



**S&P 500 | June 2024**

# ESG Incentive Practices at S&P 500 Companies

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# ESG Incentive Practices at S&P 500 Companies

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# Overview: ESG Incentive Practices at S&P 500 Companies<sup>[1]</sup>

**73% of S&P 500 companies report at least one ESG metric in STI and/or LTI plans in 2024 proxy (unchanged from 2023)<sup>[2]</sup>**

- Overall, practices related to ESG are largely unchanged from last year
- Overwhelmingly, ESG are used in STI; only 11% include ESG in LTI awards
- Prevalence of E, S, and/or G metrics ranged from 56% to 95% by industry sector
- Method of using ESG metrics tends **not** to be as stand-alone/weighted metrics but rather as either broad scorecards or as qualitative individual performance assessments
  - 52% use Business Strategy Scorecards
  - 44% as part of Individual Performance Assessments
  - 38% as Standalone ESG Metrics<sup>[3]</sup>
- Anecdotally, we know companies becoming somewhat more cautious with DEI metrics
  - Less quantitative
  - More subjectivity/judgment
  - Some changes in terminology, e.g., “talent development” rather than DEI

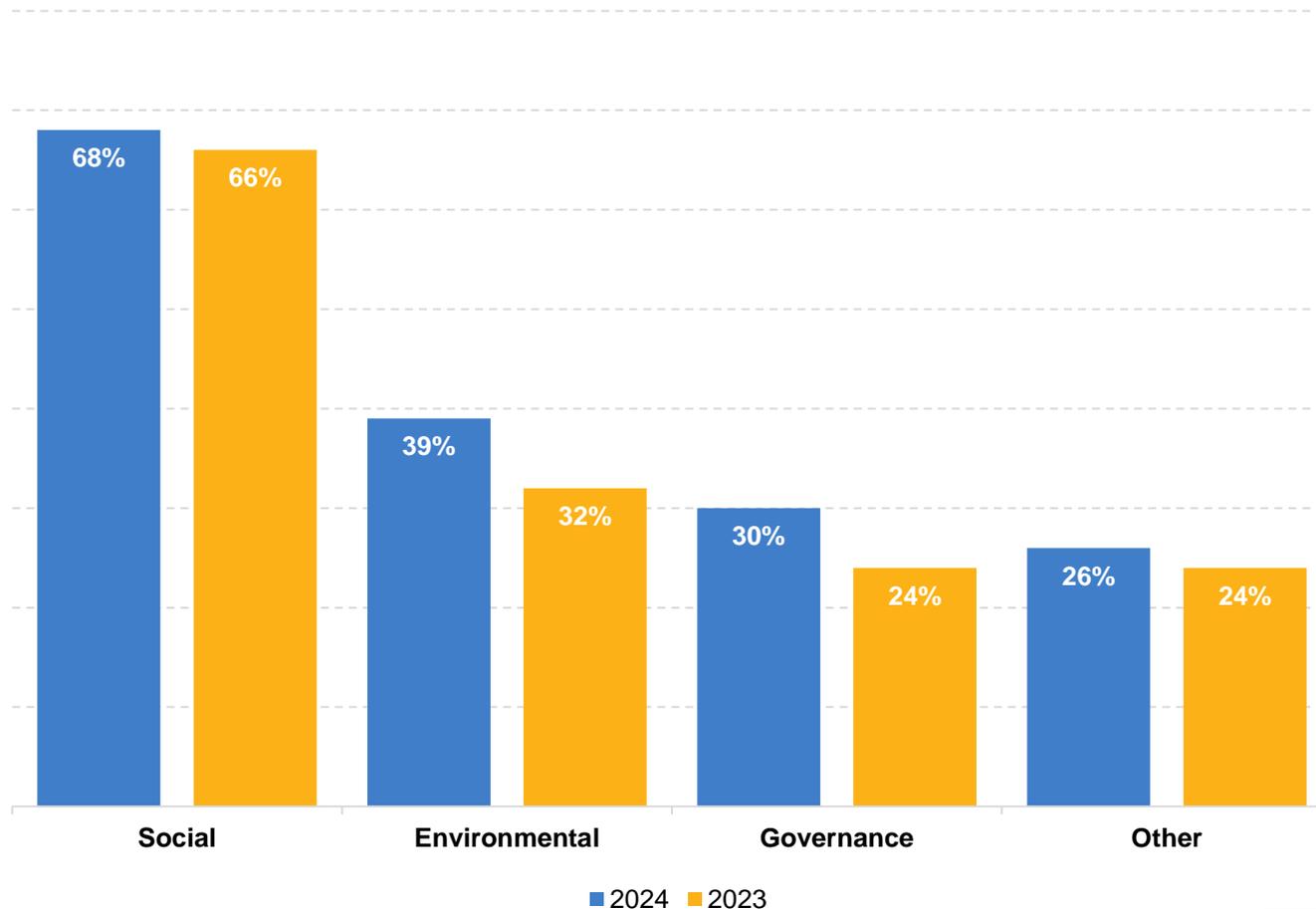
<sup>[1]</sup>Source: ESGauge. Practices are based on CEOs with the underlying assumption that these are applied to other NEOs as well.

<sup>[2]</sup>Except for industry sector comparisons, denominator for all prevalence statistics is 500.

<sup>[3]</sup>See Page 9 for definitions.

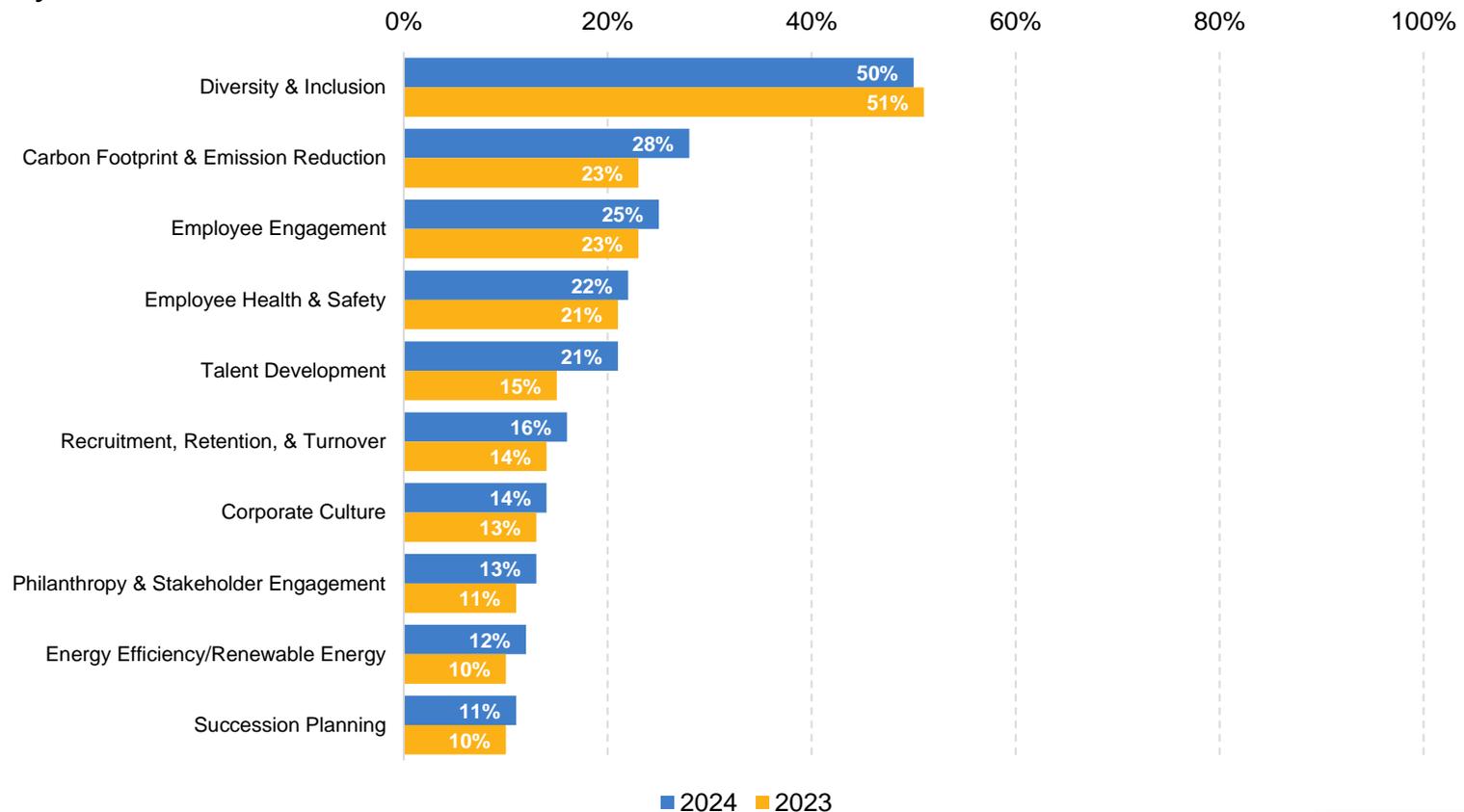
# Executive Summary: ESG Metrics by Category<sup>[1]</sup>

- Social metrics are by far most common type of ESG metrics
- Some increase in Environmental and Governance metrics over 2023



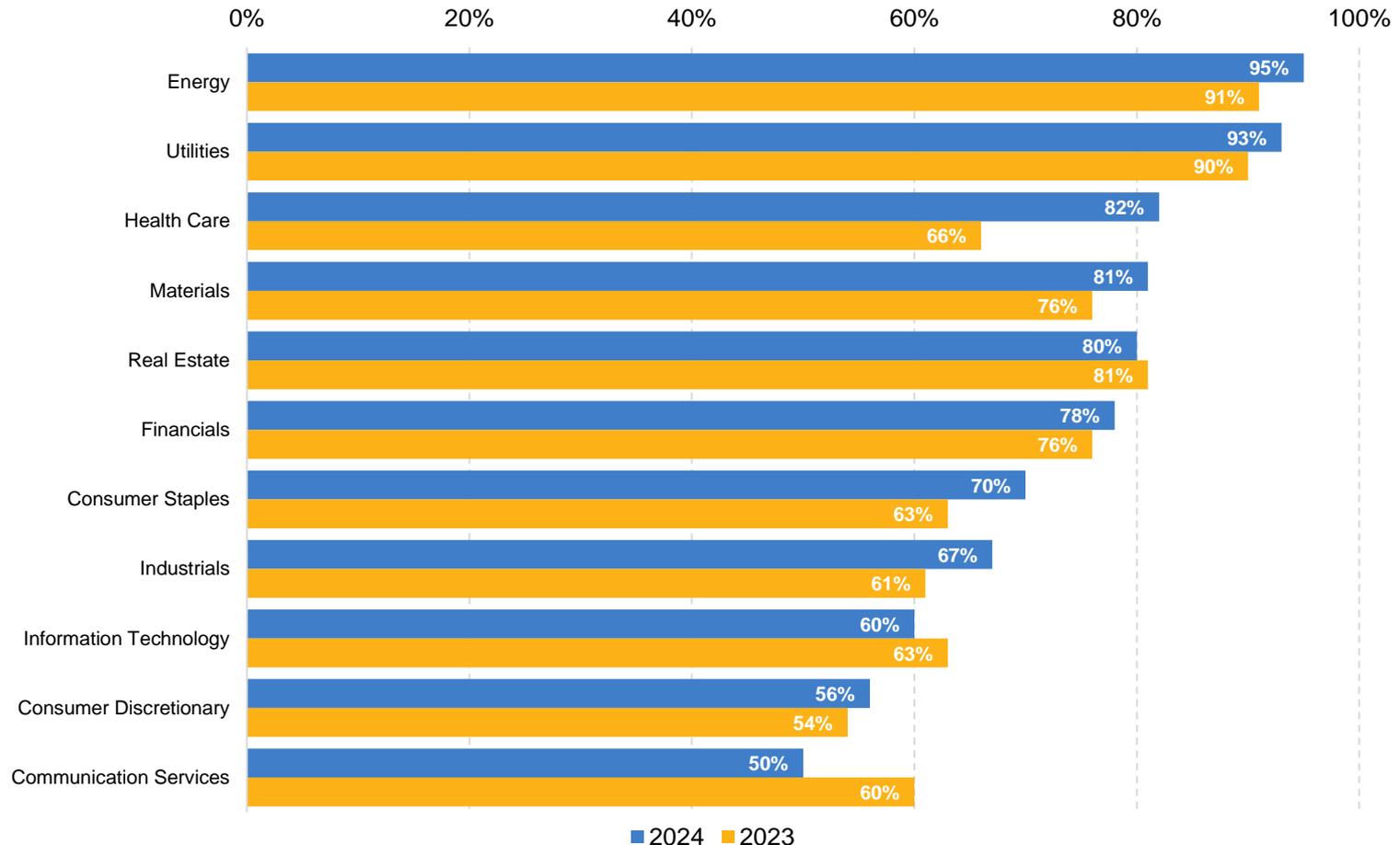
# Executive Summary: Most Prevalent ESG Metrics

- Among “Top 10” ESG metrics, 7 are Social, 2 are Environmental and 1 is Governance
- Among the Social metrics nearly all are related to employees
- Some increase in Carbon Footprint metric and Talent Development metrics but overall, fairly similar results in with 2023



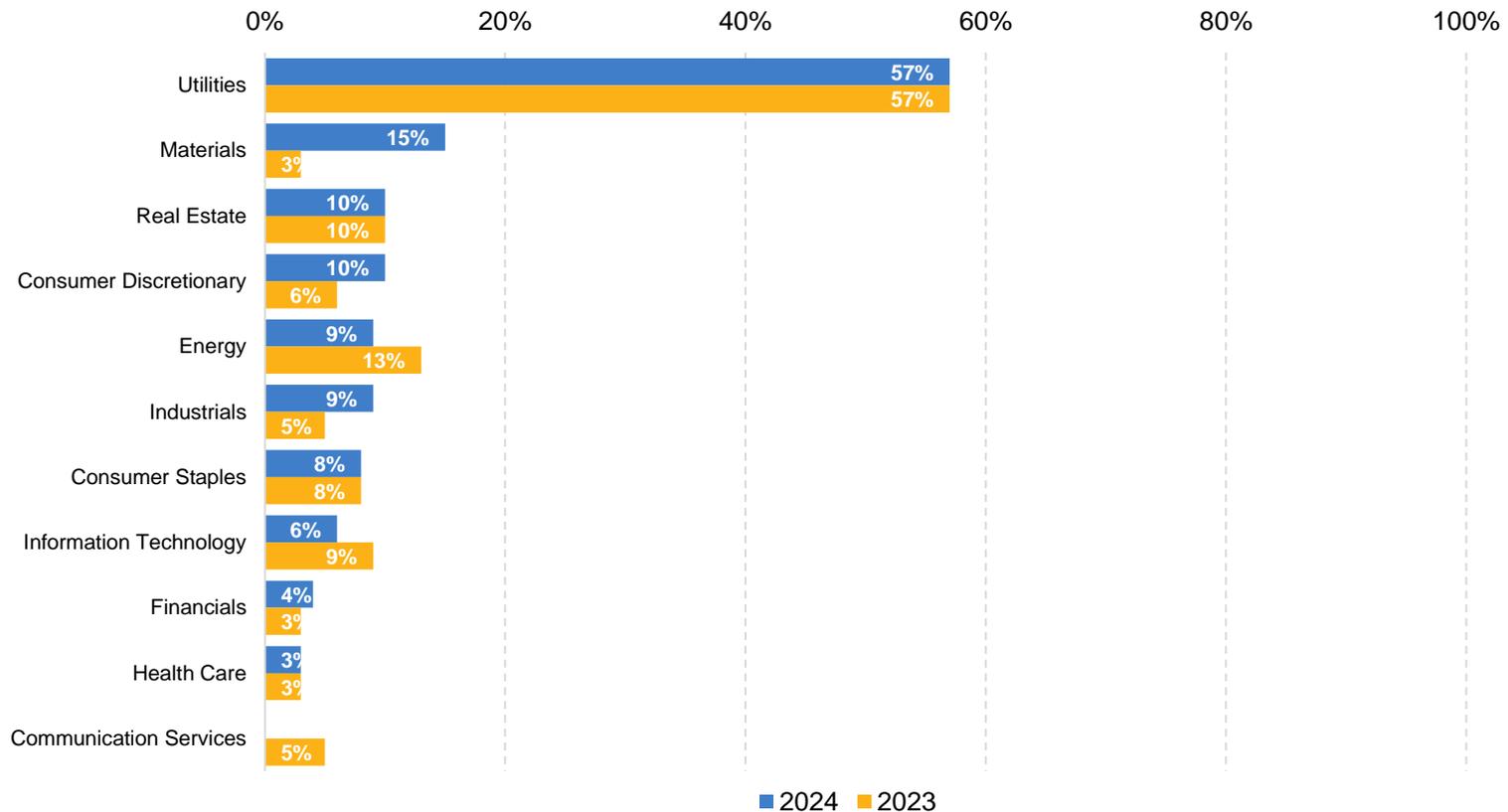
# Executive Summary: ESG Metrics by Industry Sectors

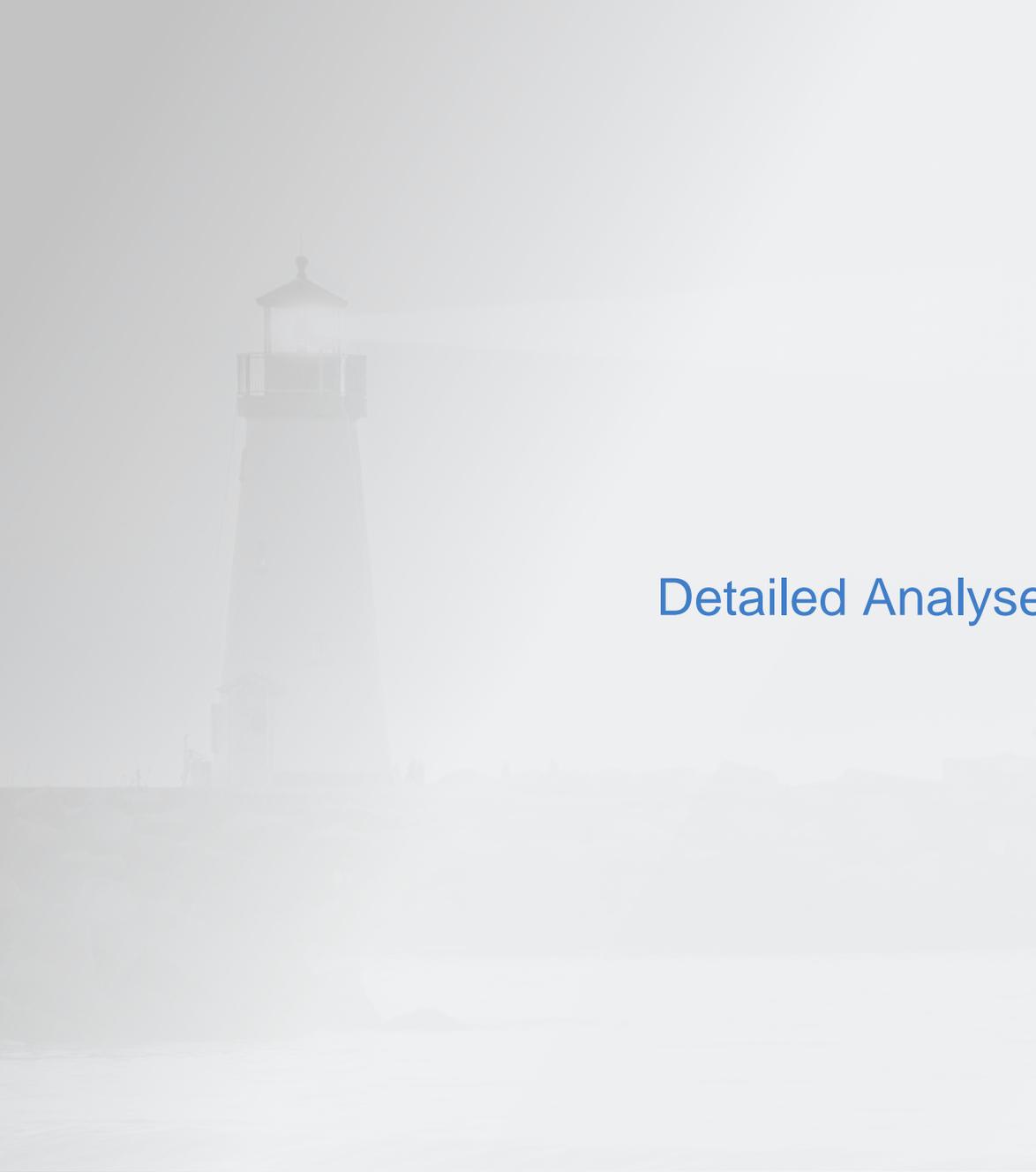
- Prevalence of ESG metrics varies by sector, but strong prevalence in all sectors
- Broadly similar year-over-year, with few increases/decreases here and there; however, prevalence in sectors with fewer constituents can have larger percentage point effect



# Executive Summary: ESG in Long-Term Incentives

- Overall, only 11% of S&P 500 use ESG metrics in LTI
- However, usage (as with last year) is highly concentrated among Utilities—the only sector where it is majority practice



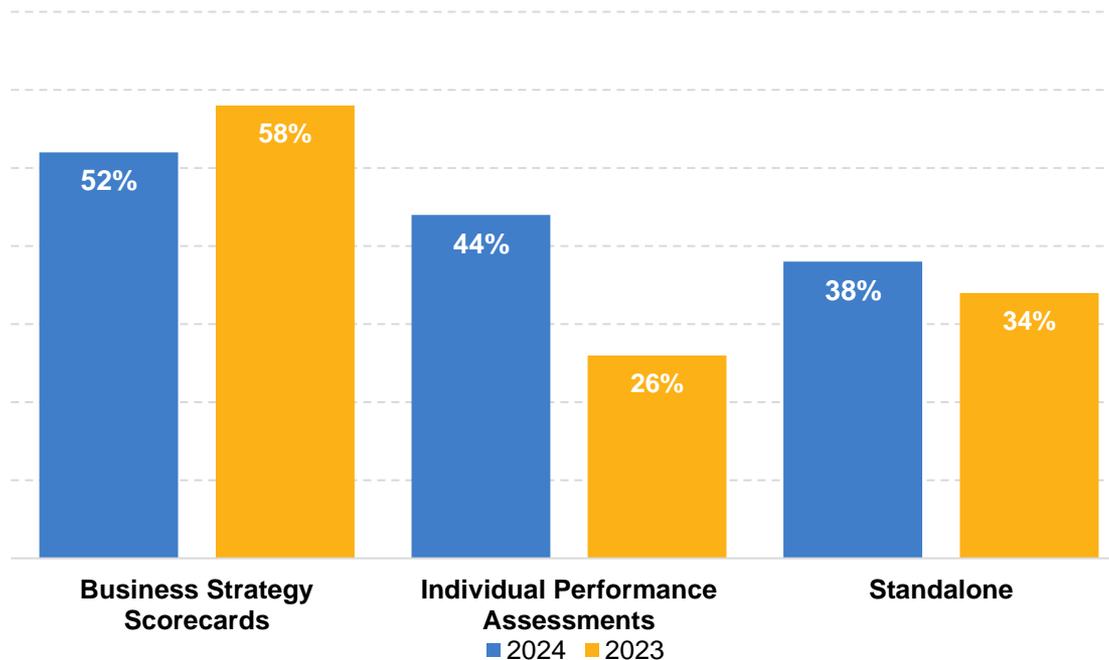


# Detailed Analyses by ESG Category

# How ESG Metrics are Applied

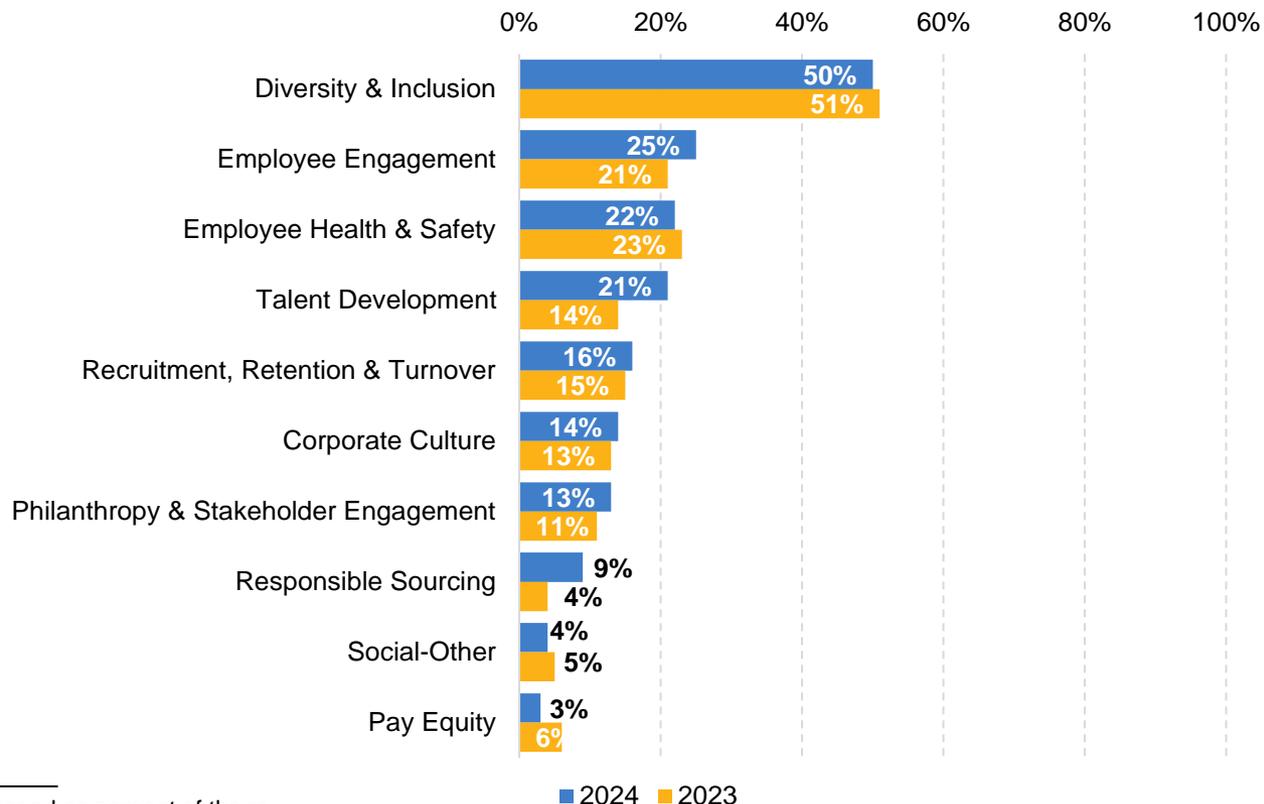
## 3 Approaches

- **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
- Approaches are not mutually exclusive, some adopt 2 or more



## Types of Social Metrics\*

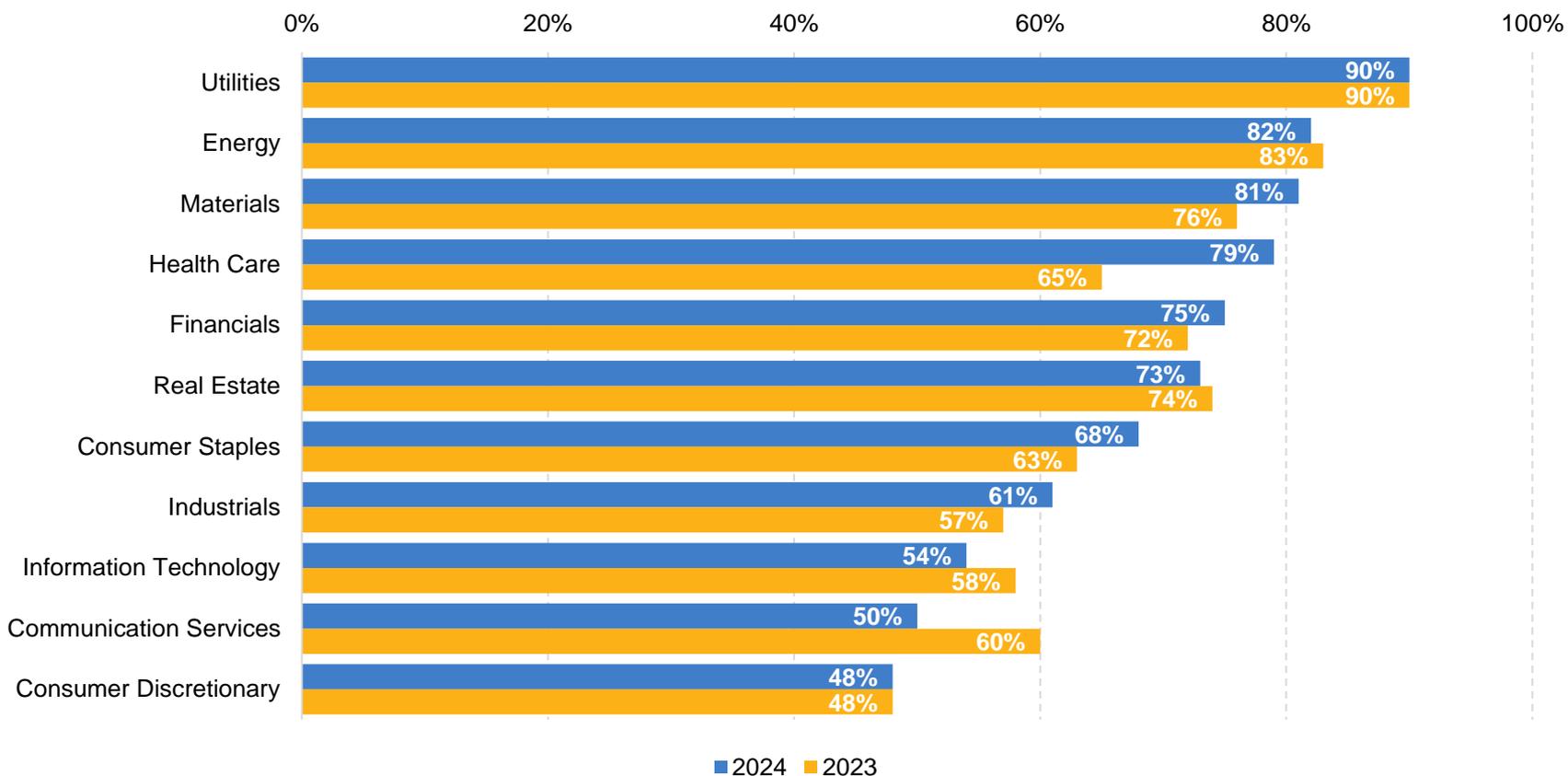
- Among top-10 Social metrics, Diversity and Inclusion is most common; no other Social metric has >25% prevalence among users of Social measures
- “Social” somewhat of misnomer as most often these are **employee**-related metrics related to workforce profile, employee safety, culture etc.



\*Prevalence expressed as percent of those companies using any type of Social metric

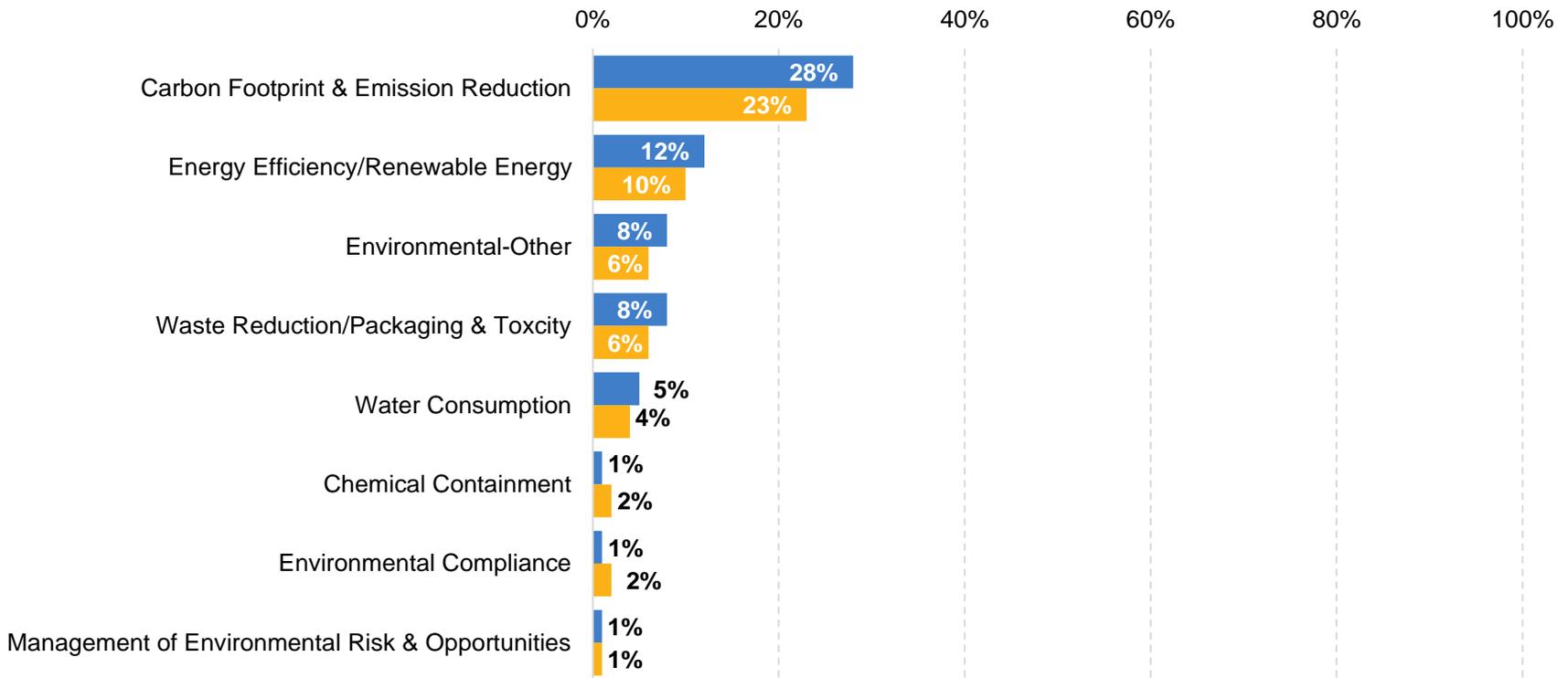
# Social Metrics by Industry

- Prevalence of Social metrics is strong in all sectors
- Broadly similar year-over-year, with few increases/decreases here and there; however, prevalence in sectors with fewer constituents can have larger percentage point effect



# Types of Environmental Metrics\*

- Prevalence of Environmental metrics are generally low
- Carbon reduction metrics are most common
- Year-over-year prevalence increased on several metrics but prevalence still low for most

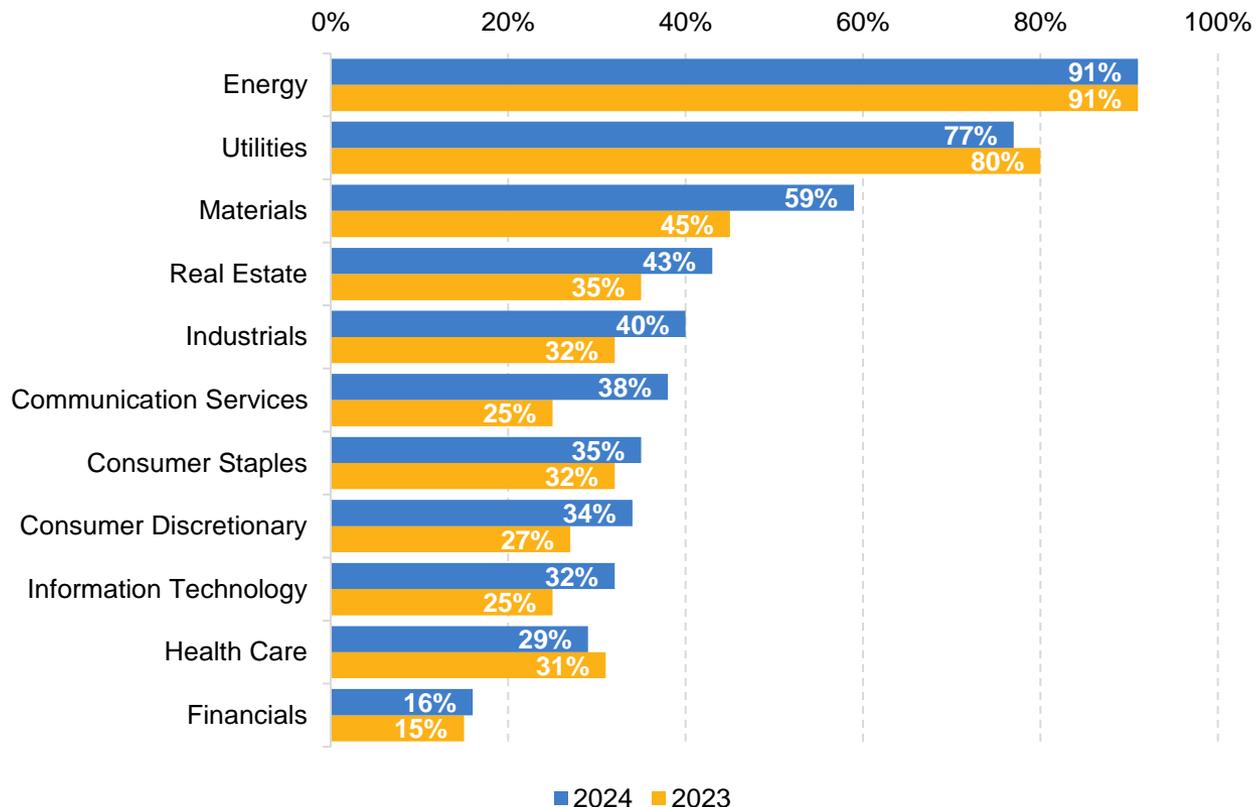


\*Prevalence expressed as percent of those companies using *any* type of Environmental metric

■ 2024 ■ 2023

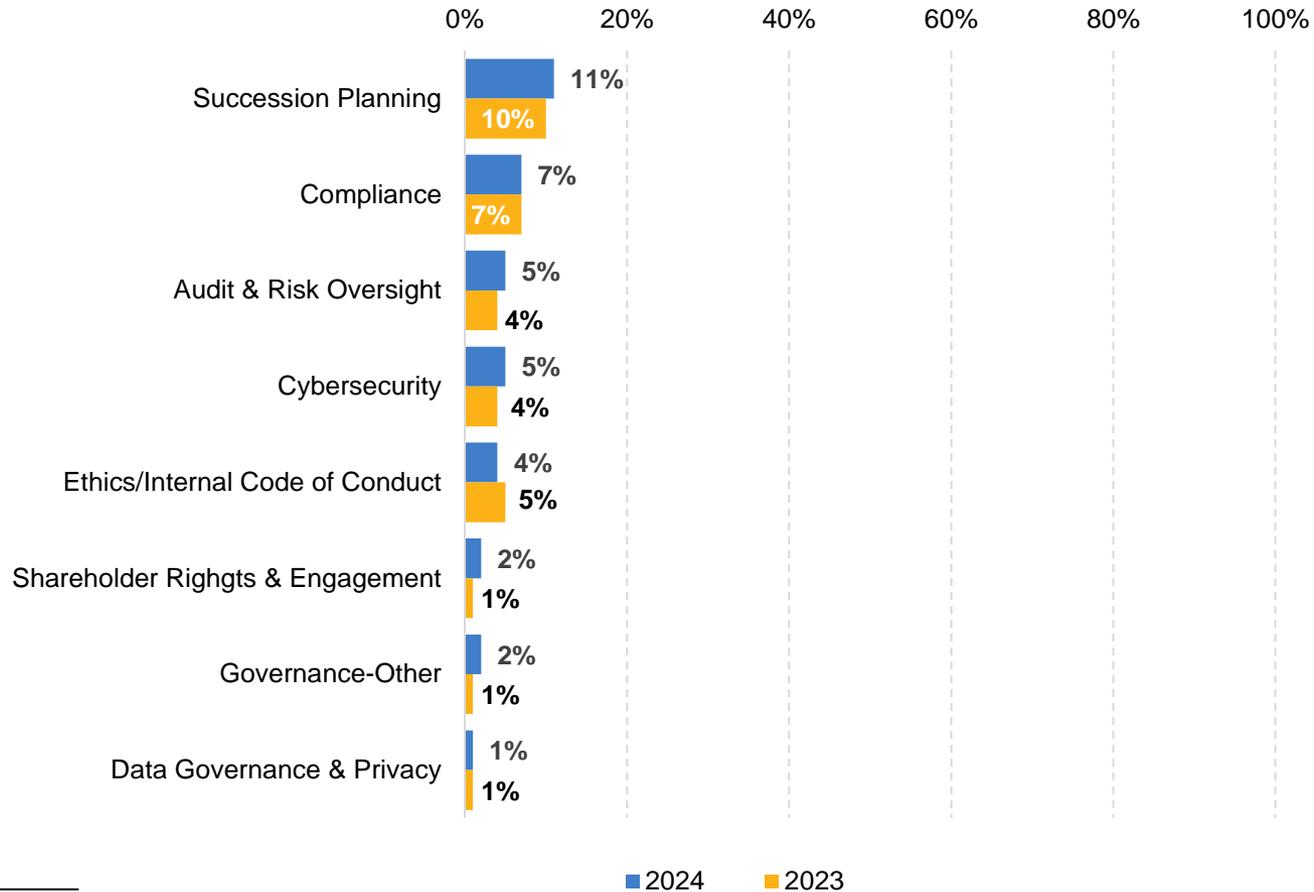
# Environmental Metrics by Industry

- Environmental metrics had the most change over 2023
- In only two sectors in 2023 was it majority practice to have an Environmental metric, now 3 of 11 are >50% and 5 ≥ 40%
- Nevertheless, *weightings* on these metrics remain low, typically 5%-15%



# Types of Governance Metrics\*

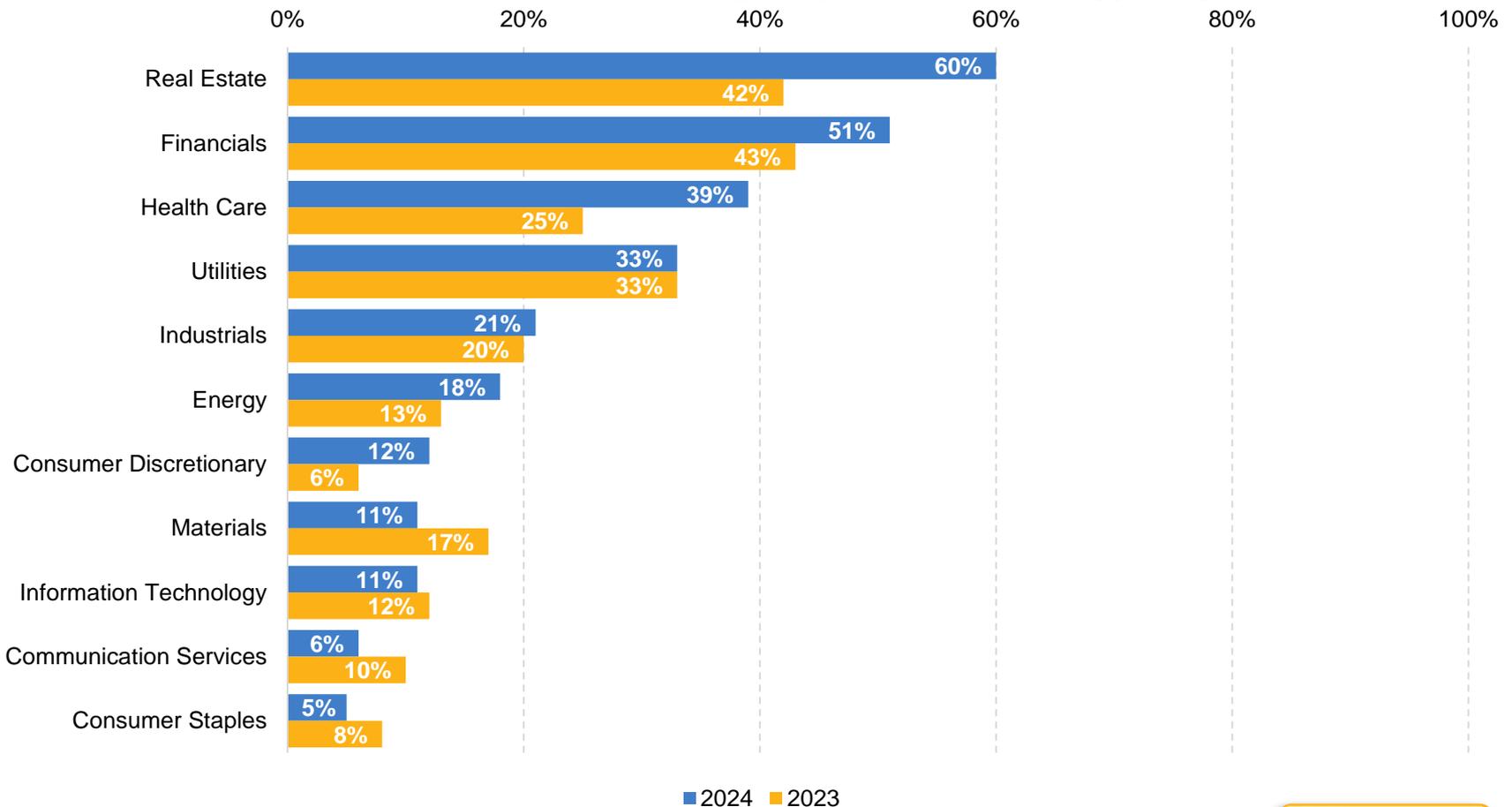
- As with 2023, prevalence of Governance metrics for incentive plans is very low
- Succession Planning only area with prevalence  $\geq 10\%$



\*Prevalence expressed as percent of those companies using *any* type of Governance metric

# Distribution of Governance Metrics by Industry

- Usage of Governance metrics is majority practice in Real Estate and Financial sectors
- However, prevalence is  $\leq 33\%$  in 8 of 11 sectors
- Where Governance metrics are used weightings remain low—typically 5%-10%



# Methodology

## Study Sample

- S&P 500, as comprised on January 1, 2024
- ESG metrics in incentive grants made to CEO
- Proxy statements filed between April 16, 2023, and April 15, 2024

## Statistics

- Unless otherwise noted, prevalence data based on the entire S&P 500 (N = 500)
- Industry prevalence breakdowns are based on **all** companies in those respective sectors; some 2023 data was updated from last year to reflect total “N” in those sectors and not just a count of those that use one or another ESG metric

## ESG Definitions

- **Environmental:** Covers how company’s business impacts environment in which it operates
- **Social:** Covers employee- and stakeholder-related issues, although “social” metrics can be interpolated narrowly or broadly
- **Governance:** Covers organizational structure and legal processes, including data security
- **Other ESG:** Intersects other ESG types

**Source**—ESGauge