



S&P 500 | June 2023

ESG Incentive Practices at S&P 500 Companies

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ESG Incentive Practices at S&P 500 Companies^[1]

73% of S&P 500 companies included at least one ESG metric in STI and/or LTI plans in 2023 (up slightly from 68% in 2022)^[2]

- 71% of S&P 500 companies included ESG metrics in short-term awards; only 9% included in LTI awards (7% incorporated ESG in both short- and long-term awards)
- Given predominance of STI practices, unless otherwise specified, this analysis focuses on STI
- Prevalence of metrics ranged from 60% to 97% per business sector^[3]
- Relatively few used individual weighted metrics; rather, most ESG metrics were parts of scorecards or other combined assessments^[4]
 - 58% used Business Strategy Scorecards
 - 34% were part of Individual Performance Assessments
 - 26% were Standalone ESG Metrics
- Whether standalone metrics or otherwise, the stated or implied weighting of ESG metrics is low—typically 5%-15% of STI opportunity
- 66% had Social metrics, 32% had Environmental metrics, 22% had Governance metrics and 24% had metrics that reflect General ESG Measurement^[5]

^[1]**Source:** ESGauge— Practices are based on CEOs with the underlying assumption that these are applied to other NEOs as well

^[2]Except for business sector comparisons, denominator for all prevalence statistics is 500

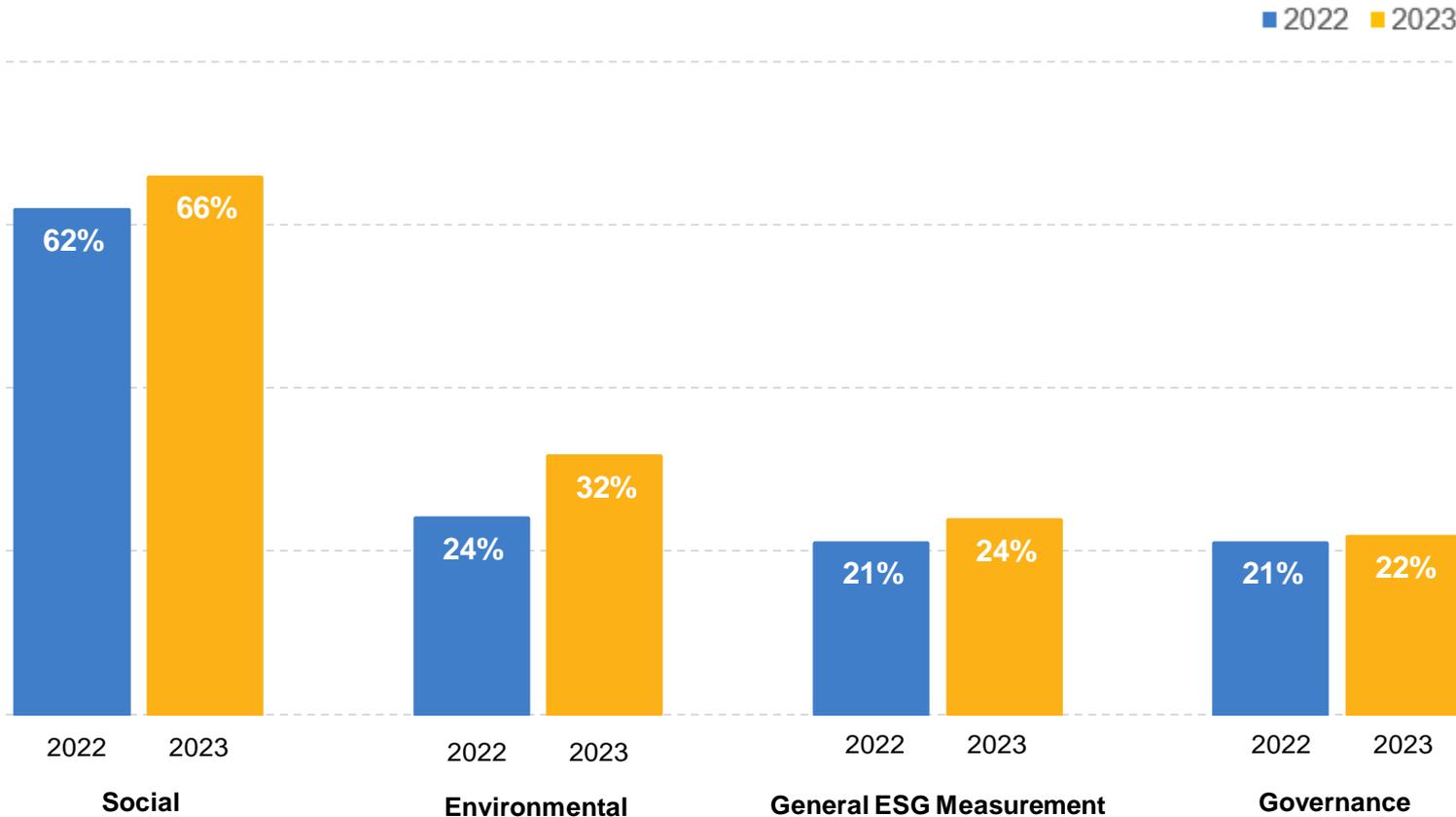
^[3]Calculated separately for each business sector.

^[4]See Page 9 for definitions

^[5]General ESG Measurement category consists primarily of ESG Strategy and ESG Scoring goals

Executive Summary: ESG Metrics by Category^[1]

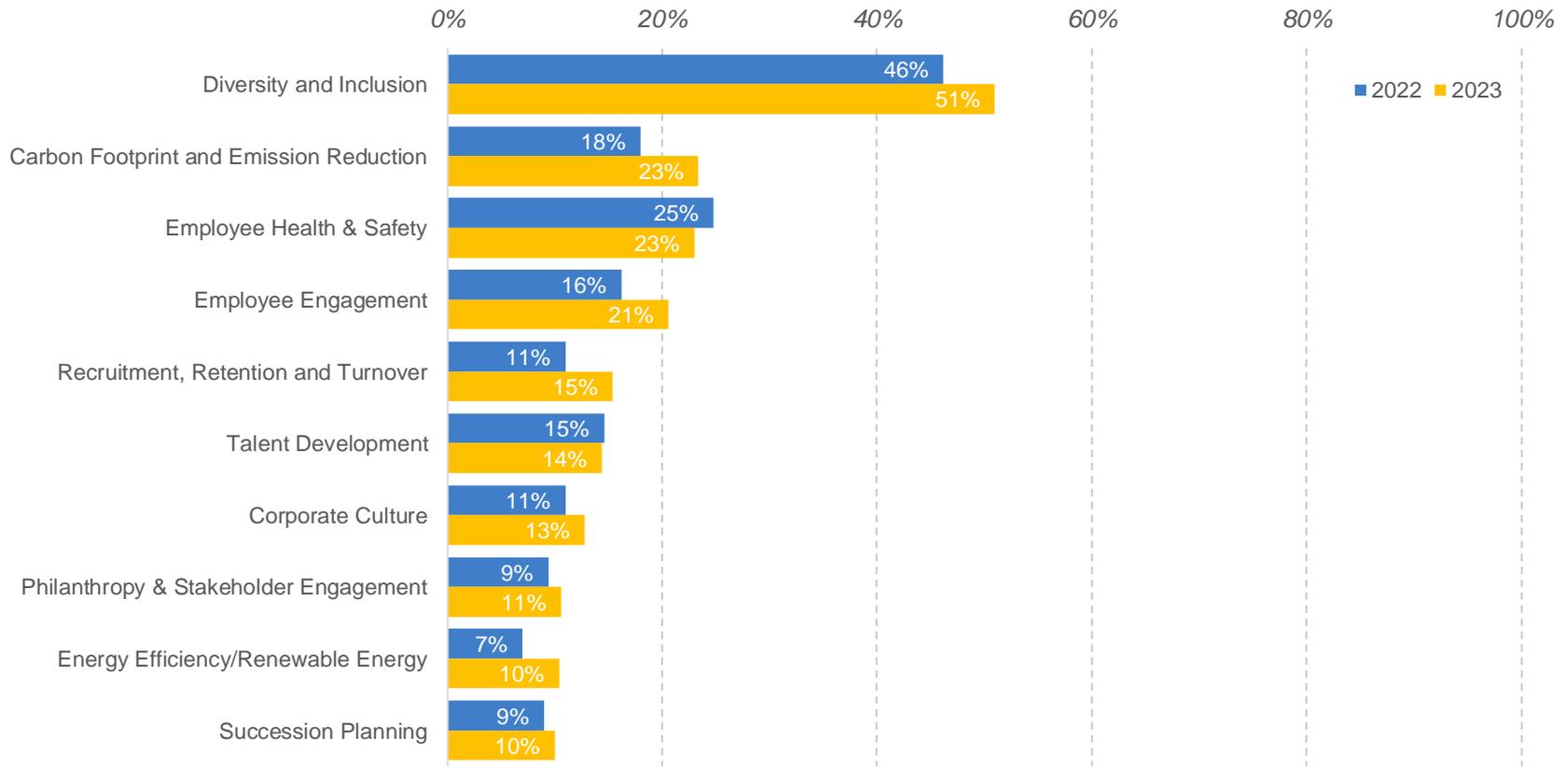
- Social metrics are by far most common type among ESG metrics
- Usage increased in all categories, with Environmental usage increasing most



^[1]See Page 16 for definitions

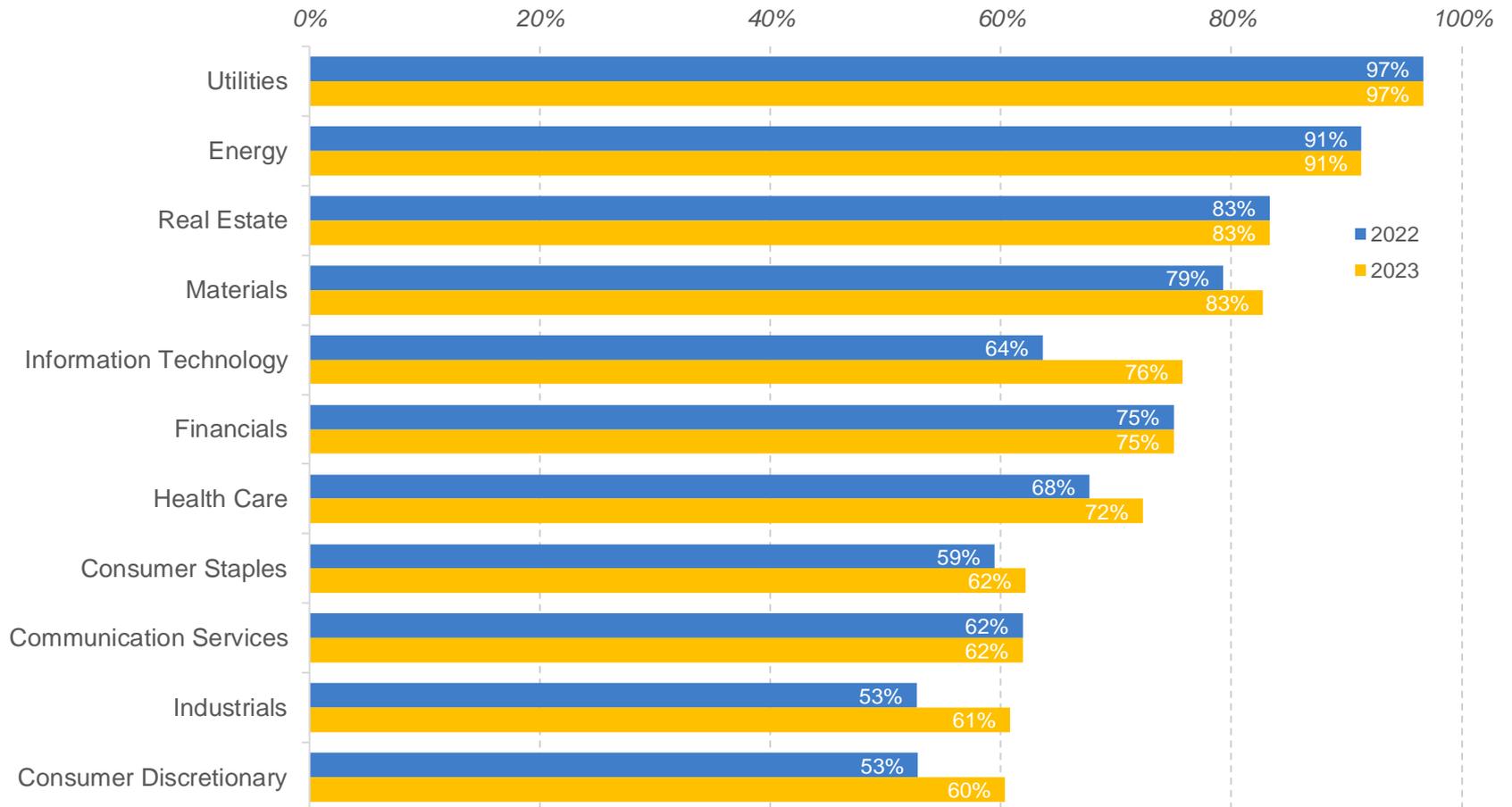
Executive Summary: Most Prevalent ESG Metrics

- Among “Top 10” ESG metrics, 7 were Social, 2 were Environmental and 1 was Governance
- Diversity and Inclusion, Carbon Footprint and Emission Reduction and Employee Engagement each grew 5 percentage points year-over-year



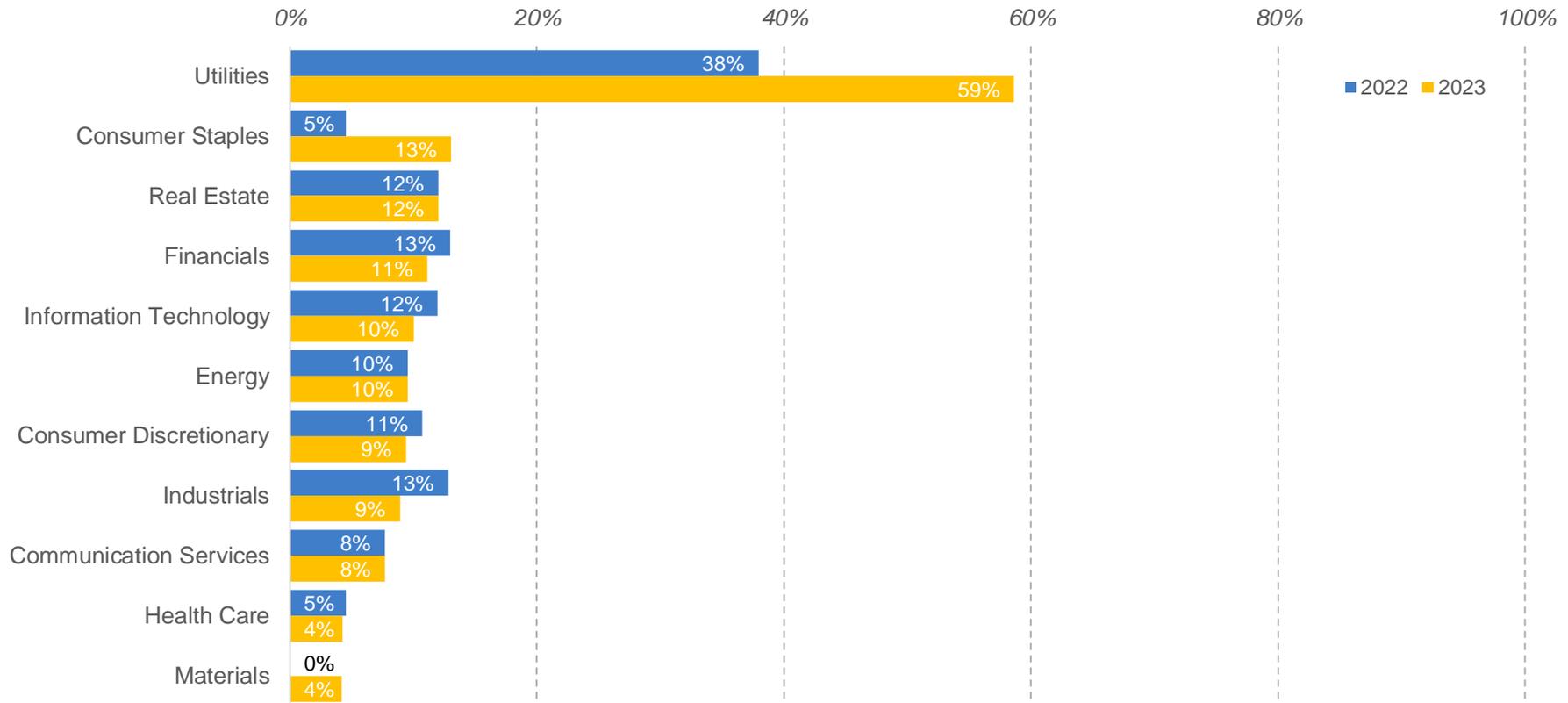
Executive Summary: ESG Metrics by Industry Sectors

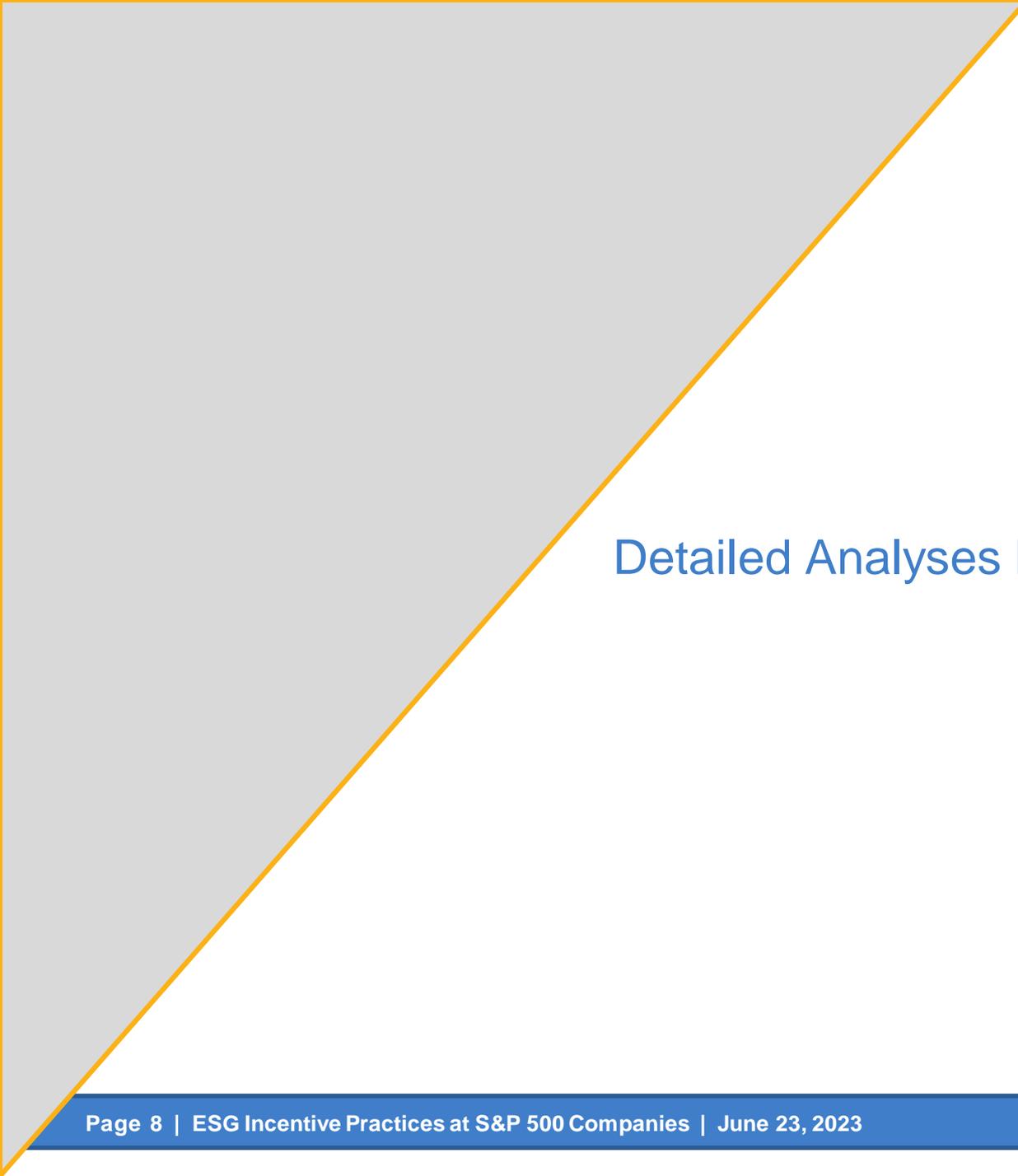
- Prevalence of ESG metrics was strong in all sectors
- Substantial year-over-year usage increase in Information Technology



Executive Summary: ESG in Long-Term Incentives

- Only 9% of S&P 500 companies used ESG metrics in LTI
- For those that did, usage was highly concentrated among Utilities
- Utilities and Consumer Staples experienced substantial year-over-year increase in usage



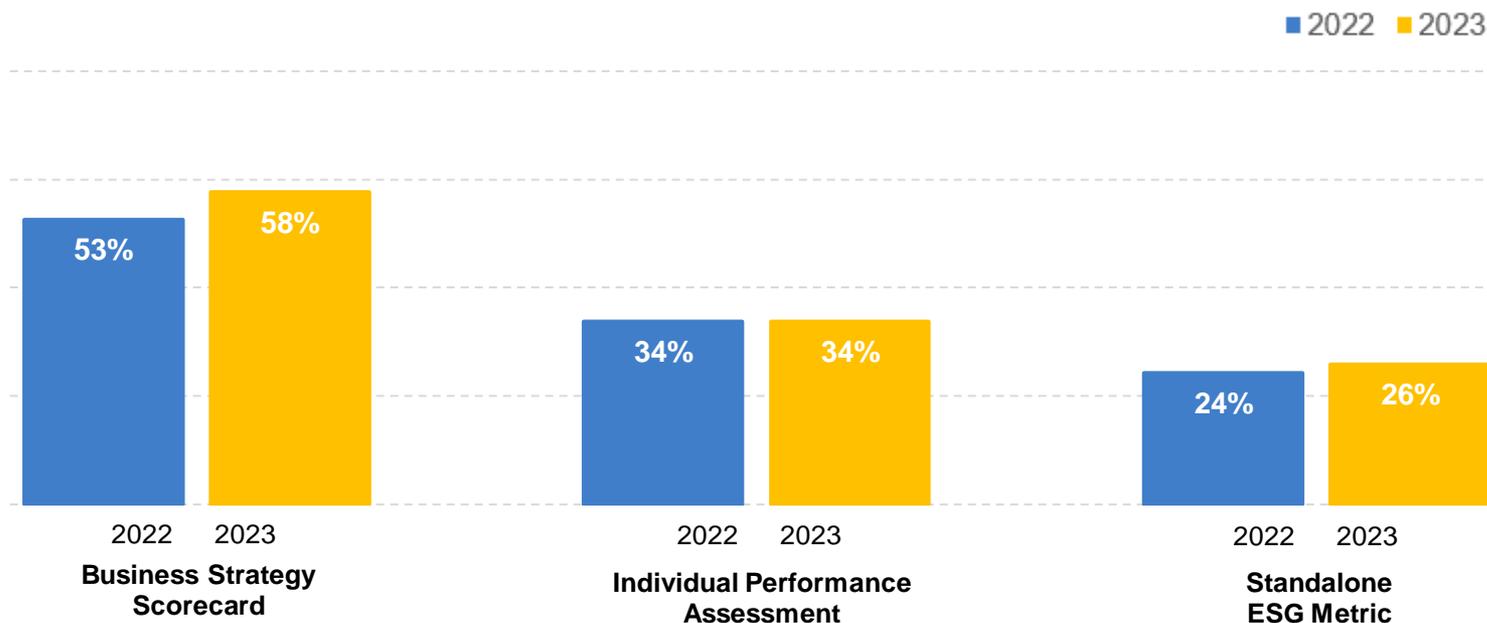


Detailed Analyses by ESG Category

How ESG Metrics are Applied

3 Approaches

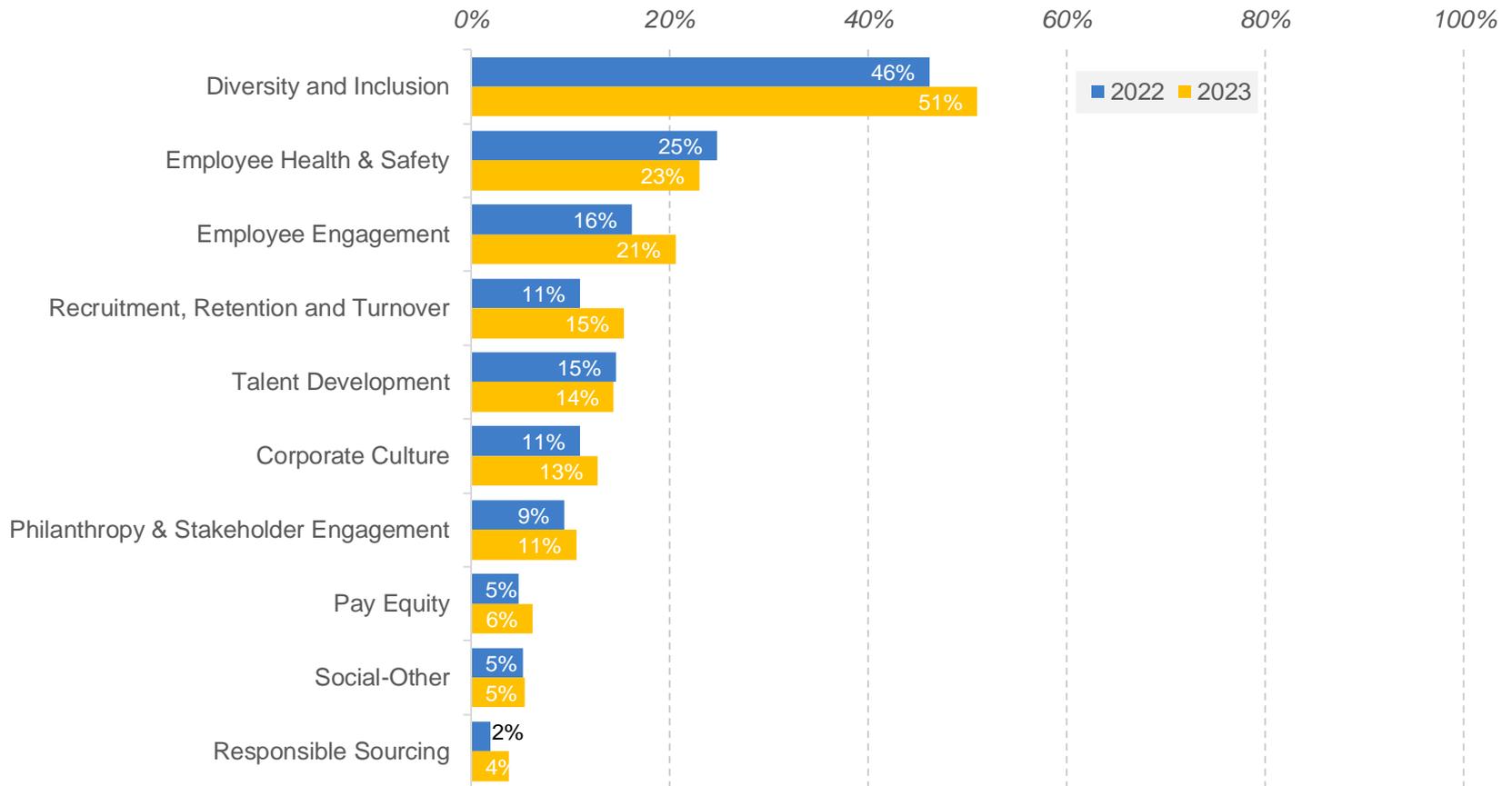
- **Business Strategy Scorecard:** List of undifferentiated performance goals shared among all NEOs, with aggregate weighting for category as a whole
- **Individual Performance Assessment:** List of undifferentiated performance goals specific to an individual NEO, with aggregate weighting for collective goals
- **Standalone ESG Metric:** Separate weighting for each metric



- Low prevalence of standalone, weighted metrics reflects common inability and/or lack of desirability of precise, analytical goal-setting for many ESG metrics—particularly Social metrics

Types of Social Metrics

- Diversity and Inclusion was most common Social metric; no other metric was used by more than 1/4 of an industry's companies^[1]
- 7 of the 10 categories were employee-focused



^[1] 2 Social metrics – Stakeholders & Society and Human Rights – were omitted because prevalence <1% each in 2022 and 2023

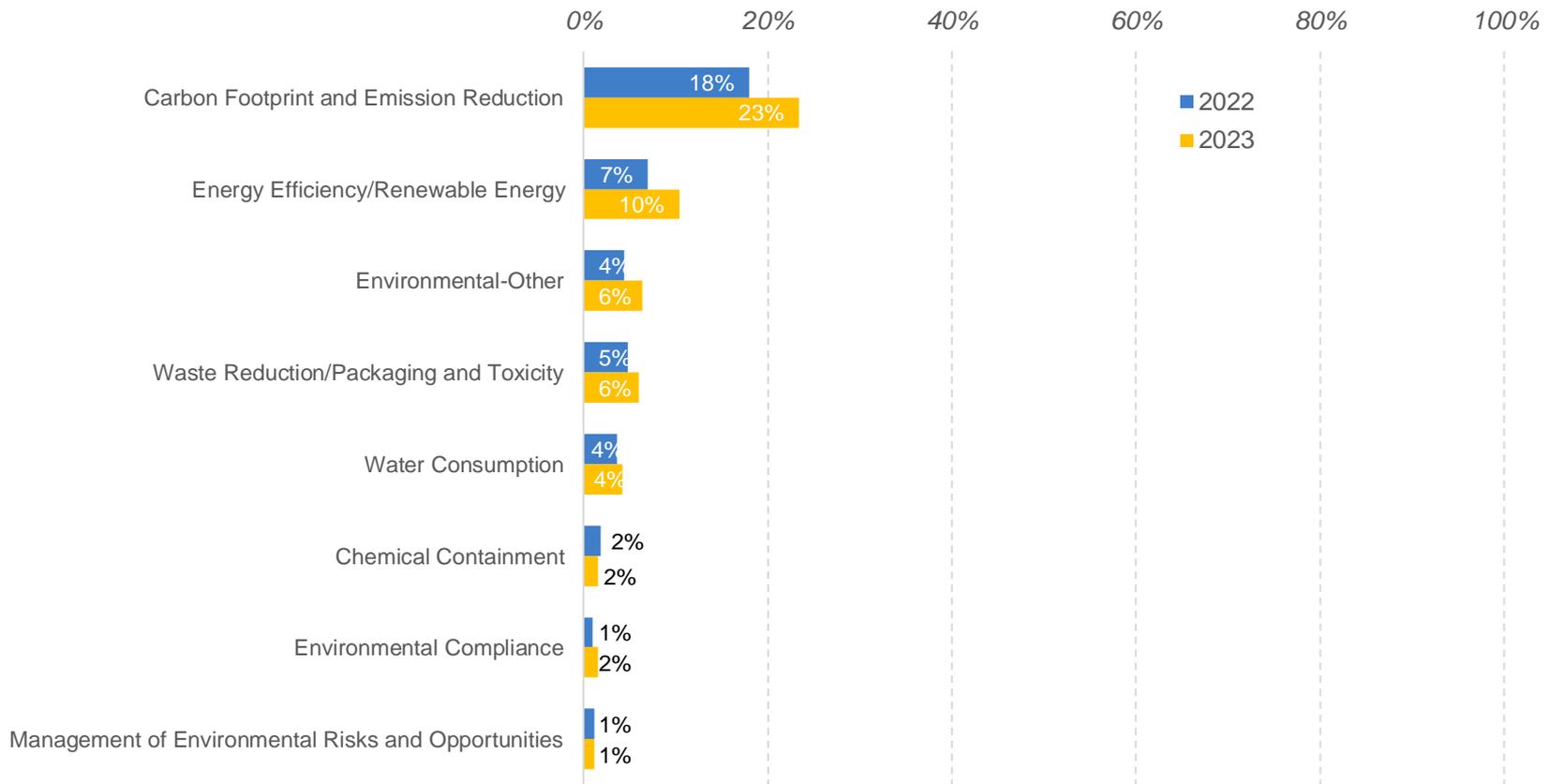
Social Metrics by Industry

- Prevalence of Social metrics strong in all sectors
- Year-over-year prevalence largely unchanged; 2 sectors (Industrials and Consumer Discretionary) declined somewhat



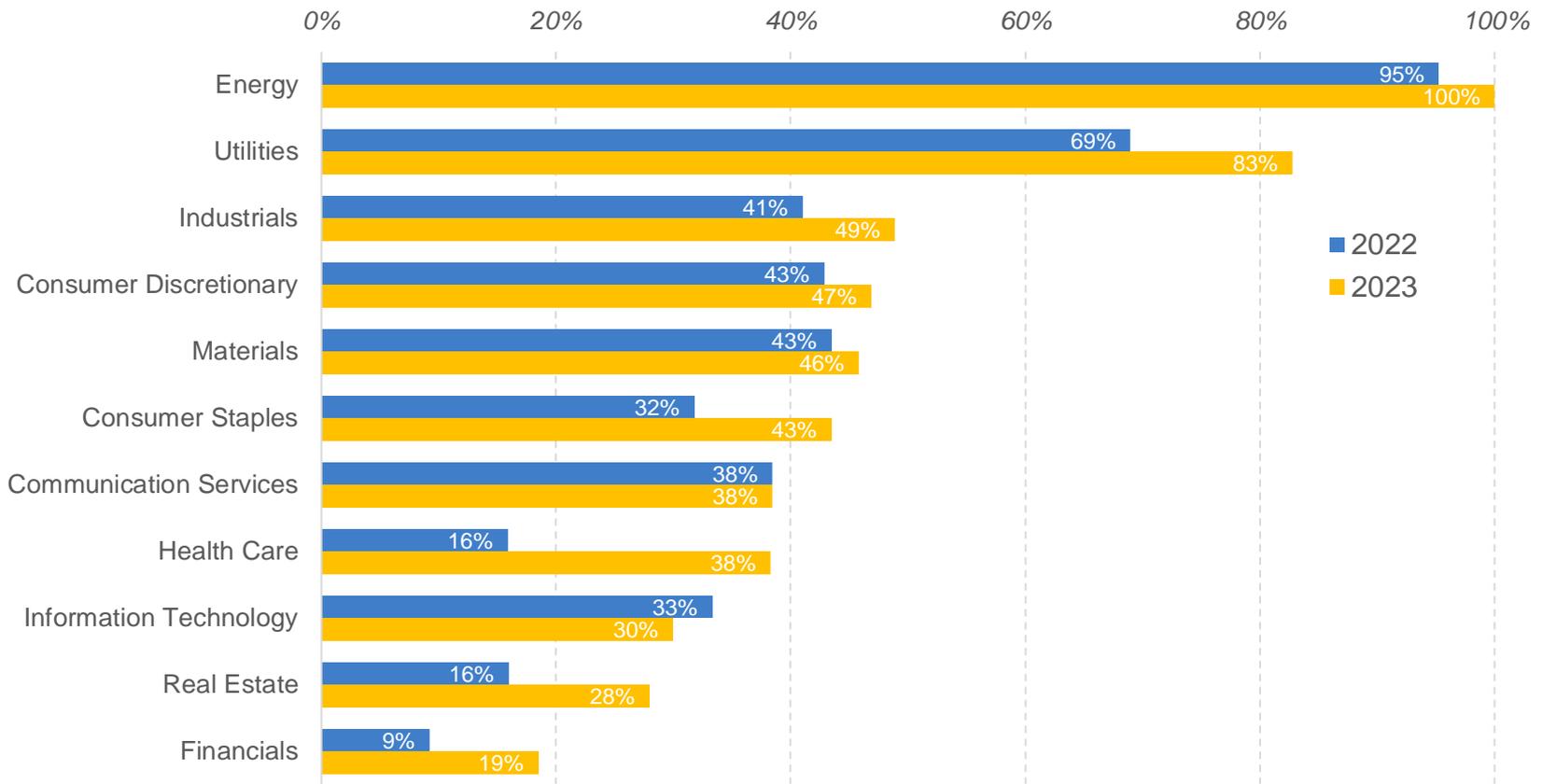
Types of Environmental Metrics

- Prevalence of Environmental metrics generally low
- Carbon reduction metrics most common
- Year-over-year prevalence increased in 6 areas



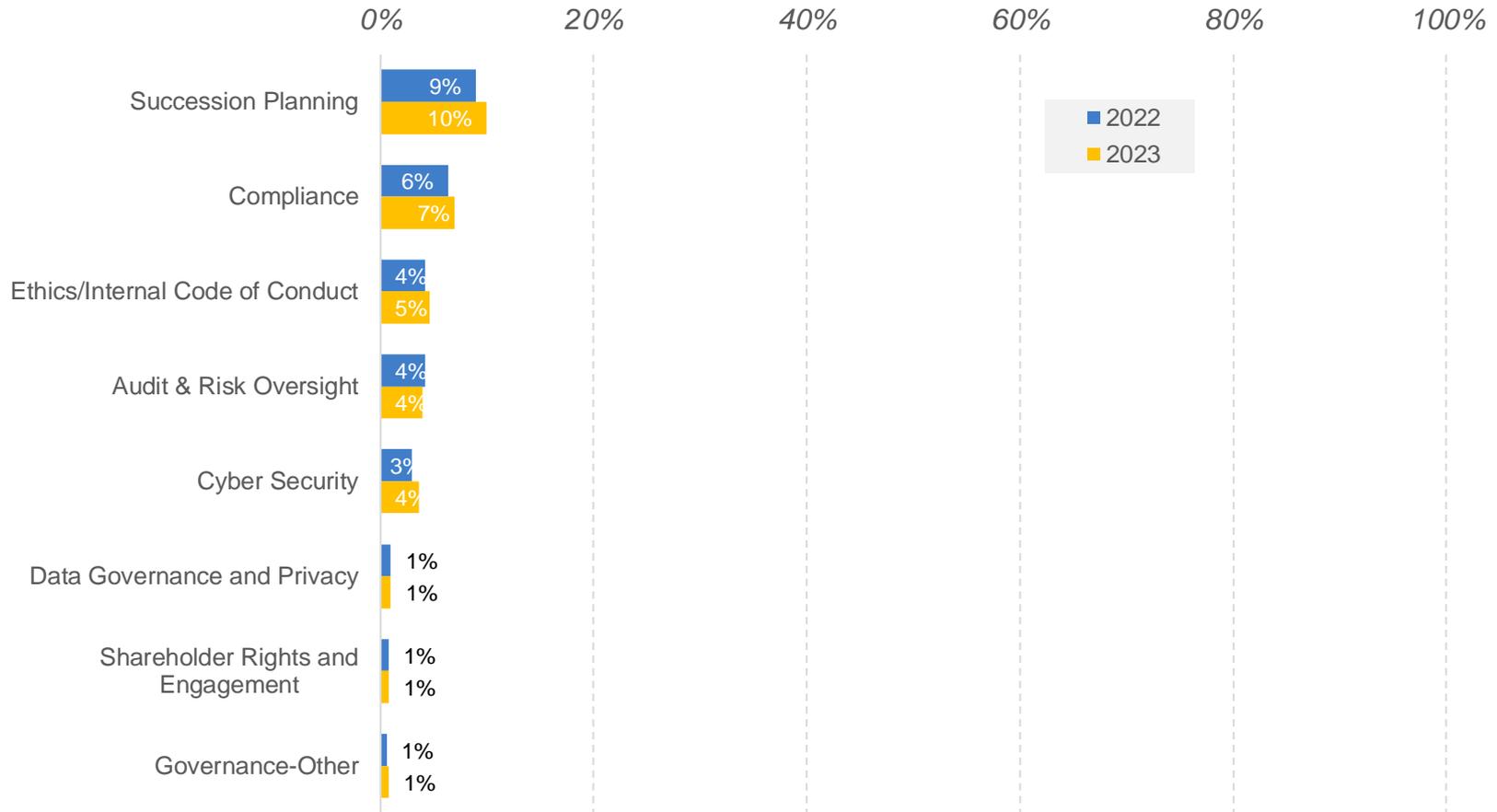
Environmental Metrics by Industry

- Energy and Utilities only sectors where majority practice was to include Environmental metric
- Year-over-year prevalence increased >10% in Utilities, Consumer Staples, Health Care, Real Estate and Financials sectors



Types of Governance Metrics

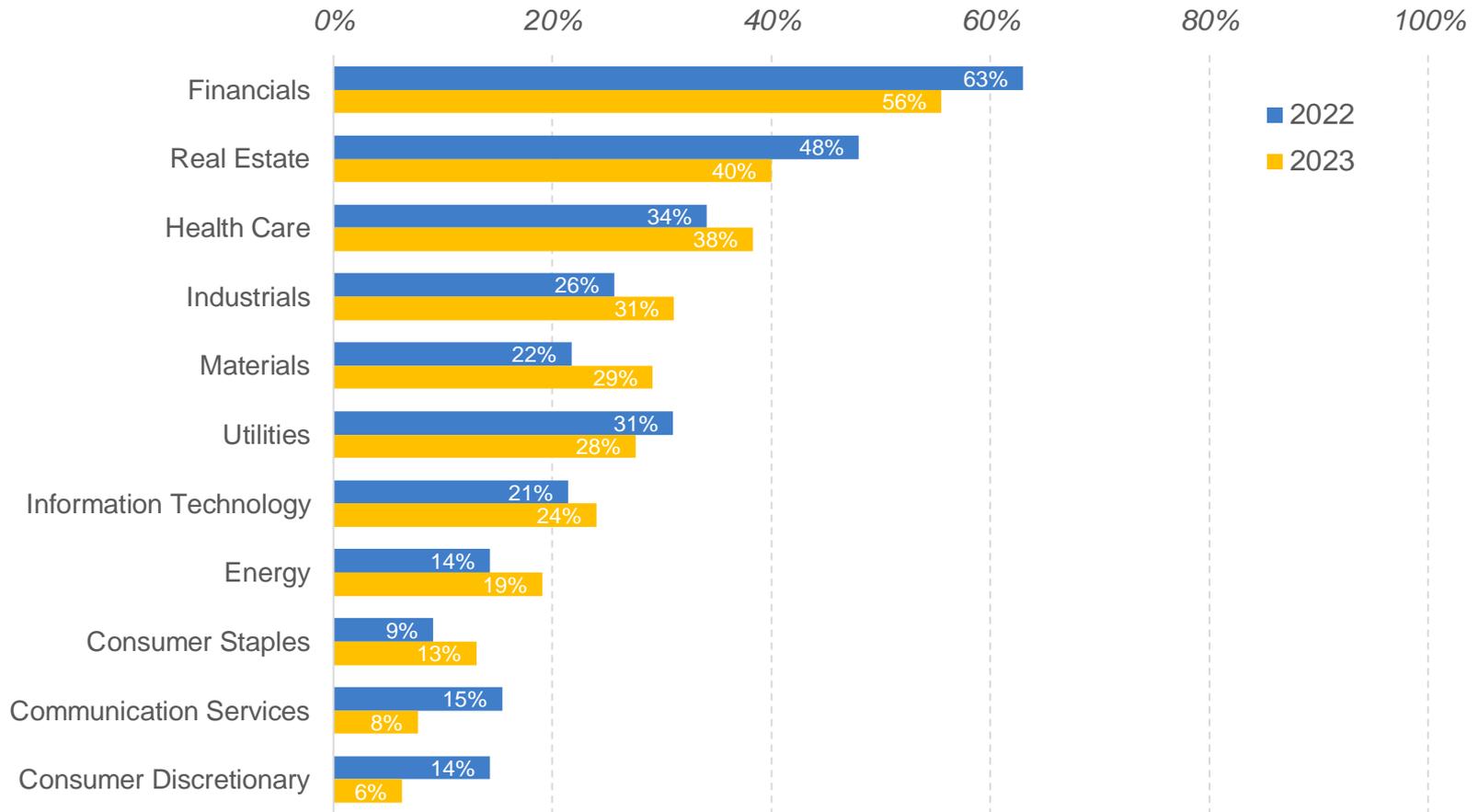
- Prevalence of Governance metrics was low^[1]
- Succession Planning only area with prevalence $\geq 10\%$



^[1] 2 additional Governance metrics – Compensation and Board Structure – were omitted because prevalence < 1% each in 2022 and 2023

Distribution of Governance Metrics by Industry

- Usage of Governance metrics majority practice only in Financials sector
- Prevalence decreased year-over-year in 5 sectors



Methodology

Study Sample

- S&P 500, as comprised on January 1, 2023
- ESG metrics in incentive grants made to CEO
- Proxy statements filed between April 16, 2022, and April 15, 2023

Statistics

- Unless otherwise noted, prevalence data based on the entire S&P 500 (N = 500)

ESG Definitions

- **Environmental**: Covers how a company's business impacts environment in which it operates
- **Social**: Covers employee- and stakeholder-related issues
- **Governance**: Covers organizational structure and legal processes, including data security
- **Other ESG**: Intersects other ESG types

Source

- ESGauge