BC ESG • EXECUTIVE COMPENSATION REFERENCE

Pharma ESG Pay Quick Scorecard: Metric Families, Pay-Mix Placement & Disclosed Models

Current version — Oct 31, 2026
Update history: https://bcesg.org/pharmaceutical-companies-esg-executive-compensation/

CORE OPERATING PRINCIPLE: PHARMA'S DISTINCTIVE "S" AND PAY GRAMMAR

In pharmaceutical companies, ESG executive compensation ties non-financial incentive pay to material operational outcomes: access to medicines, patient safety, product quality, pipeline progression, and decarbonization. Unlike generic corporate sustainability, pharma's "S" measures core externalities: whether medicines reach patients in low- and middle-income countries, whether products are safe, and whether clinical data can be trusted. Heaviest ESG weightings sit in **Long-Term Incentives (LTI)** where 3-year performance periods align with clinical and access pathways, while catastrophic risks operate as **asymmetric gates or downward modifiers**.

THE 5 CORE PHARMA ESG METRIC FAMILIES: WHERE EACH SITS & DISCLOSED BENCHMARKS

METRIC FAMILY	WHERE IT TYPICALLY SITS	DESIGN LOGIC & MEASUREMENT	DISCLOSED INDUSTRY PRECEDENT (2026 FILINGS)
1. Access to Medicines	LTI (PERFORMANCE SHARES)	Multi-year operational scale; volume/patients reached in low- & middle-income nations; external index benchmark.	**Sanofi:** "Affordable Access" (supplying essential medicines for non-communicable diseases via Sanofi Global Health Unit) carries 50% of its 20% CSR LTI condition.
2. Carbon Reduction	LTI & ANNUAL OBJECTIVES	Scope 1 & 2 emissions against fixed baseline; physical quantity verified by SBTi; impossible to re-scope quietly.	**Sanofi:** "Planet Care" (Scope 1 & 2 reduction vs. 2019 baseline) carries other 50% of 20% CSR LTI. **AstraZeneca:** Ambition Zero Carbon GHG KPI flagged directly in remuneration report.
3. Patient Safety, Quality & Compliance	GATE, UNDERPIN OR MODIFIER	Asymmetric subtraction: baseline expectation adds 0%, but major quality/safety failure or warning letter zeros or cuts pay.	**Industry Standard:** Formal gateway / underpin and malus/clawback provisions. Prevents payout on financial targets if serious patient safety or compliance breach occurs.
4. Pipeline & Innovation Delivery	ANNUAL BONUS & LTI BLOCKS	Operational/strategic block; mix of leading indicators (trial starts, enrolment, data readouts) vs. binary approvals.	**GSK:** Annual bonus includes pipeline milestone execution alongside financial and Responsible Business elements. Avoids retrospective redefinition.
5. Trust, Governance & Responsible Business	ANNUAL BONUS SCORECARD	Governed non-financial scorecards; collective leadership objectives; ESG compliance culture.	**GSK:** Responsible Business block in annual bonus assessed with Corporate Responsibility Committee. **Novartis:** Exec Committee & senior leader annual ESG targets.

ARCHITECTURAL PAY-MIX MATRIX: STRUCTURING SHORT-TERM VS. LONG-TERM INCENTIVES

Annual Bonus (Short-Term Incentive • 1-Year Horizon)

- **Financial Dominance Floor:** Financial measures must comprise at least 50% of the bonus mix (e.g., GSK model) to maintain investor support.
- **Responsible Business Block:** Non-financial goals set at start of year; evaluated by Remuneration Committee with input from Corporate Responsibility Committee.
- **Target Weighting Band:** ESG typically accounts for 10% to 20% of annual variable compensation (e.g., Sanofi's 10% individual sustainability criterion).
- **Mandatory Share Deferral:** Best practice defers a portion of earned annual bonus into shares for 3 years, reinforcing multi-year alignment.

Performance Shares (Long-Term Incentive • 3-Year Horizon)

- **Multi-Year Horizon Match:** Reserved for slow-moving, structural transformations: access infrastructure, emissions reductions, and major clinical pipelines.
- **Formulaic Points-to-Payout Mechanics:** Sanofi 20% CSR model allocates points per annual milestone with stretch points converting via an audited table.
- **Auditable Fixed Baselines:** Requires fixed baseline years (e.g. Sanofi 2019, AstraZeneca 2015) to prevent mid-cycle dilution or hidden resets.
- **External Benchmark Verification:** References third-party yardsticks (Access to Medicine Index, SBTi validation) to eliminate subjective discretion.

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Pharma ESG Pay Quick Scorecard: Disclosed Structures, Gate Mechanics & Proxy Tests

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THREE MAJOR DISCLOSED ARCHITECTURES: SANOFI VS. GSK VS. NOVARTIS

1. Sanofi: Formulaic Points Model

- **Weighting:** 20% CSR condition in 3-year performance shares (LTI).
- **Objectives:** 50% Affordable Access (Global Health Unit NCD supply); 50% Planet Care (Scope 1 & 2 carbon reduction vs. 2019 baseline).
- **Mechanics:** Annual points earned (target = 1 pt, stretch = +1 pt). 3-year points convert to CSR allocation rate:
  - *< 3 points:* **0% payout**
  - *6 points:* **100% target payout**
  - *8 points:* **120% maximum payout**
- **Short-Term Layer:** 10% individual sustainability criterion in annual bonus + collective Exec Committee objectives.

2. GSK: Governed Block & Floor

- **Structure:** Responsible Business measures embedded in annual bonus alongside financial and operational goals.
- **Financial Dominance:** Strict floor of **≥ 50% financial measures** in annual bonus scorecard.
- **Governance:** Remuneration Committee assesses performance with direct input from board-level Corporate Responsibility Committee.
- **De-risking:** Sustainalytics estimates ~10% executive pay tied to ESG; bonus deferral into shares for 3 years; ranked 1st on Access to Medicine Index and Access to Vaccines Index.

3. Novartis: Objective Integration

- **Structure:** Disclosed ESG targets embedded directly into annual objectives for Executive Committee members and senior leaders.
- **Accountability:** Evaluates leaders annually against specific material remit rather than generic company-wide scores.
- **Strategic Commitment:** Expanding global access to medicines tied directly to executive performance reviews.
- **Engagement:** Active dialogue with institutional shareholders and proxy advisors on linkage and disclosure rigor.

SAFETY, QUALITY & COMPLIANCE: THE ASYMMETRIC GATING ARCHITECTURE

MECHANISM	OPERATIONAL TRIGGER & IMPACT	PROXY ADVISOR & INVESTOR STANDARD
Gateway / Underpin	Breach of defined safety, quality, or compliance threshold zeroes or caps payout across bonus or equity plans.	**Glass Lewis 2026:** Requires financial underpins/gateways for non-financial metrics; penalizes plans that reward executives despite core operational failures.
Malus Provisions	Forfeiture or reduction of unvested performance shares or deferred annual bonus before payment.	**ISS Standard:** Must be enforceable for major compliance, data-integrity, or clinical trial protocol violations without requiring criminal conviction.
Clawback Policy	Post-vesting recovery of paid cash or settled shares following material restatement, misconduct, or safety failures.	**ISS 2026 Expectation:** Policies must exceed statutory floors (e.g. SEC Rule 10D-1) by covering time-vesting equity awards and non-financial misconduct.
Committee Discretion	Documented board power to reduce formulaic payouts downward for qualitative risk events.	Must be accompanied by full retrospective disclosure explaining why discretion was or was not applied during a major incident.

THE 4-PILLAR CD&A DISCLOSURE STANDARD & ISS / GLASS LEWIS SCRUTINY TESTS

The 4 CD&A / Remuneration Report Disclosure Pillars

1. Stated Weighting: Disclose exact percentage weight (e.g., 20% CSR LTI, 10% bonus) rather than generic "ESG is considered."
2. Identifiable Targets: Named operational programs (Sanofi Global Health Unit) and fixed baselines (2019/2015 Scope 1 & 2) replace vague categories.
3. Published Conversion Mechanics: Points-to-payout tables and formulaic payout curves allow investors to recompute outcomes independently.
4. Retrospective Reconciliation: Disclose targets, actual achievements, and resulting payouts in the subsequent compensation report.

ISS & Glass Lewis 2026 Governance Quality Tests

- **No Undisclosed Goals (The #1 Negative Catalyst):** In ISS 1H 2026 review, opaque/undisclosed goals caused 27 of 36 negative S&P 500 say-on-pay recommendations.
- **Objective & Quantifiable:** ISS grades rigor: formulaic operational goals pass; subjective narrative evaluations invite scrutiny.
- **No Mid-Cycle Resets:** In-flight target adjustments or re-baselined emissions goals viewed negatively without extraordinary compelling disclosure.
- **Financial Underpins:** Glass Lewis votes against non-financial plans lacking financial performance gates.