

ESG Metrics in Executive Compensation: A Multitasking Approach

We model firm executives' compensation incentives when ESG metrics are added to their performance-vested contracts. Drawing on multitasking theory, we predict that incentives tied to standard accounting or financial metrics are reduced after introducing ESG metrics to induce executives to reallocate effort toward ESG goals. Empirically, the expected pay–performance sensitivity of standard metrics decreases by about 20% after

ESG adoption, especially when ESG metrics are more numerous, less complementary, or less measurable. The tradeoff is associated with improved ESG ratings, consistent with efficient incentive design under multitasking that optimally balances effort across financial and ESG objectives.