MANAGEMENT

Pay to Stay

by Stuart Collins

Image Credit | Kevin Woblick

More firms should link bonuses to reduced business travel.

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On a warm morning at 8am in Copenhagen, 70 Americans make their way by bike and metro to the offices of Rambøll. For a San Francisco bicycle commuter like me, this is a minor miracle. I've biked to company offices before, but my colleagues generally call a car.

I listened in a giddy mood as my whole class of fellow MBA students chatted happily about the pleasant (and low-carbon emission) trip.

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Many companies, finally maneuvering to act on climate change, can skip years of fuddling by adopting the practices of trailblazers. Firms have published nifty environmental goals for years but found success elusive and produced only meager results.[11] While the business consequences of this failure have been minor, the future will be different as citizens and governments increasingly demand measurable and meaningful results. Adopting Nordic methods can serve as a learning shortcut. Many Nordic firms have, through trial and error, experiments and crisis, found a number of practices that work.[2]

Rambøll, an engineering, architecture and consulting firm based in Copenhagen, scrambled my American assumptions (and resignation) about the meager authenticity of business sustainability statements. In the auditorium we learned the basics of many of their methods, but what the COO of Rambøll, Michael Thorndahl Simmelsgaard, said sticks with me: "20% of my bonus is tied to our scope 3 emissions, mostly travel". That's saying something for a firm whose business is working with clients around the world. Business travel is inherent in their work. Yet revenues have grown 20% from 2021 to 2023.[3]

It's no surprise that Rambøll came from Denmark, as the Nordics are decades ahead of the US in developing sustainable business practices2. As with all wicked challenges that qualify to be articulated by the UN as a Sustainable Development Goal,[4] Climate Action (SDG 13) will not be achieved by any single action, but a broad array of actions at all levels of society and business. Nordic firms have implemented many actions, including supply chain emissions reporting, nudging employees to commute by bike and metro, and even wholly transforming business models from fossil fuel to renewable energy.[2, 5] Rambøll, amongst other actions, puts their money where their mouth is:[6]

"To reduce emissions from Business travel, we included a performance indicator [...] for top 300 managers. This links a percentage of their bonus to achieving a percentage reduction in CO2 emissions from business travel, by 2025."

Air Travel is a major contributor to climate change, estimated at 2.5% of global emissions, 15-20% of which is business travel.[7] Business travel is a significant source of emissions for firms in many industries but is especially pronounced in firms working with clients. Deloitte's 2023 business travel accounted for 28% of their total scope 1,2 & 3 emissions.[8] Though many firms link bonuses to various ESG metrics,[9] many are unfocused (linking to many metrics, diluting all), complicated (uninspiring and vulnerable to gaming the system), or of token size. Rambøll makes it simple and significant: 20% of the bonus is tied to business travel.

Other firms should adopt this straightforward and powerful pay structure. It positions firms for the future, uses existing incentive structures, and adjusts to the local choices of an employee.

Fitness for the future

Firms need to be fit to compete in the future world, not the past world. Like it or not, carbon pricing, mandated reporting, and public expectations are all widely expected to intensify. Governments, particularly in OECD countries, are debating or enacting carbon taxes and border adjustments.[10] Agencies such as the SEC are signaling imminent reporting regulation by drafting requirements of environmental metrics. Brands risk is rising for the many companies claiming 'sustainability' as a core value - they may reek of greenwashing, two-faced and unwilling to be who they say they are.[11]

Readily Implementable

When considering actions to reduce scope 1, 2 or 3 emissions, business travel is within easy reach. Calculating CO2 emissions from business travel is straightforward, and the necessary data is already logged in the company's expense management system. Firms are already well versed at gathering and reporting performance metrics to decision makers, so adding scope 3 emissions from company travel is entirely achievable in the short term. Using metrics to drive results is already the norm at high performing firms and signals to managers what's important.

Adjustable to scope of authority

To drive action, the employee being incentivized needs meaningful influence over the results being measured. Like the proverbial beach ball falling in the middle of a group, bonuses tied to company-wide metrics suffer from the problem of everyone expecting others to act. To address this, many high performing firms tie incentive pay to the local financial results of a manager's department, not the whole firm.[12] A manager could be similarly incentivized using business travel emissions from their unit.

Business travel incentives can be adjusted to fit the scope of authority of any employee. A front-line employee assigned to travel by their management shouldn't have their bonus tied to business travel, but the executive setting policy for the department should. An office-going employee who chooses how they commute could be incentivized to choose low emission commuting (e.g. metro, bike, walking etc.).

A Chance to Catch Up

Global firms have their work cut out for them, and the business costs and reputational risks of being laggards on climate action will only intensify from here. The Nordic firms are by no means perfect or even carbon neutral, but they have gained valuable experience and are willing to share their methods.

A meaningful action firms can implement in the short term is linking bonuses to business travel emissions. This will reduce business risks, fit with current incentive models, and adjust to the scope of authority of managers. Business travel norms don't change overnight, so managers need an incentive today to reformulate contracts and develop travel-light methods.

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