

2021 Report on ESG Metrics in executive incentive plans

Willis Towers Watson's
Global Executive Compensation Analysis Team

November 2021

ESG metric classification

How WTW's internal metric definitions fit the broader ESG framework



Human Capital metrics are part of the Social category



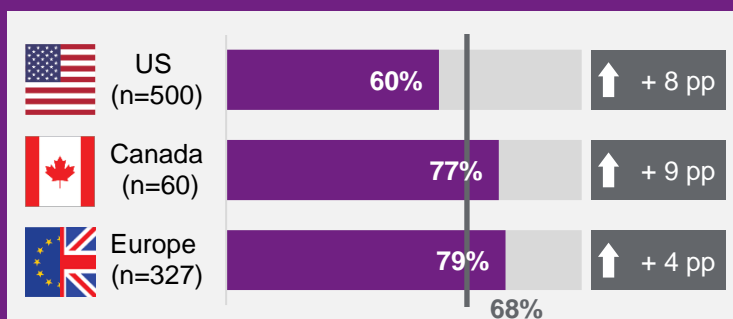
Prevalence of ESG metrics in executive incentive plans

Overall prevalence of ESG metrics in the US, Canada and Europe – a regional comparison

All plans

68%

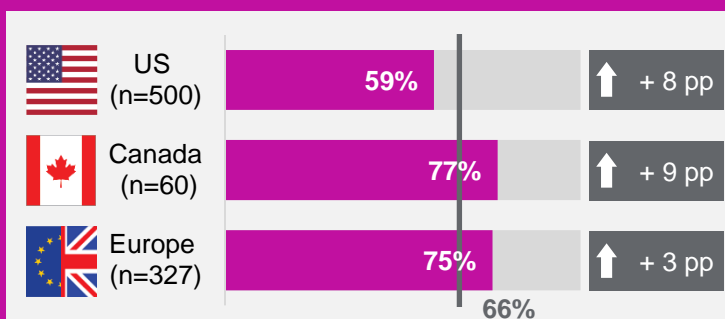
of **companies** incorporate ESG metrics in their incentive plans.



STI plans

66%

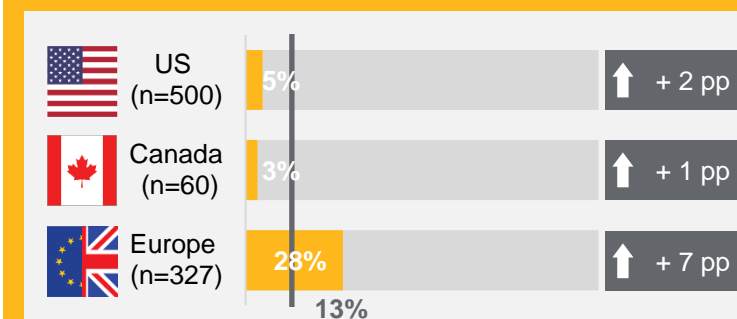
of **companies** incorporate ESG metrics in their STI plans.



LTI plans

13%

of **companies** incorporate ESG metrics in their LTI plans.



- With increasing investor focus, overall use of ESG metrics within incentive plans rose to 68%, up 6 percentage points over the prior year (62%).
 - STI plan usage is up 6 percentage points from 60% in the prior year. Most of the growth relates to an uptick in usage in Canada and the US, where companies have traditionally lagged in prevalence compared to Europe. ESG STI use in Canada now exceeds that of Europe (77% vs. 75%).
 - LTI plan usage is up 3 percentage points from 10% in the prior year. As with adoption and usage of ESG in STI plans, Europe leads the use and growth trend in LTI as well, where ESG metrics are now included in more than one quarter (28%) of all European companies.

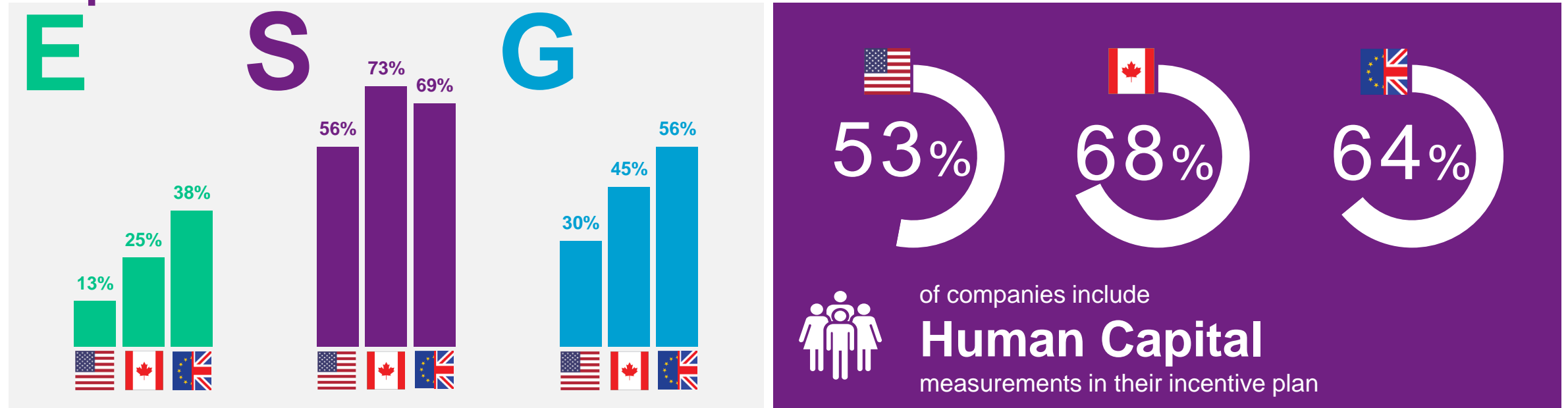
n = number of companies



Prevalence of ESG metrics in executive incentive plans

Which ESG metrics are incorporated into executive incentive plans – a regional comparison

All plans



Social

is comprised of multiple metric categories that encompass Human Capital Management goals, and is ubiquitous among companies with ESG incentive plan metrics.

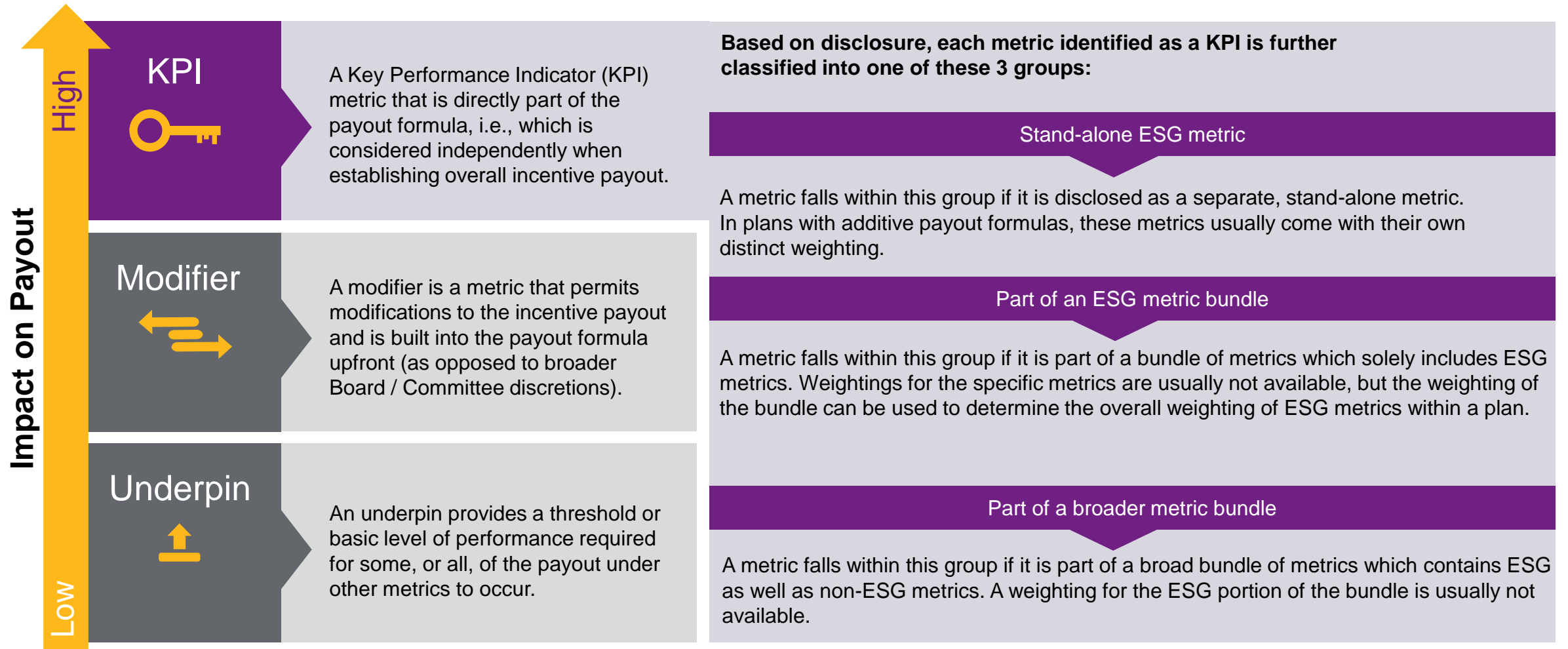
Customer Service metrics are included under Social but are not included within the determination of Human Capital metric usage.

All percentages are expressed as % of all companies in the sample



Impact of ESG metrics on payout – Methodology

How ESG metrics are incorporated into incentive plans





Data sample

This section is based on disclosures from the companies listed in the S&P 500



United States

500 companies

The S&P 500 index measures the large-cap segment of the U.S. equity market.



LQ	\$ 15,346
Median	\$ 26,973
UQ	\$ 58,241



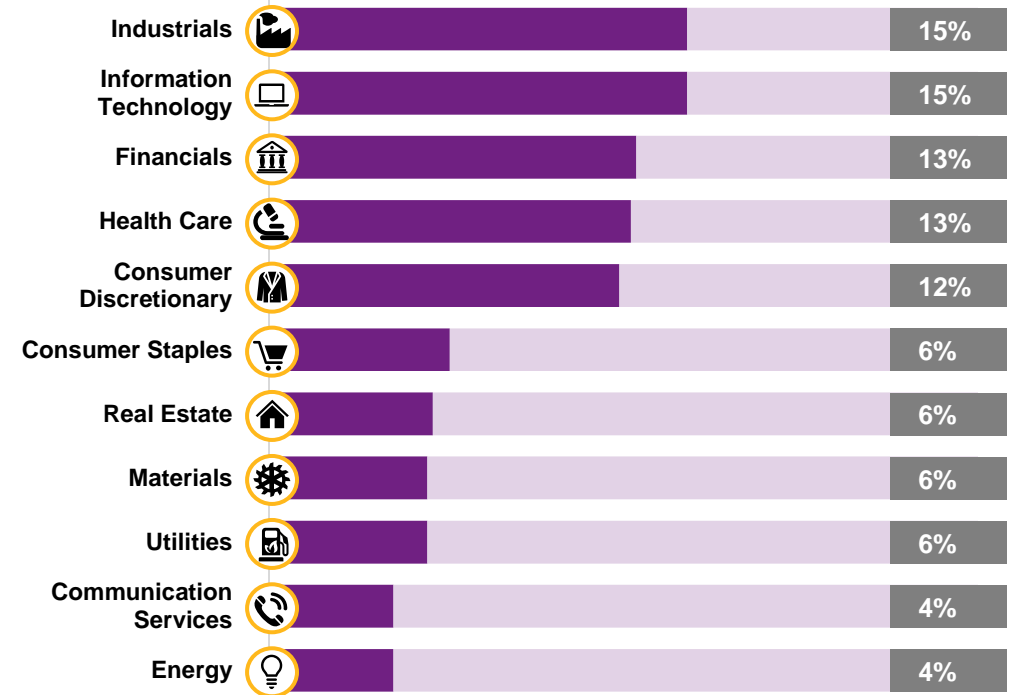
LQ	\$ 4,251
Median	\$ 9,603
UQ	\$ 19,555



LQ	9,025
Median	18,988
UQ	52,221



Distribution among industries

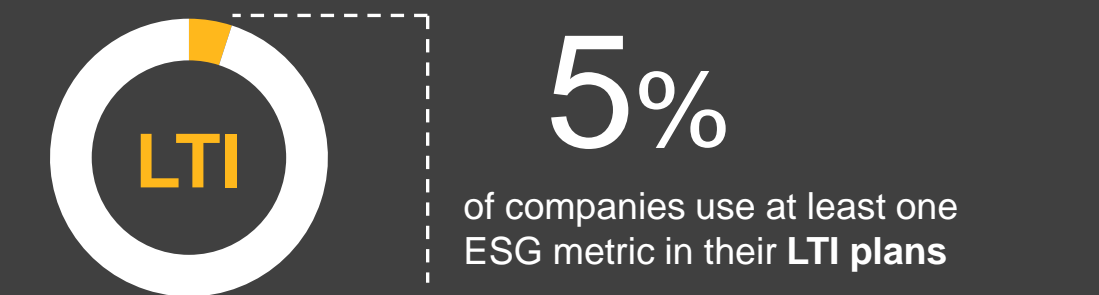
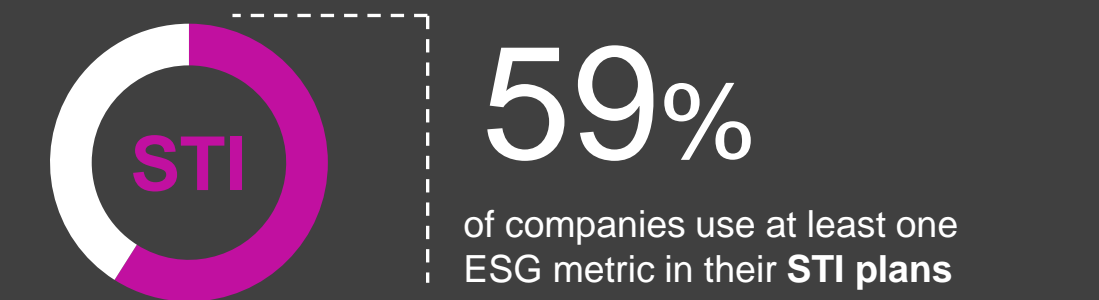
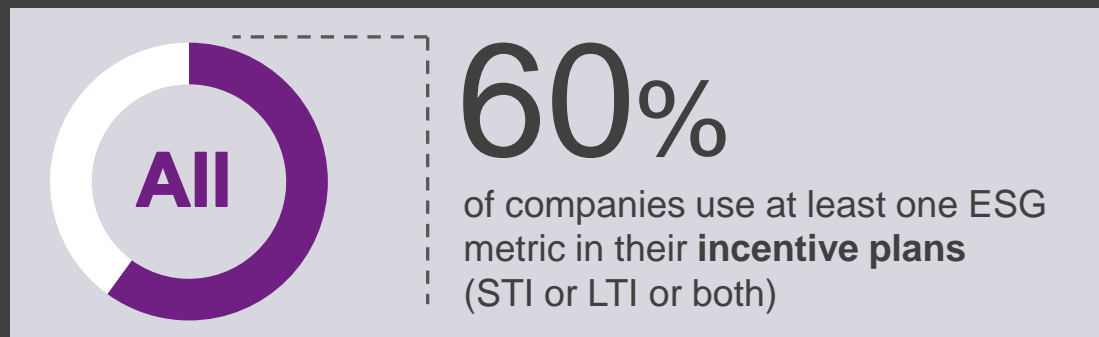


- Market capitalization as per December 31, 2020; displayed in million US\$.
- Revenues are displayed in million US\$. Companies from the financial sector are excluded from the revenue statistics.
- Sector breakdown is based on the 11 Global Industry Classification Standard (GICS) sectors.

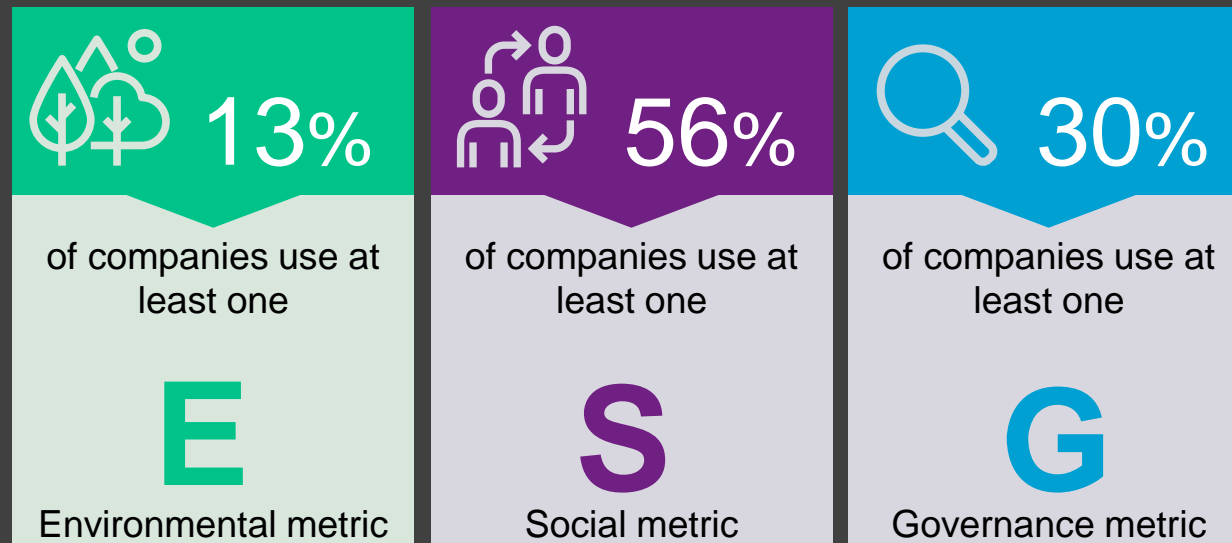
ESG Highlights in the United States



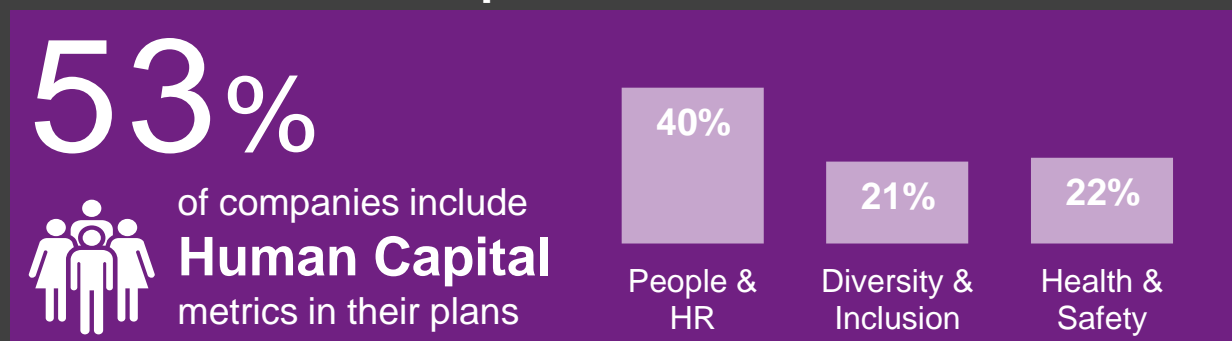
Overall prevalence of ESG metrics



Prevalence by ESG category



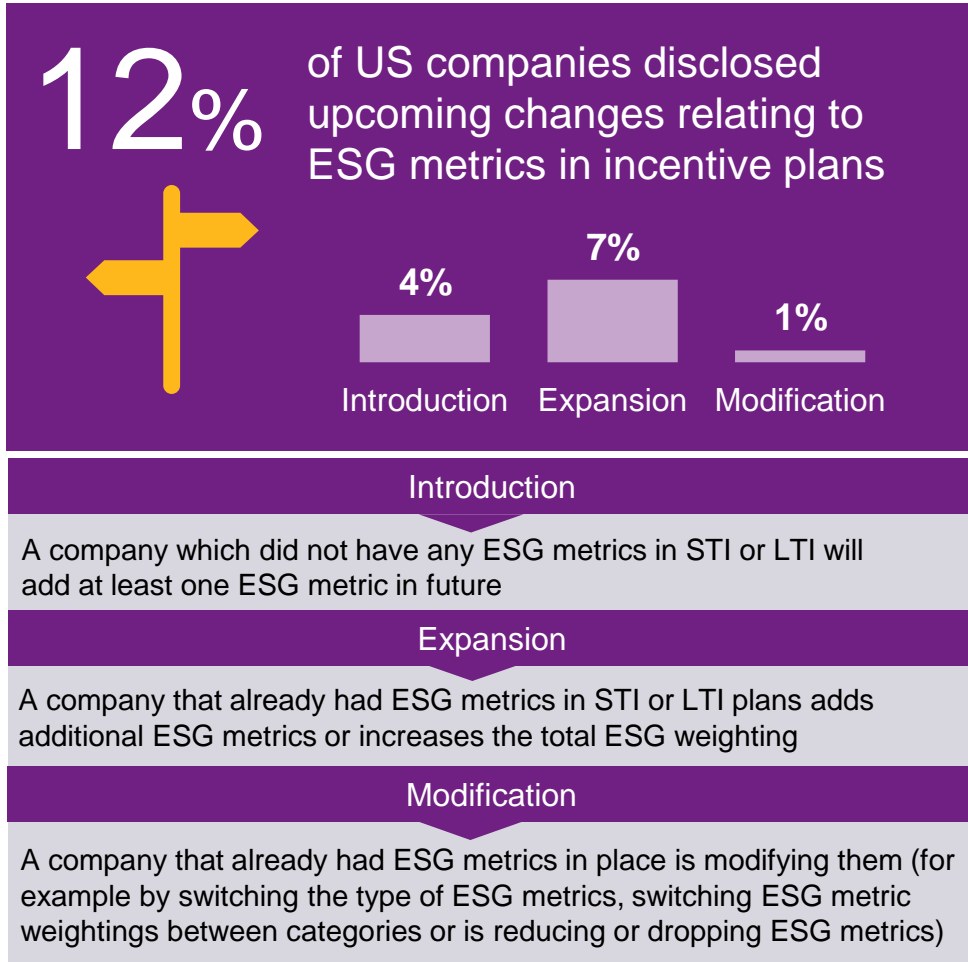
Focus on Human Capital





Outlook: forward-looking ESG trends

Expected changes to ESG metrics in incentive plans in the United States



- Forward-looking data represents only companies which disclosed upcoming changes within their current proxy filings
- Of those companies that are adding ESG metrics (through introduction or expansion), 32% are adding them as modifiers, while 14% are adding them as part of a metric bundle. **16% are adding ESG measures as stand-alone metrics** with weightings ranging between 5% and 15%. The remainder did not disclose how the metrics will be added
- 54 out of 57 companies are adding the ESG metrics as part of their **STI plan**
- See the chart below for an analyses of the type of ESG metrics that are added either through introduction or expansion. Percentages are expressed as % of companies that have disclosed to add at least one ESG metric
- Note that any one company may be planning several types of change.
- The governance category includes generic or undisclosed “ESG metrics”





Prevalence of ESG metrics in executive incentive plans

Overall prevalence of ESG metrics in the United States

All plans

60%

of companies in the S&P 500 incorporate ESG metrics in their incentive plans.



This number increased by **+ 8 pp** since previous year

STI plans

59%

of companies in the S&P 500 incorporate ESG metrics in their STI plans.



This number increased by **+ 8 pp** since previous year

LTI plans

5%

of companies in the S&P 500 incorporate ESG metrics in their LTI plans.



This number increased by **+ 2 pp** since previous year

- The year-over-year changes reflect the S&P 500 companies that were analyzed in 2020 (for Fiscal Year 2019) and in 2021 (for Fiscal Year 2020) so there may be some variance due to companies being added or falling out of the S&P 500 index.
- A handful of S&P 500 companies which did not have a prior ESG metric in the previous year added a COVID-related goal (primarily Customer Service or Health & Safety related) to their incentive plans as part of their response to the pandemic, but most companies that added ESG metrics relating to COVID-19 already had an ESG metric in place. Most of these changes occurred in STI plans.

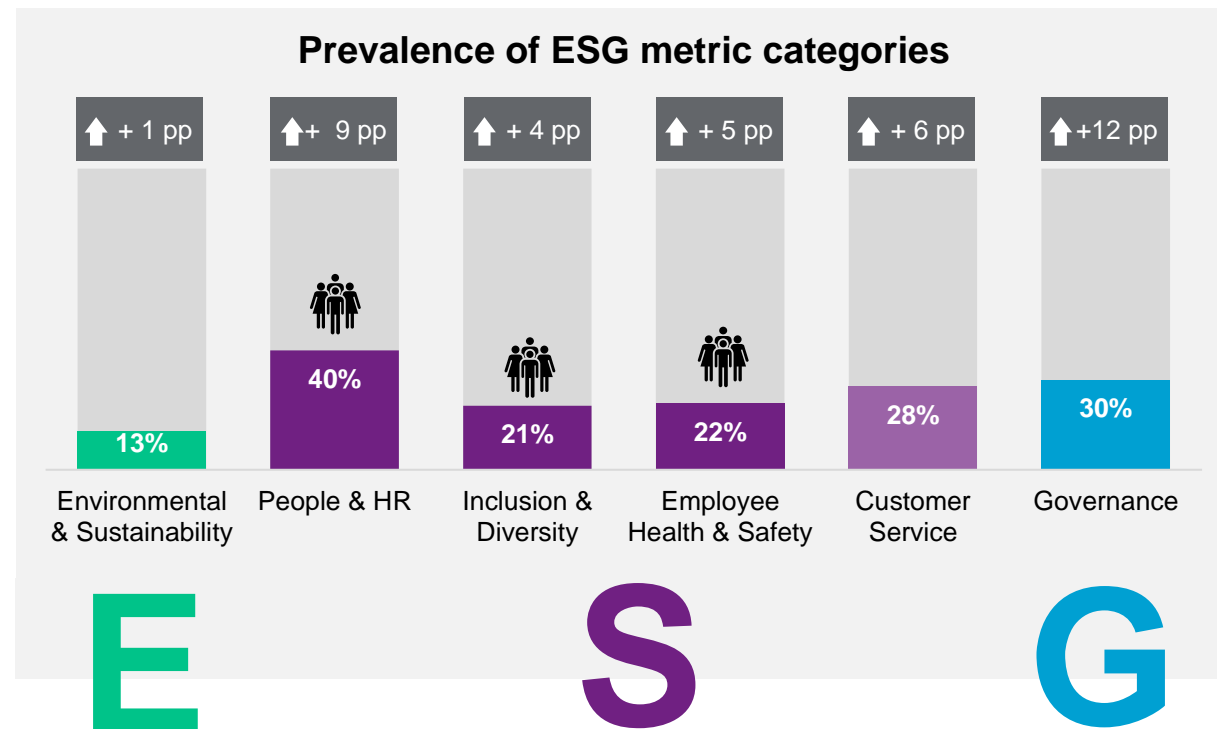
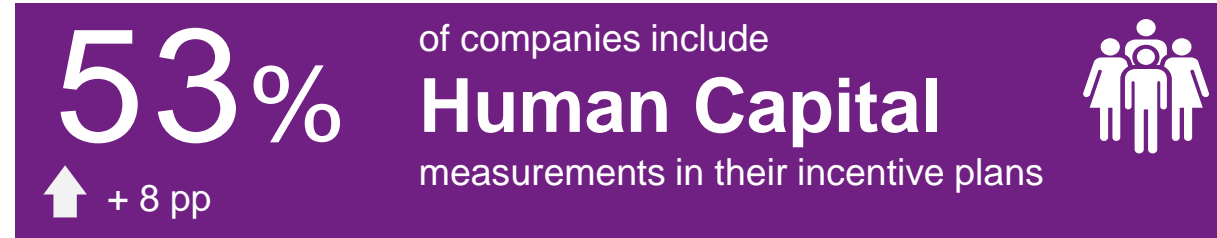
n = number of companies



Prevalence of ESG metrics in executive incentive plans

Which ESG metrics are incorporated into executive incentive plans in the United States

All plans



Social is comprised of multiple metric categories that encompass Human Capital Management goals, and is ubiquitous among companies with ESG incentive plan metrics.

65% of companies that use Social metrics do so across multiple categories.

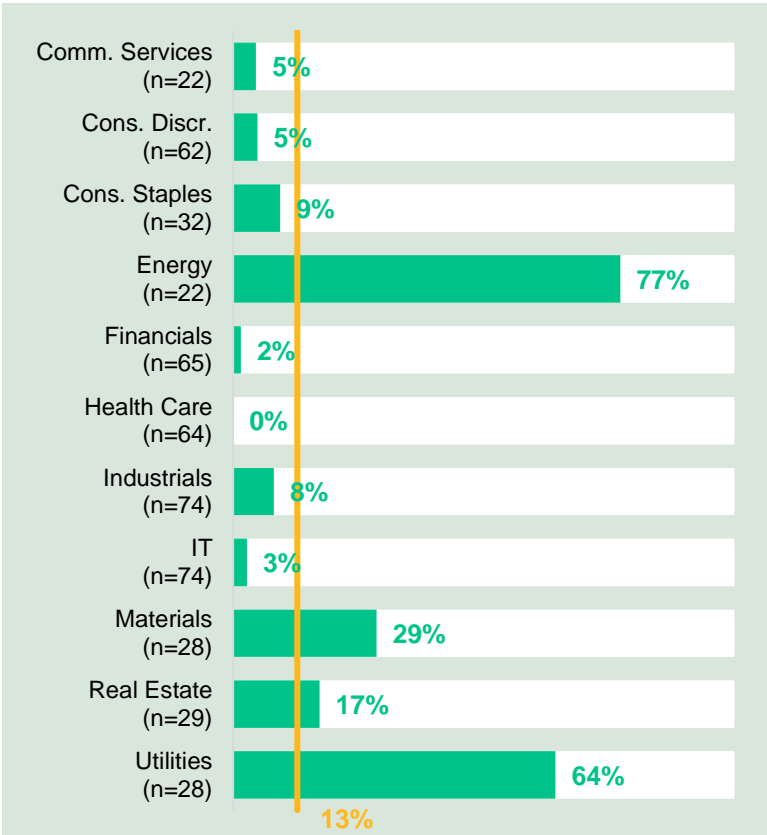
All percentages are expressed as % of all companies in the sample



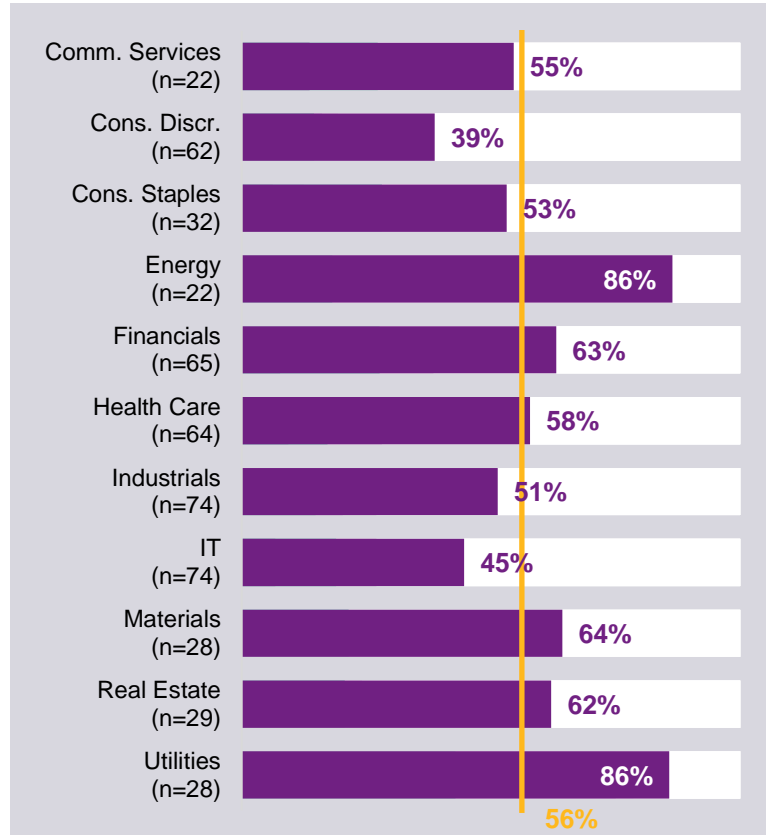
Prevalence of ESG metrics in executive incentive plans

Breakdown of ESG metric categories by industry in the United States

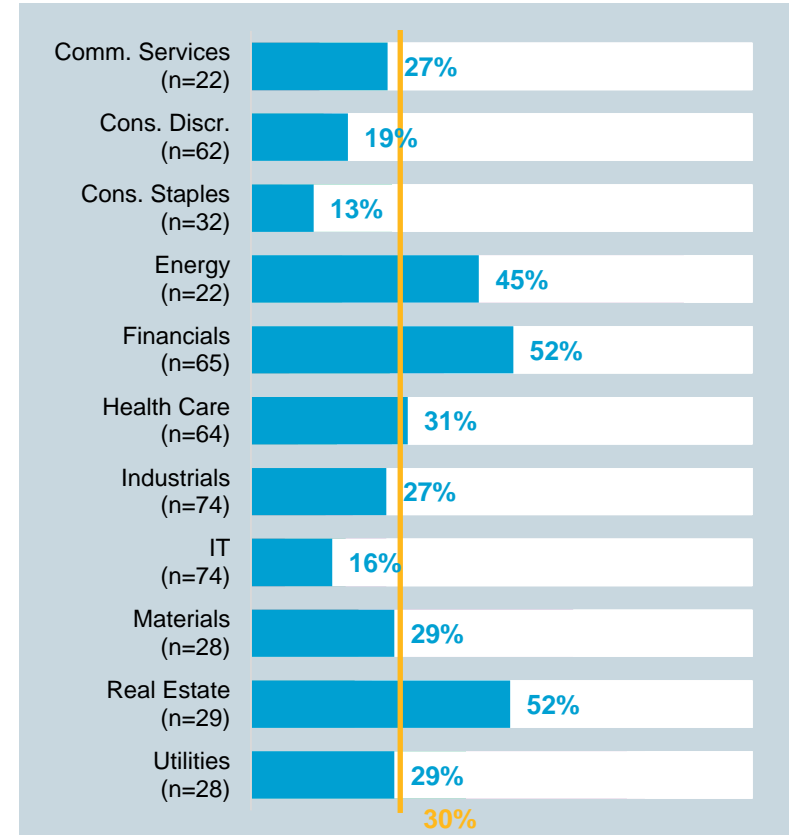
E Environmental & Sustainability



S Social



G Governance



n = number of companies

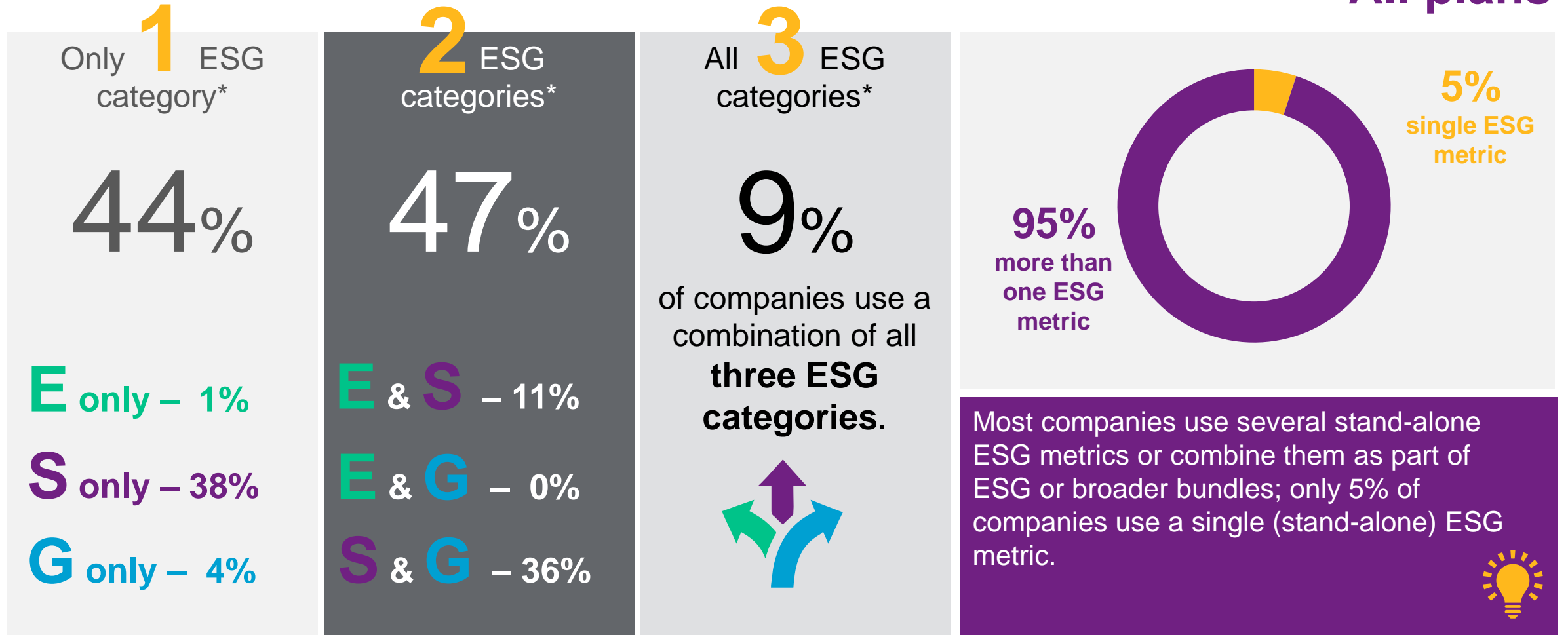


Prevalence of ESG metrics in executive incentive plans

Number and combination of ESG metrics in the United States



All plans



* "ESG categories" refers to either Environmental, Social or Governance
All percentages are expressed as % of all companies that have at least one ESG measure in place



Impact of ESG metrics on payout

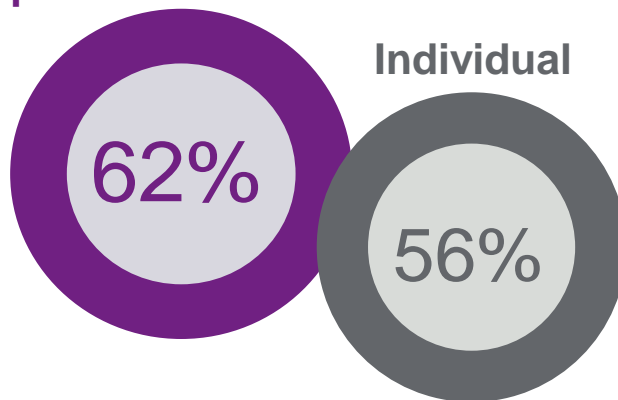
How ESG metrics are measured incentive plans in the United States

All plans

 **35%**

of all companies with ESG metrics are measuring at least one of them **quantitatively**

Corporate / Business Unit

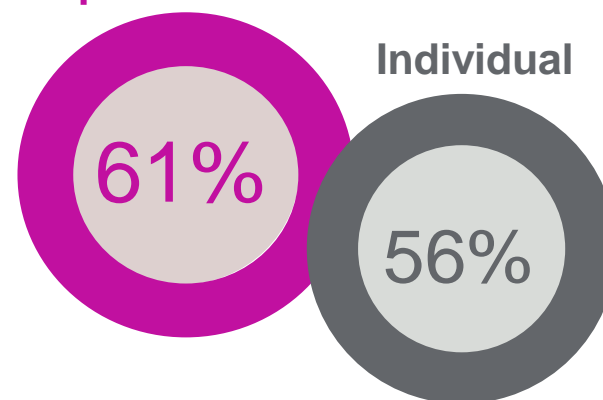


STI plans

 **33%**

of all companies with ESG metrics in their STI plans are measuring at least one of them **quantitatively**

Corporate / Business Unit

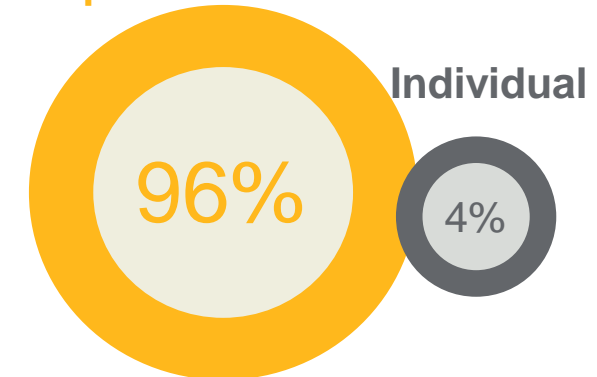


LTI plans

 **75%**

of all companies with ESG metrics in their LTI plans are measuring at least one of them **quantitatively**

Corporate / Business Unit

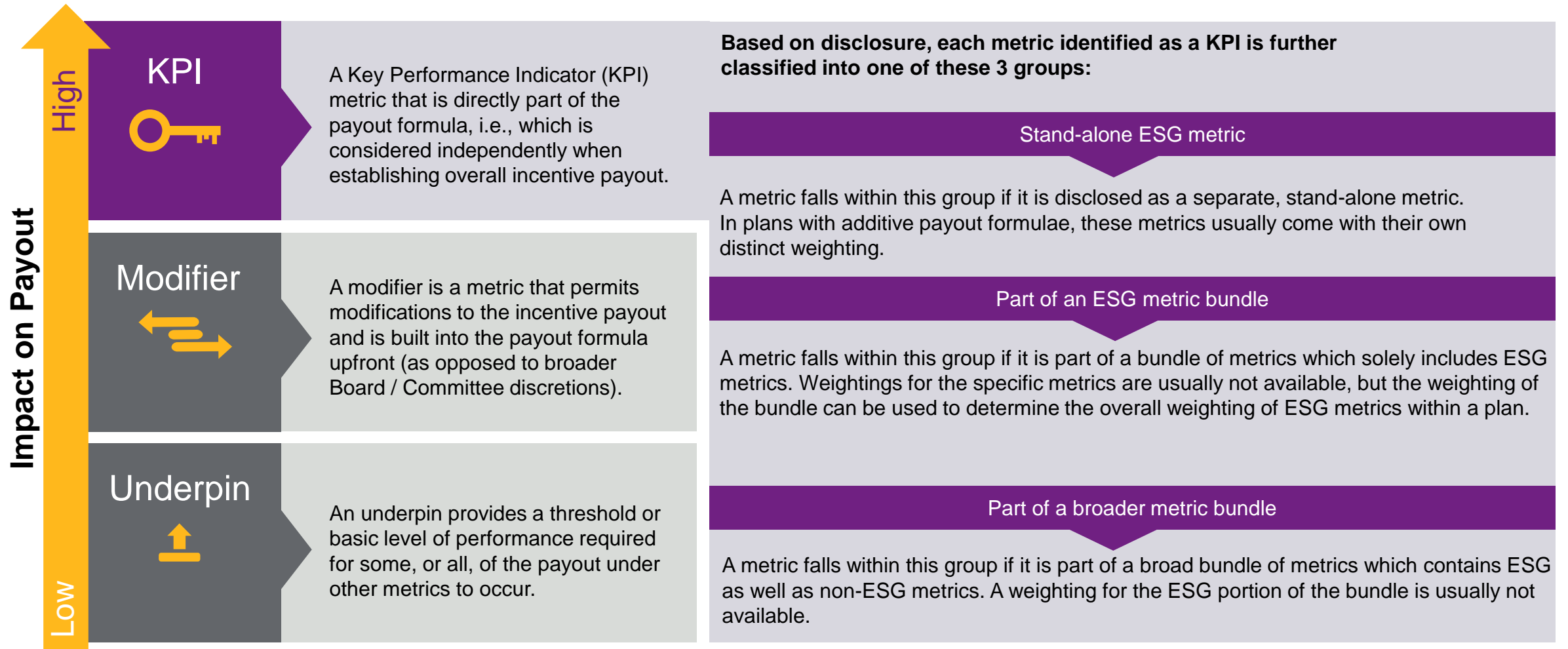


All percentages are expressed as % of companies with at least one ESG metric (in all plans / STI plans / LTI plans)



Impact of ESG metrics on payout – Methodology

How ESG metrics are incorporated into incentive plans

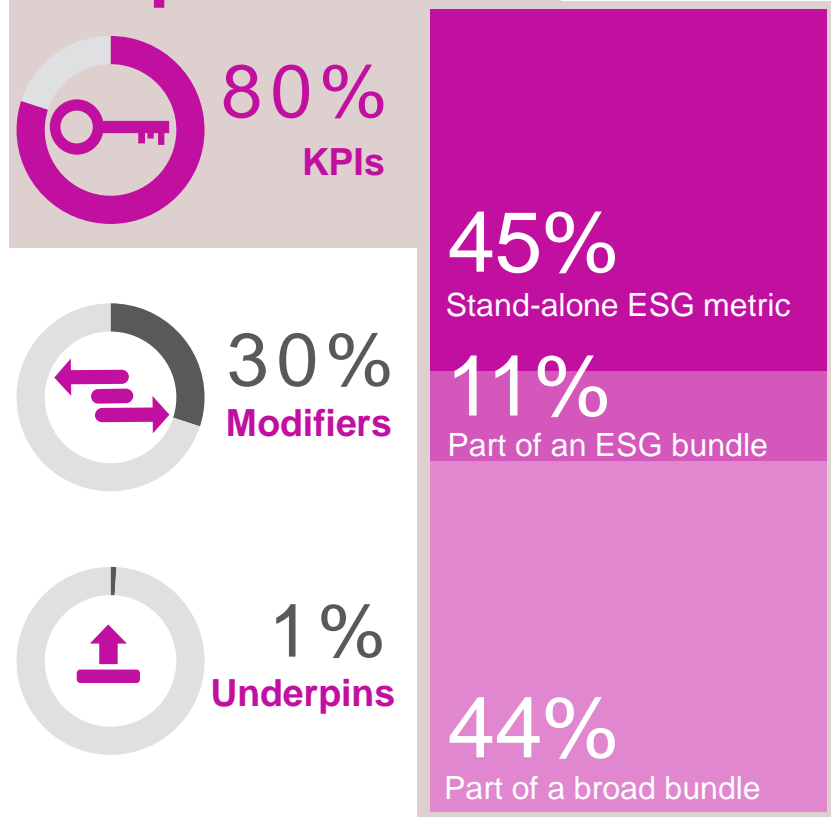




Impact of ESG metrics on payout

How ESG metrics are incorporated into incentive plans in the United States

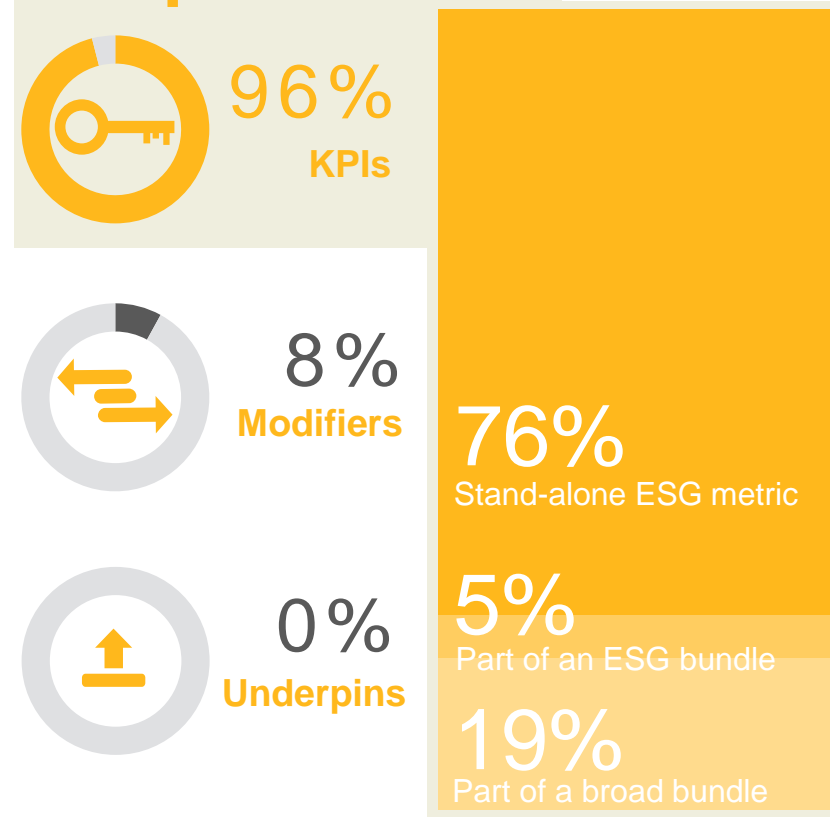
STI plans



The median overall weighting* of ESG metrics in STI plans is

15%

LTI plans



The median overall weighting* of ESG metrics in LTI plans is

20%

* The median overall ESG weighting is based on all plans where a distinct weight of ESG metrics could be determined, i.e. it is comprised of the stand-alone ESG metrics as well as the pure ESG bundles. The broader bundles that contain ESG and non-ESG metrics have not contributed to this statistic.

Global Executive Compensation Analysis Team (GECAT)

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