

# ESG Incentive Metrics

S&P 500 Highlights

Willis Towers Watson's  
Global Executive Compensation Analysis Team

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# Key findings

## S&P 500 Use of ESG Metrics

### Overall Prevalence

51%

Incorporate ESG metrics in their incentive plans

50%

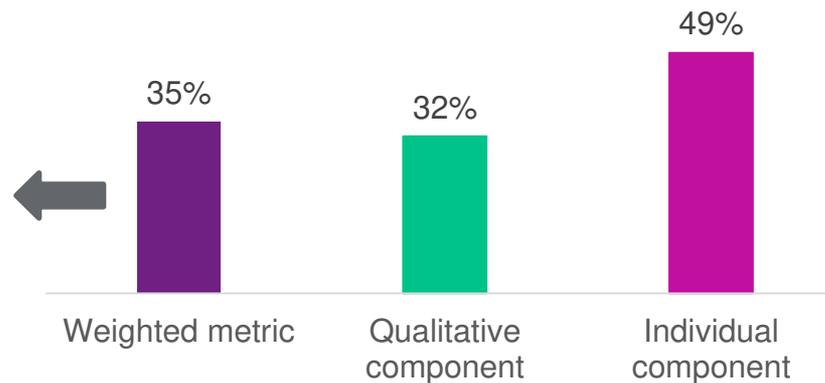
Include ESG metrics in annual incentive programs

4%

Include ESG metrics in long-term incentive programs

### How ESG measures are incorporated into annual incentive programs

The typical weighting of all ESG metrics (some companies use multiple ESG metrics) is 18%, but range from 5% to 40% of AIP measures



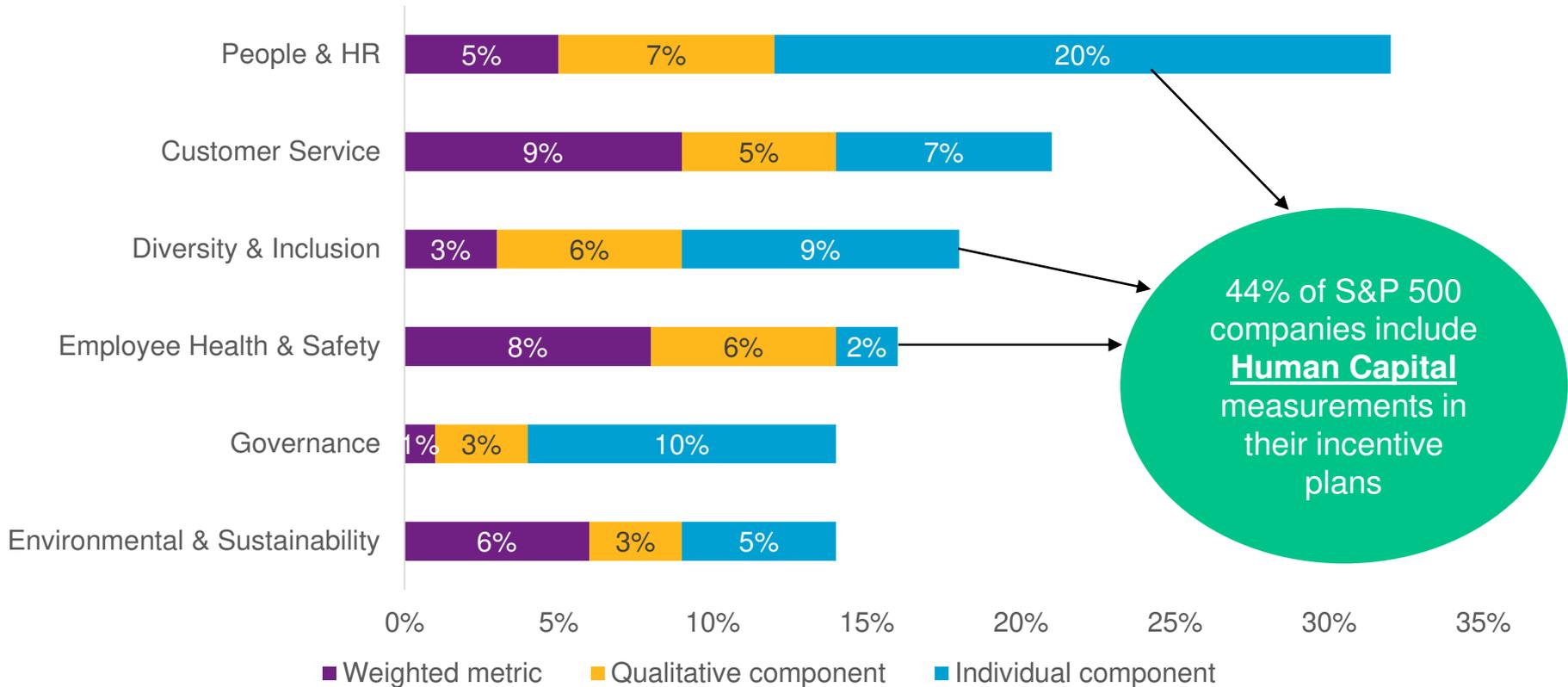
# ESG incentive design features

Several approaches allow ESG measures to impact incentive payouts

Design feature	Feature description	Feature example
<b>Funding formula components</b>		
Weighted metric	The defined incentive metric makes up a proportion of the annual bonus payout formula. Payouts are generally made in a range around target (e.g. 50-200%) depending on observed performance against pre-set target requirements.	10% of the annual bonus formula is based on developing organizational capacity, which includes employees and culture, facilities, and business continuity management. Employees and culture includes implementing an employee survey and ensure actions to ensure retention
Qualitative strategic measure	A portion of the incentive payout formula is based on a category of operational or strategic measures that are bundled and evaluated together. Performance and payouts against the measures are applied equally to all participants	Strategic performance is 30% of the overall AIP formula. Human Capital Management – employee engagement, retention and leadership effectiveness – is evaluated as part of the strategic performance component.
Individual evaluation	Payouts are based on a subjective evaluation of individual performance. Performance and payouts vary by individual participants	The key individual goals for the CHRO relate to overseeing, supporting and implementing human capital development and strategic plans, succession planning, compensation matters, and social responsibility matters
<b>Payout formula modifiers</b>		
Discretionary adjustment	Adjustments made to incentive payouts based on a determination by the compensation committee or board outside the established incentive design parameters, usually to account for atypical events	Final bonus payouts for Named Executive Officers were adjusted downward by the compensation committee to reflect required improvements to customer service policies and procedures in connection with a specific customer incident
Payout modifier	A provision that permits modification to the incentive payout for atypical situations that is built into the design program up front.	Annual bonus payments may be reduced by up to 50% if they engage in behavior inconsistent with discrimination and harassment policies
Circuit breaker	A performance hurdle that must be achieved before any incentive earned under the payout formula can be received	Annual incentives are earned 75% based on achieving EBITDA goals and 25% based on achieving strategic goals, subject to first achieving a gating level of safety goals

## How ESG metrics fit into incentive program funding formula designs

Customer service, Environmental & Sustainability and Safety are more commonly defined as weighted metrics while Governance and HR-related metrics are usually factored into individual performance evaluations



# ESG performance weightings

Most common (mode) annual bonus weightings and examples of quantitative measurement factors used in annual bonus plans

## Customer Service: 10%

- Customer satisfaction survey results
- First call resolution
- Net promoter score
- On-time delivery/departures
- Patient waiting time
- Quality of service
- Redefining the customer experience

## Diversity & Inclusion: 5%

- Improvement in female and minority representation rates in the employee population
- Inclusion survey scoring improvement
- Increase minority and women representation at management levels
- Women and minority new hire and promotion target rates

## Environmental & Sustainability: 10%

- Annual progress toward long-term emissions goal
- Meet waste reduction targets
- Reportable environmental events limits
- Reduce carbon intensity
- Reduce greenhouse gas emissions

## People & HR: 10%

- Automation and digitization goals (future of work)
- Culture survey results
- Employee engagement survey results
- Health of workforce (matrix) score
- High performer retention rates
- Voluntary turnover targets

## Employee Health & Safety: 10%

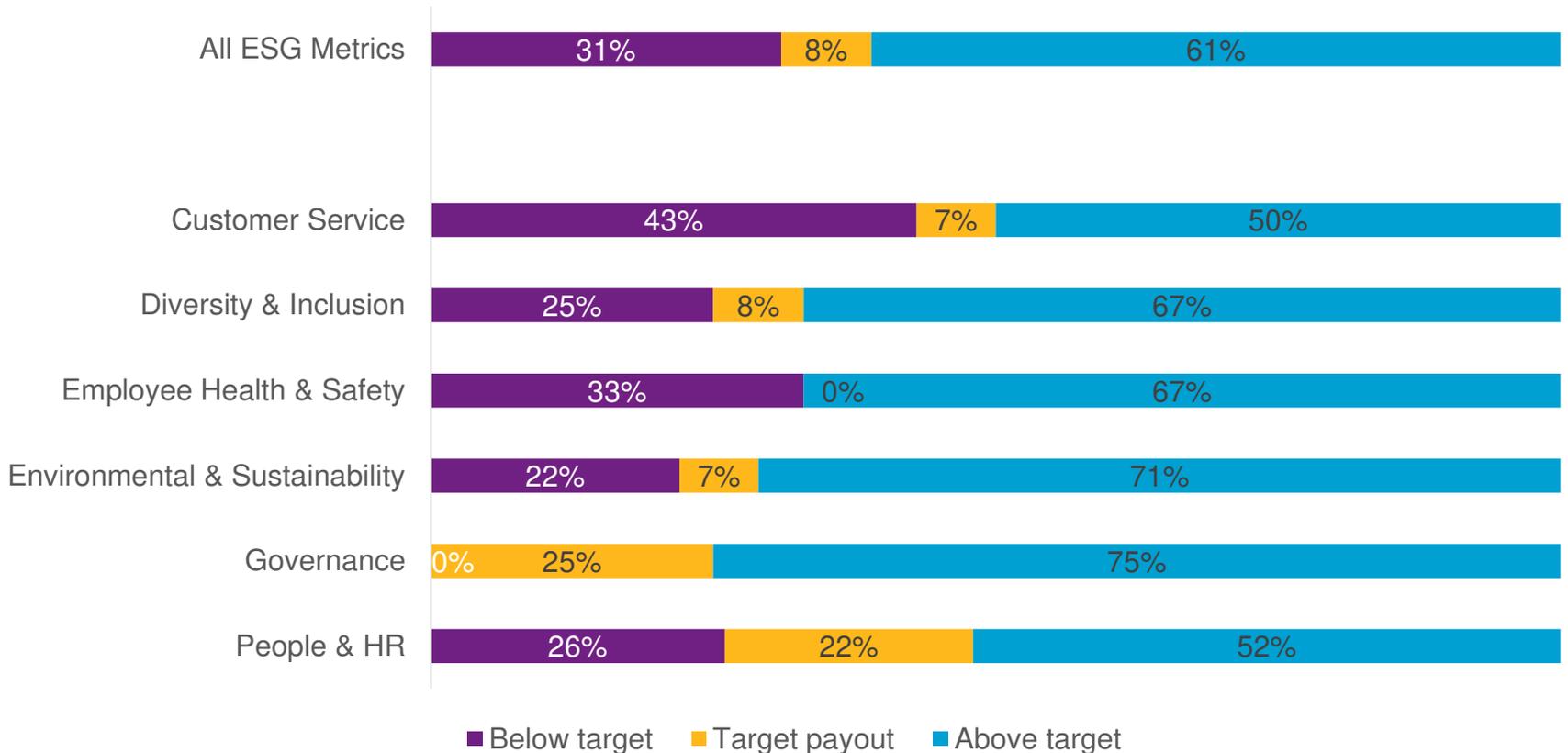
- Days Away, Restricted or Transfer (DART)
- Leadership site visits and observations
- Lost time injury rate (LTIR)
- Reduce workplace incidents
- Safety audit goals
- Serious incidents or fatalities (SIF) rate
- Total recordable incident rate (TRIR)

## Governance: 10%

- Stakeholder engagement targets
- Compliance achievement
- Continuity plan completion
- Broad ESG factors

# Annual incentive ESG metric payouts versus targets

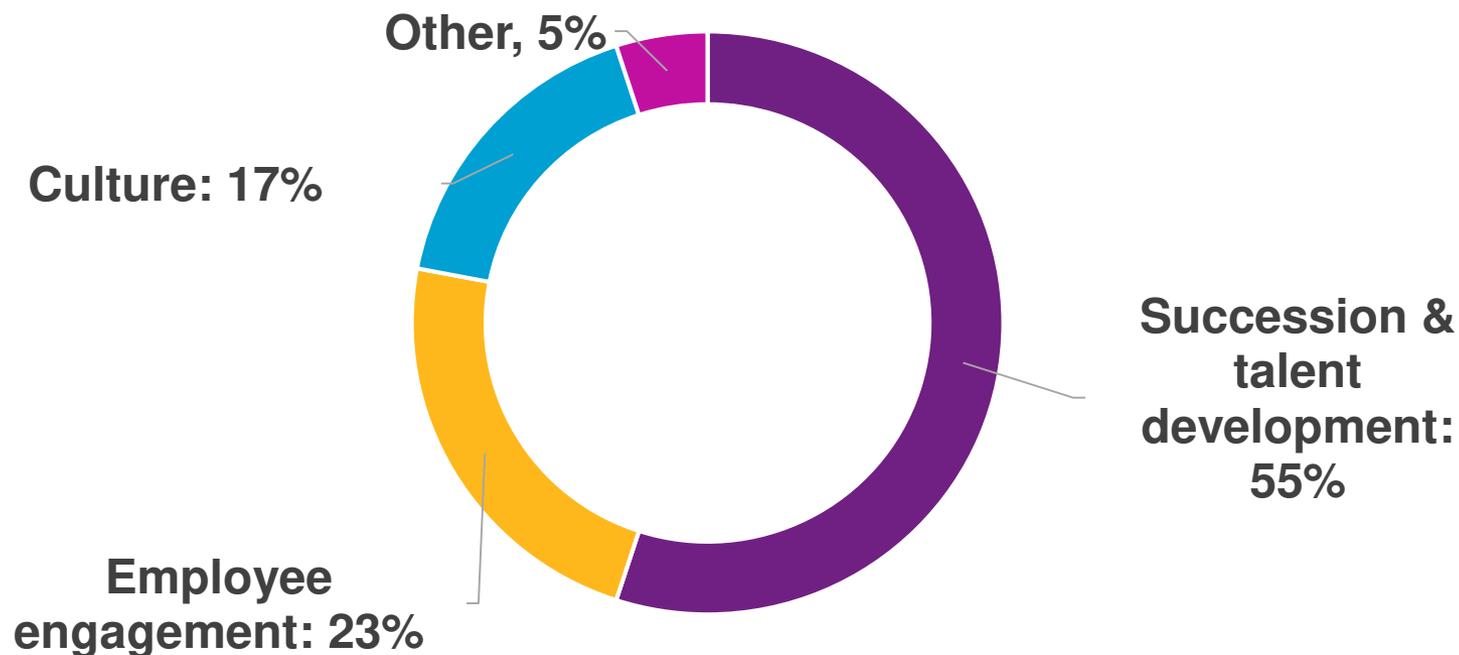
Nearly 70% of weighted ESG annual incentive metrics paid out at target or above



\* Findings are based on payouts for 147 weighted metrics among 80 S&P 500 companies. Sample sizes for each of the ESG categories are: Customer Service: 42, Diversity & Inclusion: 12, Employee Health & Safety: 39, Environmental & Sustainability: 27, Governance: 4, and People & HR: 23.

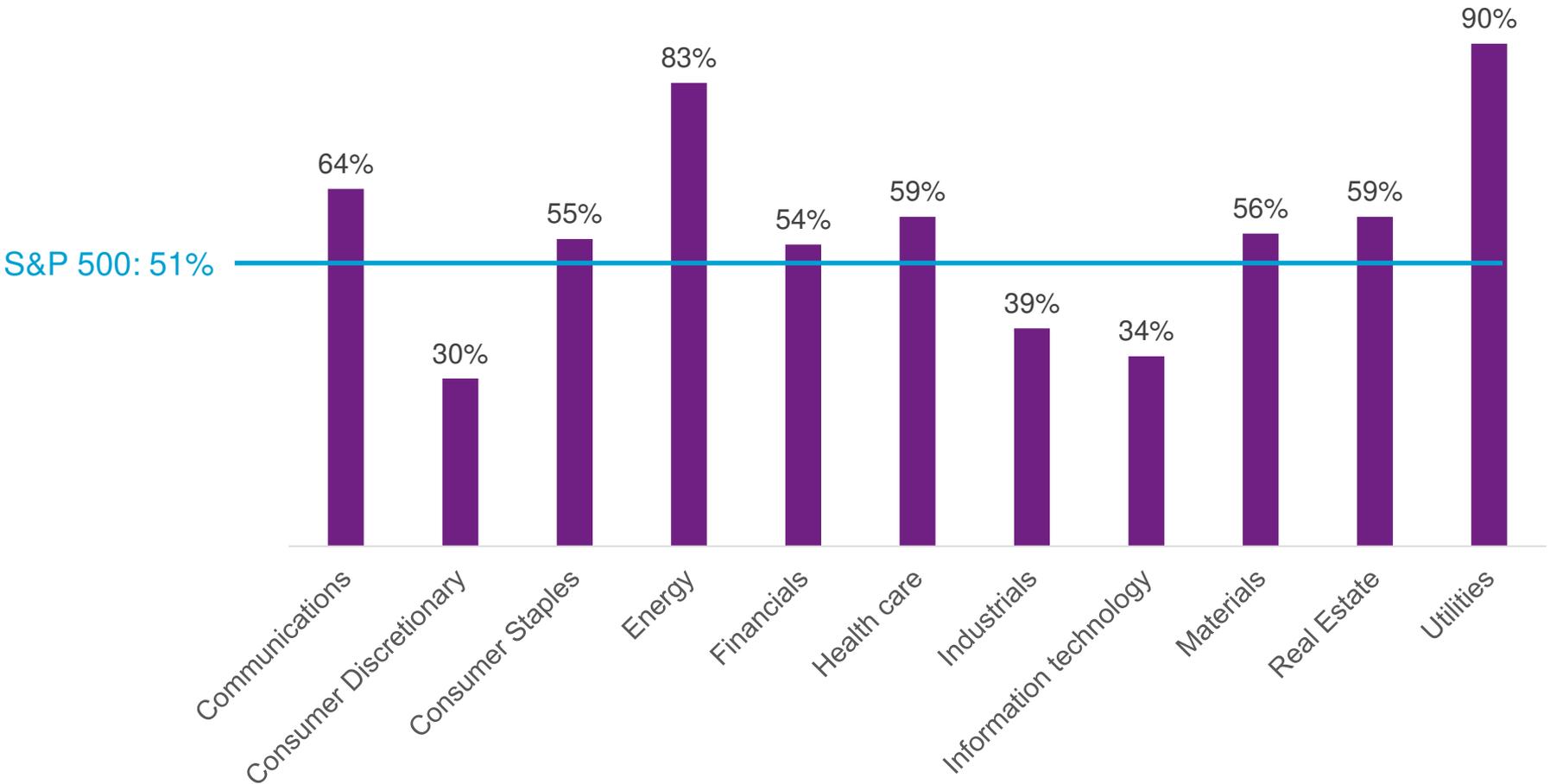
## A finer look at the People & Human Resources category

32% of companies using ESG metrics feature People/HR issues and succession and talent management is the focus for the majority



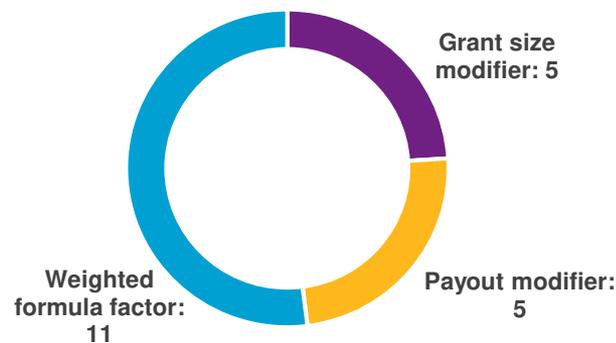
\* Other includes wellness, future of work and implementation of HCM programs. Companies may utilize several of these People/HR categories.

# Use of ESG metrics by GICS industry sector



## ESG metrics are not commonly included in long-term incentive programs

Just 21 (4%) S&P 500 companies use ESG metrics to determine long-term incentive awards in the following design structures and ESG categories



Design feature	Feature description	Feature example
Grant size modifier	Provision that adjusts the established market or position level grant based on achieving a desired outcome. Performance against other metrics eventually determines the final payout	The board awarded the COO 120% of her equity target as a result of significant improvements made by the company as part of its quality and safety programs.
Weighted formula factor	The defined incentive metric makes up a proportion of the annual bonus payout formula. Payouts are generally made in a range around target (e.g. 50-200%) depending on observed performance against pre-set target requirements.	Payout of the award is based 10% on achieving greenhouse gas reduction goals over the 3-year performance measurement cycle
Payout modifier	A provision that adjust the payout of a performance award based on metrics and performance outside of the features used for the primary award	A diversity modifier can impact the payout of performance awards by +/-10% based on whether there was improvement in representation of diverse persons in senior management by five percentage points over 2018 through 2020 performance period