy or stranded assets	<a href="#">Recommendation 4</a>
	Outline actions to address data limitations	<a href="#">Recommendation 4</a>
	Detail value-chain engagement	<a href="#">Recommendation 4</a>
	Explain governance structure for transition and verification, describe linking of near- and long-term targets with executive compensation	<a href="#">Recommendation 4</a>
	Outline specific policies and regulations, including carbon pricing, needed to facilitate transition plans	<a href="#">Recommendation 4</a>
Phase Out of Fossil Fuels and Scale Up Renewable Energy	Present the full implementation of the phasing-out of fossil fuels as presented in part 2	---
	Explain how the transition away from fossil fuels will be just for affected communities, workers and all consumers to ensure access to energy and avoid transfer of fossil fuel assets to new owners	<a href="#">Recommendation 5</a>
	Explain how the transition away from fossil fuels will be matched by a fully-funded transition toward renewable energy	<a href="#">Recommendation 5</a>
Align Lobbying and Advocacy	Publicly disclose trade association affiliations	<a href="#">Recommendation 6</a>
	Accounting, legal, PR and consultancies: Publicly disclose how customer engagement contribute to Net Zero and greenwashing is tackled	<a href="#">Recommendation 6</a>
	In transition plans and annual disclosure: outline policies and regulations, including on carbon pricing, to specific the emissions reductions possible if the listed policies and regulations were in place	<a href="#">Recommendation 6</a>
	Disclose lobbying and policy engagement policies and activities to demonstrate consistency with the transition plan	<a href="#">Recommendation 4</a>





Include People and Nature in the Just Transition	Explain contribution to protection of natural ecosystems (e.g. eliminating deforestation, wetland and peatland loss)	<a href="#">Recommendation 4</a>
Invest in a Just Transition	Demonstrate how the transition plan contributes to economic development and how just transition elements, resilience, inequality, gender and energy access are integrated	<a href="#">Recommendation 9</a>
	Explain contribution to a just transition	<a href="#">Recommendation 4</a>

**4 GET VERIFIED: Increase Transparency and Accountability**

Increase Transparency and Accountability	Annual disclosure of GHG data, Net Zero Targets and transition plans and progress towards meeting these	<a href="#">Recommendation 8</a>
	Report in a standardised, open format feeding into the UNFCCC Global Climate Action Portal	<a href="#">Recommendation 8</a>
	Verified reported emissions reductions by an independent third-party	<a href="#">Recommendation 8</a>
	When applicable: build sufficient capacity in developing countries to verify emission reductions	<a href="#">Recommendation 8</a>
	Seek independent evaluation of annual progress reporting and disclosures , metrics and targets and conduct internal controls on evaluation and verification of GHG reporting	<a href="#">Recommendation 8</a>
For the Net Zero voluntary initiatives and collective climate action groups:	Design a template for members to report pledges and annual reports	<a href="#">Recommendation 8</a>
	Verify that all relevant information is provided	<a href="#">Recommendation 8</a>
	Encourage independent evaluation of disclosures and set a timeline for mandatory independent evaluations	<a href="#">Recommendation 8</a>
	Report annually to the UNFCCC Global Climate Action Portal on progress, updates and performance of members	<a href="#">Recommendation 8</a>
	Compliance mechanism: ensure transparent process for delisting members and prior that ensuring an engagement process	<a href="#">Recommendation 8</a>
	Establish a process to research members non-compliance	<a href="#">Recommendation 8</a>
	Standardising reporting: work with policymakers and standard-setters to align and implement standardisation of reporting and to enable transparency	<a href="#">Recommendation 8</a>
	Compliant mechanism: ensure a process to receive and review public complaints	<a href="#">Recommendation 8</a>
	Governance: ensure avoiding conflict of interest and ensure geographic and institutional diversity	<a href="#">Recommendation 8</a>



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