

# ESG Metrics in Executive Incentive Plans at S&P 500 Companies

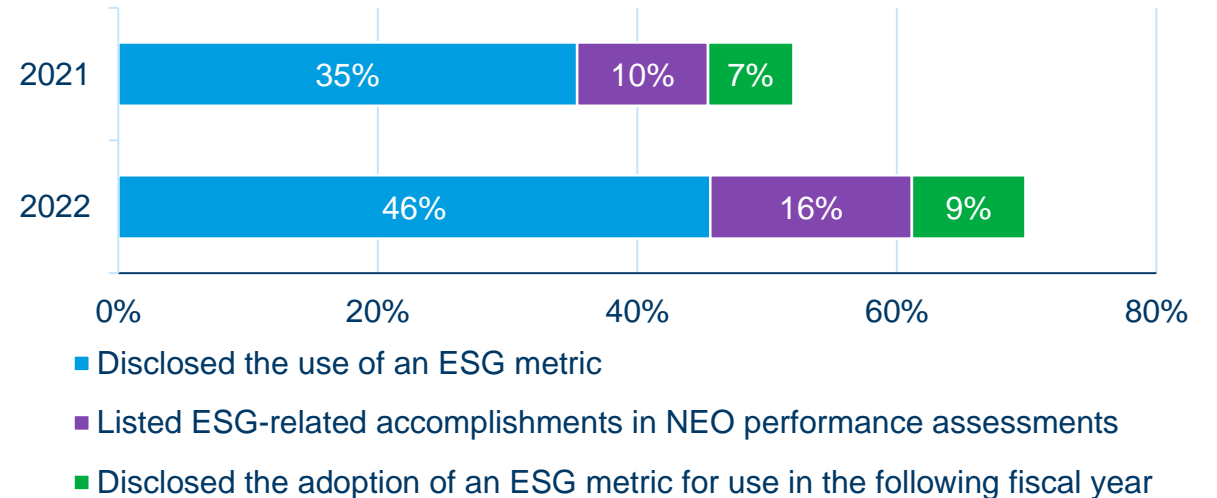
April 2022

# ESG Metrics in Executive Incentive Plans at S&P 500 Companies

## Overall Prevalence

- Based on a preliminary analysis of 2022 proxies filed by approximately 200 S&P 500 companies
  - Usage of an **ESG metric** increased from **35% to 46%**
  - The percentage of companies that listed an **ESG-related accomplishment** in NEO performance assessments increased from **10% to 16%**
  - A further 9% of companies disclosed that they intend to use an ESG metric next year

Prevalence of ESG Metrics Disclosed in Executive Incentive Plans



- It is likely that at least **70% of S&P 500 companies** will disclose a pay program that incorporates **ESG** metrics or accomplishments in some form next year

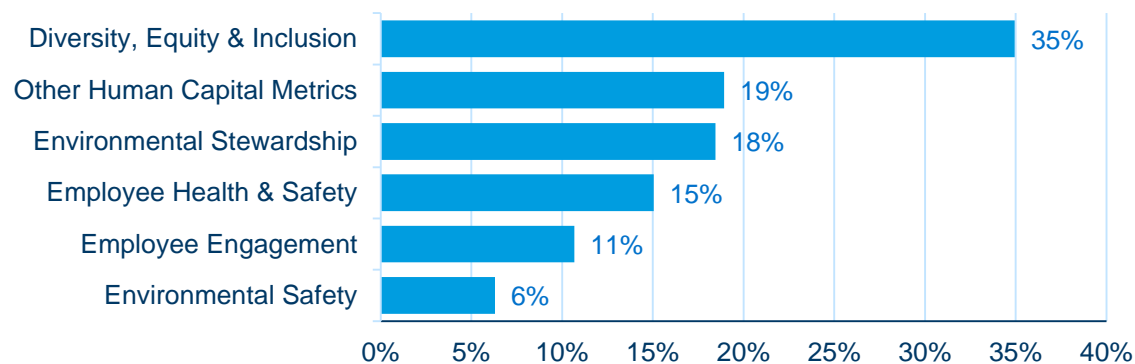
*To be considered an ESG metric for purposes of this analysis, the metric was required to be described by the company as a predetermined goal or objective that was established at the beginning of the performance period. The way in which the metric was evaluated (qualitative vs. quantitative) or structured (standalone vs. grouped with other strategic / non-financial goals) was not a factor; however it needed to be clear that the goal or objective had a direct impact on the final payout of the award.*

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## Types of Metrics Disclosed

- ESG metrics come in many different forms, but for purposes of this analysis were grouped into six categories; examples of each metric include:
  - Diversity, Equity & Inclusion: Actions to address racial injustice internally, diversity goals at particular employee levels, diversity recruiting goals, increasing supplier spend to minority- and female-owned firms
  - Employee Health & Safety: Reducing incident rates and serious injuries / fatalities, lowering lost work days
  - Other Human Capital Metrics: Talent management, retention of top talent, reducing voluntary turnover, recruiting top talent, succession planning
  - Environmental Stewardship: Reducing CO2 emissions, prioritizing green energy, sustainability initiatives
  - Employee Engagement: Steps to drive employee commitment and engagement, use of employee engagement surveys
  - Environmental Safety: Reducing hazardous spill and releases, limiting significant environmental violations

ESG Metric Prevalence by Type

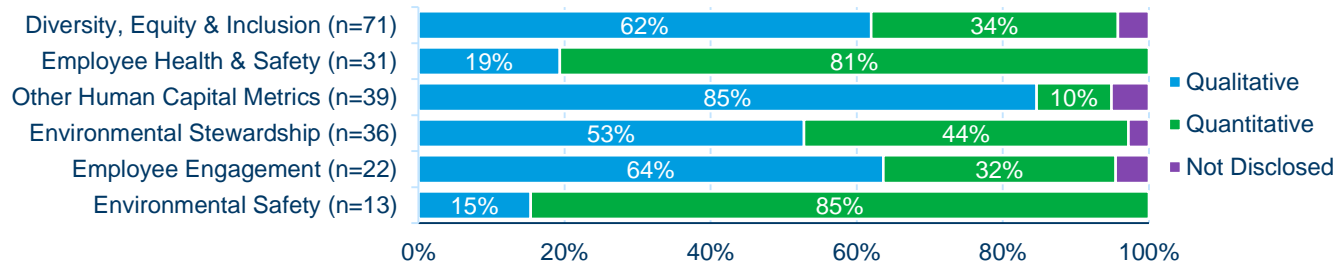


- Diversity, Equity and Inclusion (DEI) metrics were the most prevalent amongst the sample, followed by Other Human Capital Metrics
- DEI metrics were used by companies throughout the sample, while Environmental Safety and Employee Health & Safety were generally concentrated in select industries

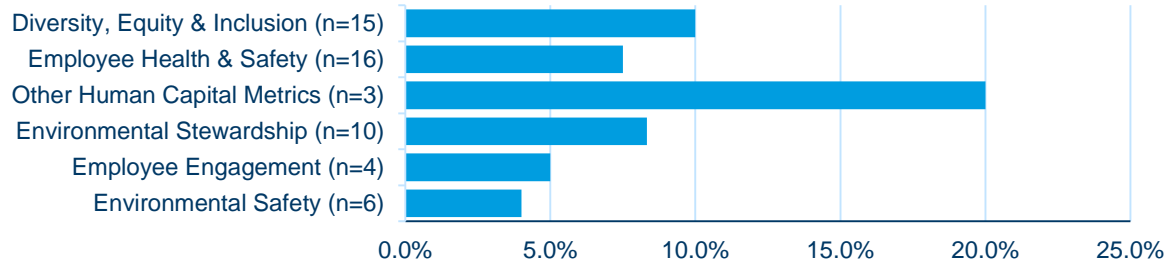
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## Evaluation, Weighting and Time Frame

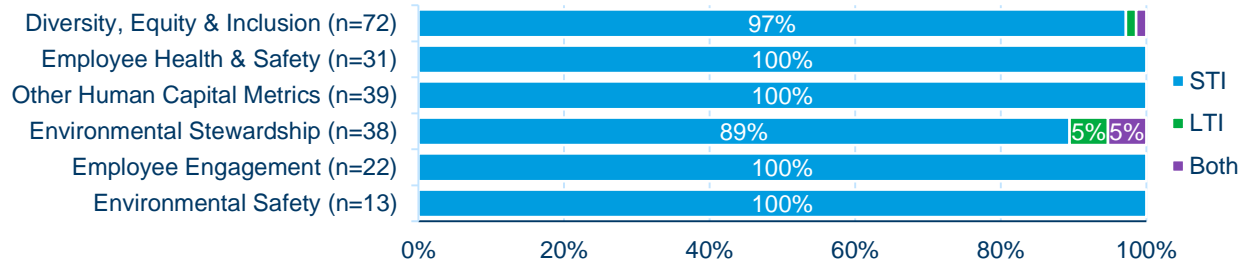
Evaluation Methodology\*



Standalone Metrics Median Weighting\*



Time Frame



- DEI and human capital metrics are typically evaluated qualitatively while most safety and environmental metrics are quantitative

- When evaluated as an independent, standalone measure, ESG metrics are typically weighted between 5% - 10%

- A large majority of ESG metrics are used in STI plans, with Environmental Stewardship having the highest LTI usage

\*Statistics based on STI metrics only.

