

# 2023 Global Report on ESG Metrics in Executive Incentive Plans

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# Executive summary

**The adoption of environmental, social and governance (ESG) metrics in executive incentive plans continues to increase across markets.** ESG metrics are now one of the most prevalent metrics in executive incentive plans, increasing from 90% to 93% in Europe and from 69% to 76% in the U.S.

**Europe continues to lead the way in using ESG incentive metrics.** The highest adopters in Europe are France (100%), Germany (98%) and Spain (97%). European companies are much more likely to include environmental metrics in their executive incentive plans than their North American and Asia Pacific counterparts.

**Human capital metrics remain a top priority.** Between Europe and North America, more than 70% of companies now include at least one human capital metric in their executive incentive plans. Europe has the highest prevalence at 83%. Across the human capital metrics sub-categories, the most common are employee engagement, succession/talent management, and management and workforce representation.

**Emphasis on environmental and climate metrics continues in all markets.** In Europe, 80% of companies include at least one environmental and climate metric in their executive incentive plans, the highest prevalence category after human capital metrics. While prevalence in Canada and the U.S. is lower, the number of companies including at least environmental and climate metrics has almost doubled in Canada (from 27% to 50%) and almost quadrupled in the U.S. (from 12% to 44%) over the past three years.

**ESG metrics are a meaningful determinant of incentive pay, and companies rely on a mix of empirical ESG goals and qualitative assessments.** The median weighting of ESG metrics (collectively when more than one is used) is 20% in Europe, U.S. and Asia Pacific and 25% in Canada. ESG metrics measured with empirical and discretely weighted goals are the most common when incorporated into long-term incentive (LTI) plans. Compared with other markets, U.S. companies are more likely to include ESG metrics as part of a qualitative assessment of performance as opposed to quantitative goals. In Europe, three-quarters of ESG metrics are measured quantitatively.

**The discrepancy in the prevalence of ESG metrics across industries has lessened.** In past years, industries such as energy, utilities, materials and industrials were more likely to adopt ESG metrics than other industries. This year, we observe a marked increase in the use of ESG metrics in industries such as information technology and healthcare. The gap between industries has narrowed.

**Executive compensation disclosures and the use of ESG metrics are maturing in Asia Pacific, and they vary widely by country.** Overall, 77% of companies in Asia Pacific use at least one ESG metric in their executive incentive plans, reflecting a 14-percentage-point increase over last year. While all European and North American companies disclose some information about the metrics used in incentive plans, only three-quarters of the largest Asia Pacific companies did.

Our analysis shows a large disparity in the use of ESG metrics across the region, with the highest prevalence observed in Australia, Japan and Singapore. In these three countries, the use of ESG metrics is comparable to Europe (including the U.K.) and North America. In other parts of Asia Pacific, disclosures on executive incentive design and use of ESG metrics is often inconsistent.

# Introduction

This report covers an analysis of ESG metrics used in executive incentive plans for a sample of the largest public companies in Europe, North America and Asia Pacific based on public disclosures filed in 2023.

## ESG market practice report



### Data sample and highlights

- Region and industry coverage
- ESG categories and classification
- Highlights
- Trends in ESG metrics



### Prevalence of ESG metrics in executive incentive plans

- High-level prevalence by region and industry
- Year-over-year changes in prevalence
- Number and combination of ESG metrics



### Impact of ESG metrics

- Level of performance measurement
- Key performance indicators (KPIs), underpins and modifiers
- Prevalence by Global Industry Classification Standard (GICS) industry
- Median weightings by region



### A finer look into the six ESG categories\*

- Prevalence by GICS industry
- Impact on payout and level of performance measurement
- Median weightings

\*Environment and sustainability; people and HR; diversity, equity and inclusion; employee health and safety; customer service; and governance

# ESG metric classification

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



**E**

Environmental

Issues connected to environmental sustainability, such as responsible use of natural resources, climate change, pollution and the like

## Environment and sustainability

- Reducing carbon emissions
- Reducing waste
- Using green financing
- Limiting global warming
- Protecting natural resources
- Using renewable energy



**S**

Social

Factors such as how a company treats its workers and customers; health and safety considerations; and diversity, equity and inclusion

## People and HR

- Leadership
- Succession management
- Training and development
- Employee engagement

## Diversity, equity and inclusion

- Gender balance in management
- Diverse workforce
- Pay gap

## Employee health and safety

- Employee wellbeing
- Incident/Accident rate
- Fatalities

## Customer service

- Net promoter score
- Service quality
- Customer satisfaction



**G**

Governance

A focus on such topics as business ethics, board structure and independence, engagement for society, reputation and risk management

## Governance

- Ethics/Human rights along the supply chain
- Participation in sustainability index
- Compliance
- Corporate social responsibility (CSR)
- Stakeholder relationships
- Risk management
- Data protection and privacy
- Reputation

 Human capital metrics are part of the social category.

# Data sample

This report is based on disclosures from 1,152 companies in four markets

	 MARKET CAP	 REVENUES	 EMPLOYEES
<b>Canada</b>			
<b>LQ</b>	\$19,279	<b>LQ</b>	\$6,561
<b>Median</b>	\$31,371	<b>Median</b>	\$11,327
<b>UQ</b>	\$53,544	<b>UQ</b>	\$19,367
		<b>LQ</b>	10,103
		<b>Median</b>	24,336
		<b>UQ</b>	54,800
<b>Europe</b>			
<b>LQ</b>	€5,707	<b>LQ</b>	€3,268
<b>Median</b>	€11,726	<b>Median</b>	€9,643
<b>UQ</b>	€29,590	<b>UQ</b>	€28,655
		<b>LQ</b>	7,000
		<b>Median</b>	21,752
		<b>UQ</b>	72,597
<b>United States</b>			
<b>LQ</b>	\$16,064	<b>LQ</b>	\$5,552
<b>Median</b>	\$29,564	<b>Median</b>	\$12,690
<b>UQ</b>	\$60,360	<b>UQ</b>	\$27,189
		<b>LQ</b>	9,800
		<b>Median</b>	20,000
		<b>UQ</b>	56,511
<b>Asia Pacific</b>			
<b>LQ</b>	\$9,646	<b>LQ</b>	\$2,294
<b>Median</b>	\$19,157	<b>Median</b>	\$8,646
<b>UQ</b>	\$37,079	<b>UQ</b>	\$29,464
		<b>LQ</b>	10,038
		<b>Median</b>	35,288
		<b>UQ</b>	97,983

LQ stands for lower quartile and UQ stands for upper quartile.

## Canada

60 companies

TSX 60

## Europe

328 companies

AEX 25 IBEX 35

BEL 20 ISEQ 20

CAC 40 MIB 40

DAX 40 SMI 20

FTSE 100

## United States

500 companies

S&P 500

## Asia Pacific

264 companies

Australia (n=100)

China (n=7)

Hong Kong (n=11)

India (n=9)

Japan (n=100)

Malaysia (n=8)

Singapore (n=30)

\*A total of 352 companies were reviewed in the Asia Pacific region, but only 264 (75%) of the 352 companies disclose information about incentive metrics used. These 264 companies are concentrated in three countries: Japan (n=100), Australia (n=100) and Singapore (n=30). For purposes of reporting, all prevalence statistics reference the 264 companies with incentive metrics disclosure as the denominator.



- Several companies are listed on the stock exchanges of more than one country in the Asia Pacific region; therefore, the overall number of companies does not equal the sum of all countries.
- Market capitalization figures are as of December 31, 2022, and displayed in USD million.
- Revenues are displayed in USD million. Companies from the financial sector are excluded from the revenue statistics.
- Sector breakdown is based on the 11 Global Industry Classification Standard (GICS) sectors.

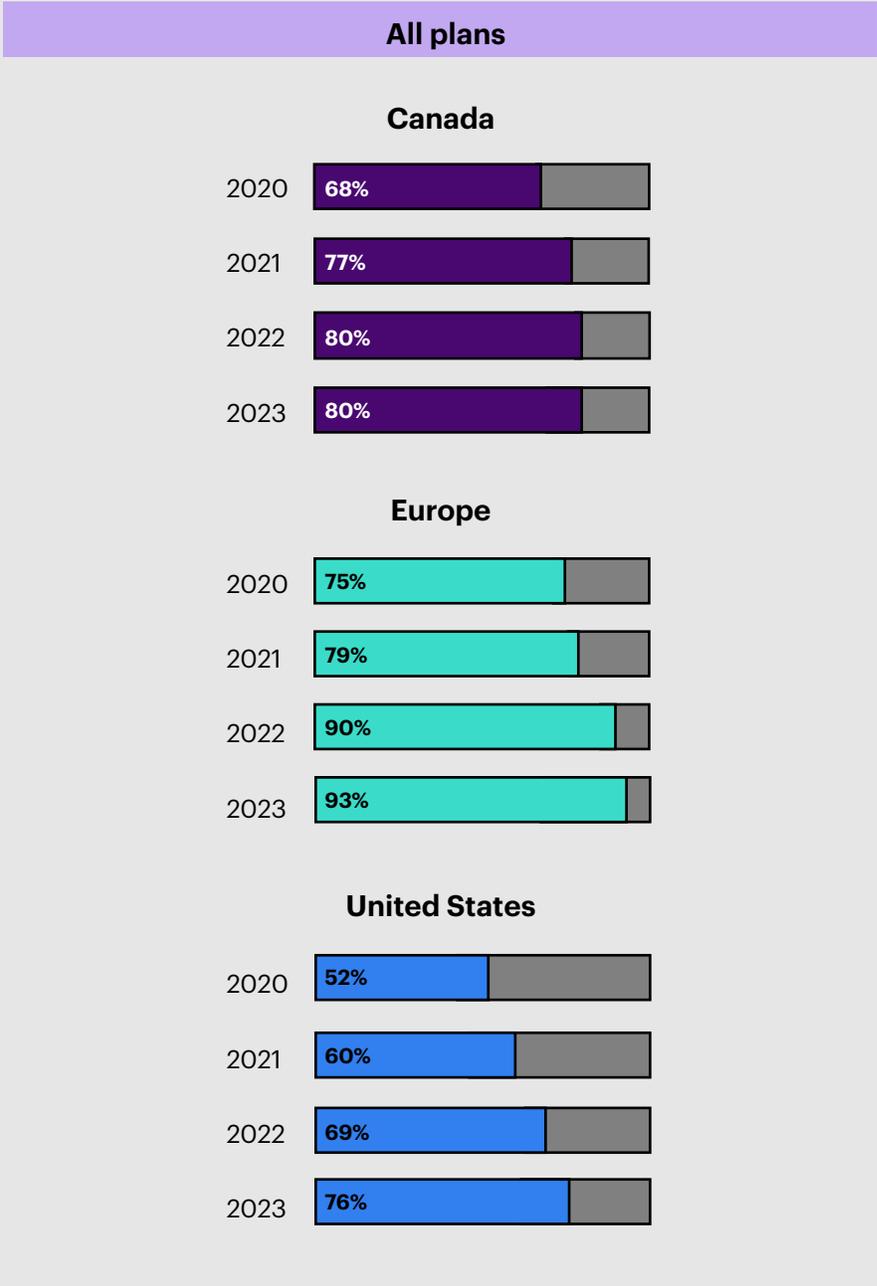
# Prevalence of ESG metrics in executive incentive plans

Use of ESG metrics within executive incentive plans continued to rise in the U.S. and Europe. Despite market sensitivities about ESG, the U.S. saw a seven-point increase year over year, rising from 69% to 76%. This marks a 24-point increase when compared with three years ago. Meanwhile, prevalence of ESG metrics has increased from 90% to 93% in Europe year over year.

On the other hand, use of ESG metrics has stabilized in Canada, staying flat at 80% among TSX 60 companies.

## Overall prevalence of ESG metrics in Canada, Europe and the United States

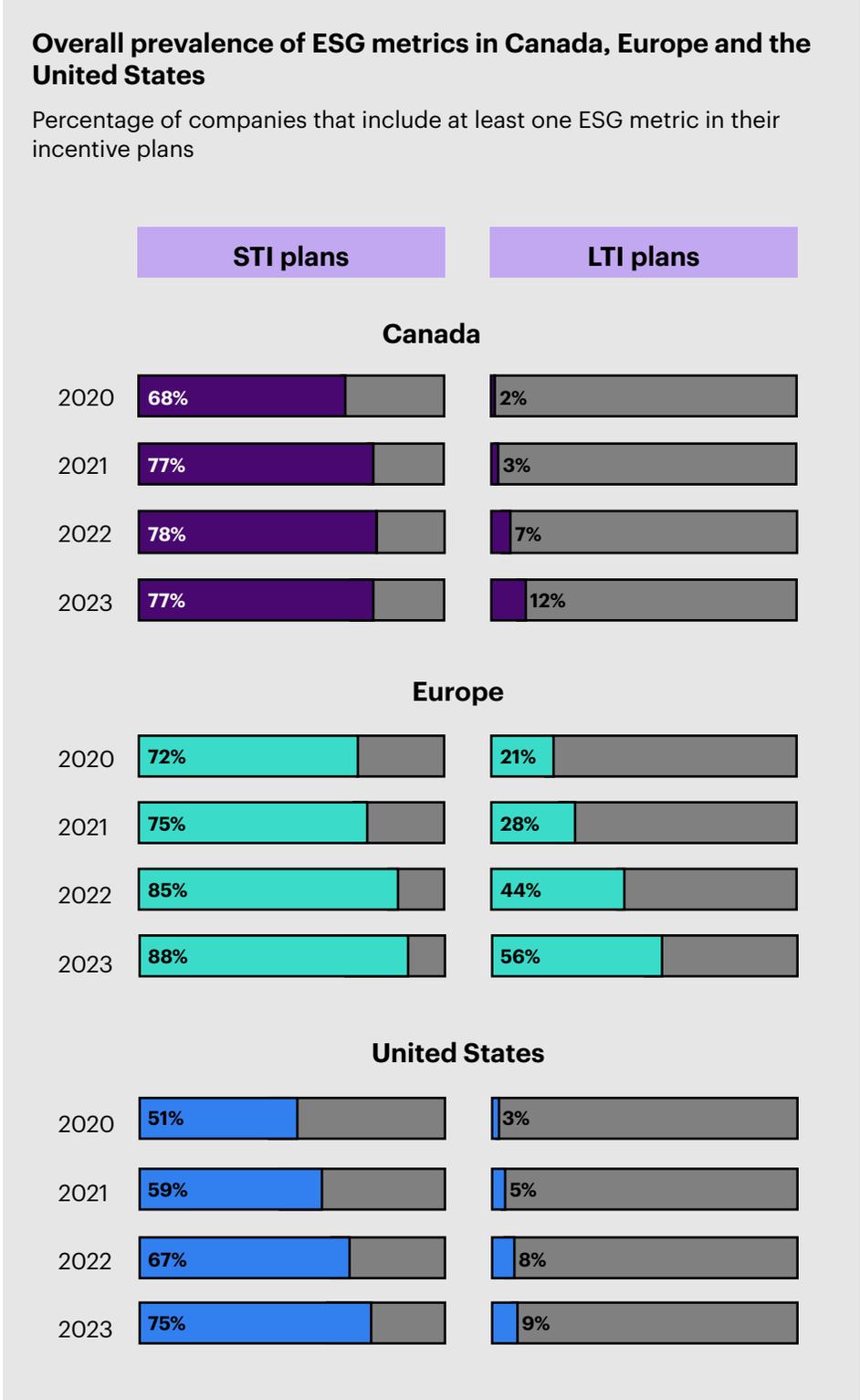
Percentage of companies that include at least one ESG metric in their incentive plans



# Prevalence of ESG metrics in short- and long-term incentive plans

In Canada and in the U.S., ESG metrics continued to be primarily used in the short-term incentive (STI) plans. The prevalence of ESG metrics in LTI plans has tripled over the past three years but remains at about 10% for both markets. In Canada, the significant increase in prevalence can be attributed to companies adding environmental and climate metrics to their LTI plans.

In contrast, the use of ESG metrics in LTI plans is a common practice in Europe. The majority of European companies now include ESG metrics in their LTI plans, mostly in the environmental and climate area, representing a 35-percentage-point increase from 21% to 56% in the past three years. It is also notable that more than half of companies in Europe (52%) use ESG metrics in both STI and LTI plans, which is a 13-percentage-point increase compared with last year.



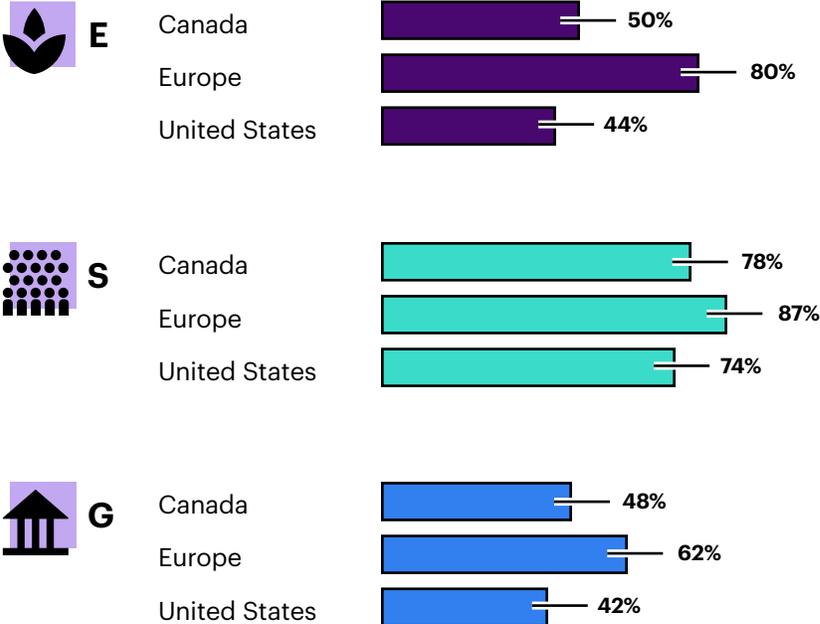
# Most prevalent ESG metrics by category

## All plans — Canada, Europe and the United States

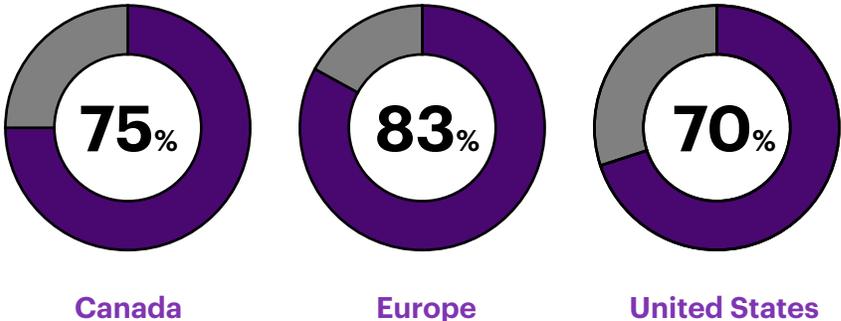
**Social** metrics are most frequently used in incentive plans among the three ESG categories across all markets. Metrics related to human capital management (e.g., diversity, equity and inclusion and employee engagement) are by far the most common metric type across all ESG categories.

The prevalence of **environmental** metrics increased significantly for all three markets compared with last year. In Canada, the increase was 14 percentage points, from 36% to 50%. In the U.S., the increase was 19 percentage points, from 25% to 44%. Between Continental Europe and the U.K., the prevalence of environmental metrics rose from 65% to 80%.

### Which ESG metrics are incorporated into executive incentive plans



### % of companies using human capital metrics



All percentages are expressed as a percentage of all companies in the sample.

# Most prevalent ESG metrics by category

## All plans — Canada, Europe and the United States

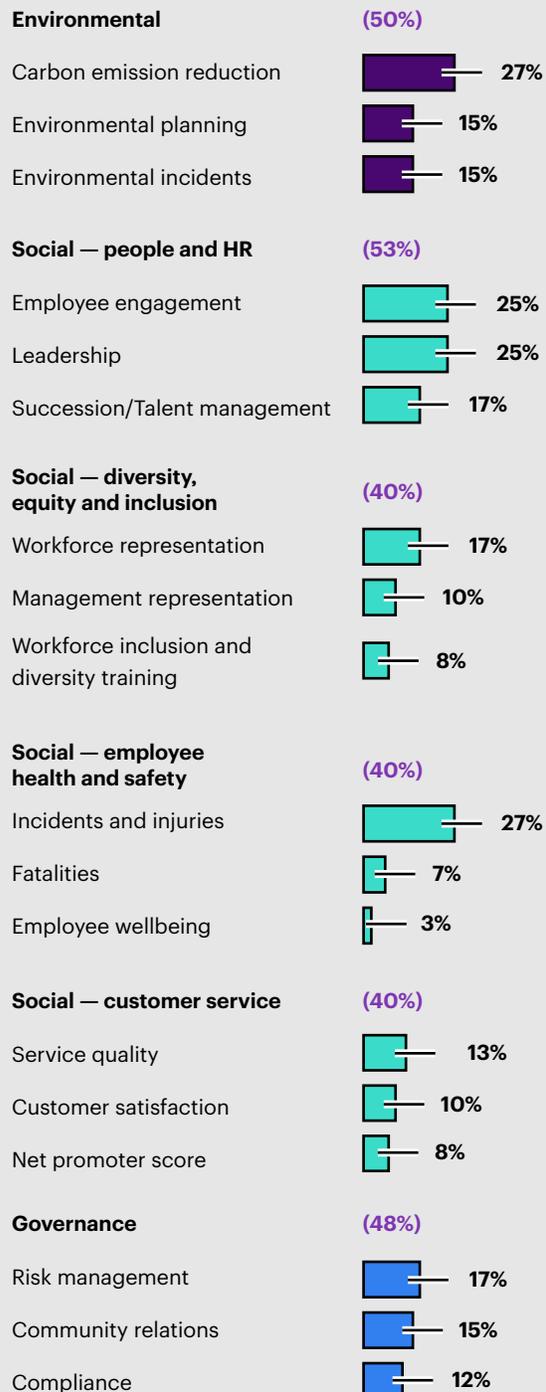
A broad range of metrics is used within the environmental, social and governance categories. These charts show the prevalence of companies using specific metrics under each category. The social category is further broken down into four sub-categories: people and HR; diversity, equity and inclusion; employee health and safety; and customer service.

Across all markets, carbon emission reduction is by far the most prevalent environmental metric. In Europe, the prevalence is 60%, which is much higher than any other single ESG metric across all markets.

Within the social category, the most common metrics are employee engagement, succession/talent management, employee safety and management/workforce representation. These themes are universal across all markets, with slightly different prioritization. For instance, there is a much stronger emphasis on management representation in Europe, whereas the U.S. has a keen focus on culture. Customer-related metrics are less common compared with other social sub-categories.

There is a high degree of uniformity in the use of governance metrics across markets. The most common themes are risk management and compliance. In the U.S., there is a particular focus on stakeholder relationship. And more so in Europe than any other market, sustainability indices are used to measure ESG performance.

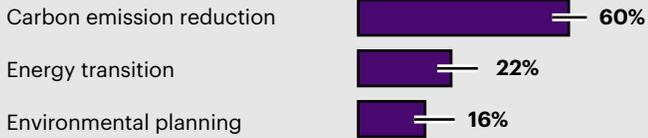
### Canada



## Europe

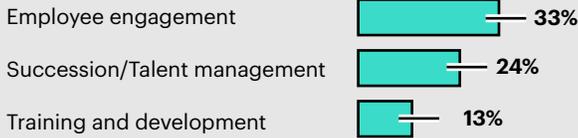
### Environmental

(80%)



### Social — people and HR

(61%)



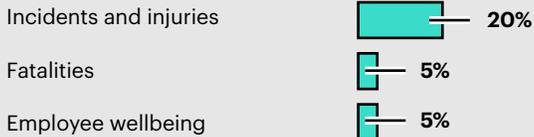
### Social — diversity, equity and inclusion

(57%)



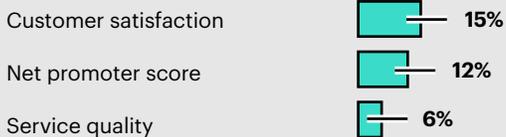
### Social — employee health and safety

(28%)



### Social — customer service

(36%)



### Governance

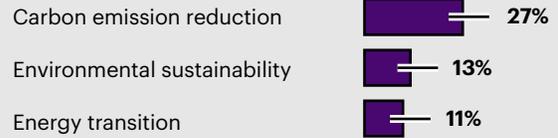
(62%)



## United States

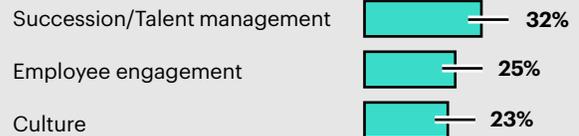
### Environmental

(44%)



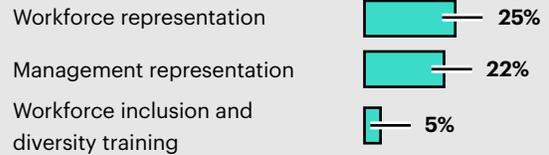
### Social — people and HR

(51%)



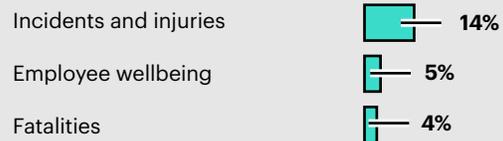
### Social — diversity, equity and inclusion

(58%)



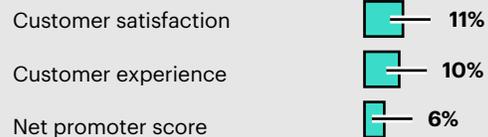
### Social — employee health and safety

(26%)



### Social — customer service

(32%)



### Governance

(42%)



# Use of ESG metrics by industry

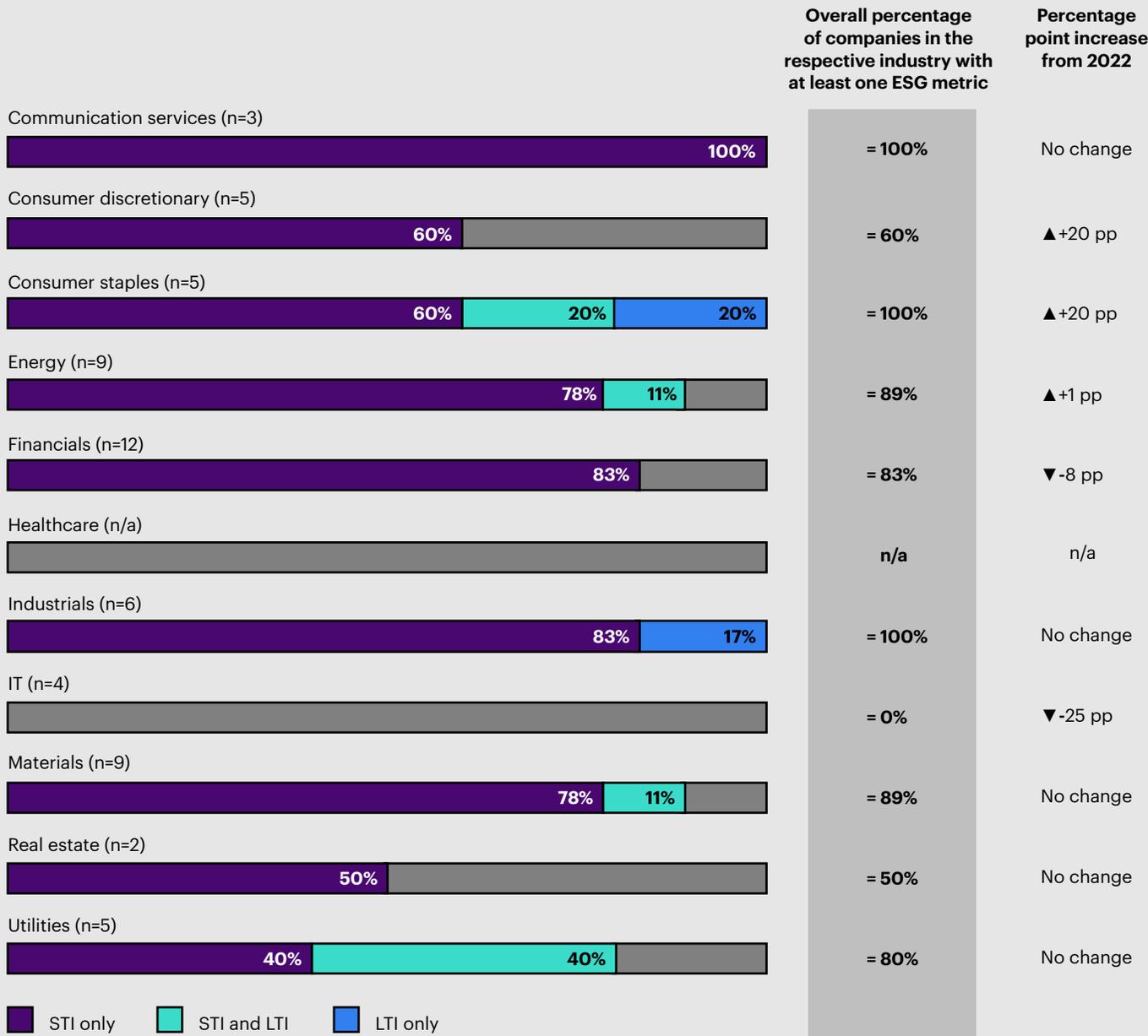
## Canada, Europe, and the United States

With the overall increase in the use of ESG metrics in executive incentive plans, the energy and communication services industries see the highest prevalence, followed by materials, utilities and industrials.

In Canada, the prevalence of ESG metrics remained stable for half of the industries. In the U.S., most industries saw an increase in the use of ESG metrics, specifically in real estate, consumer staples and energy. Few companies in North America include ESG metrics in their LTI plans. The industry breakdown shows that these companies are concentrated among utilities companies mostly using environmental metrics.

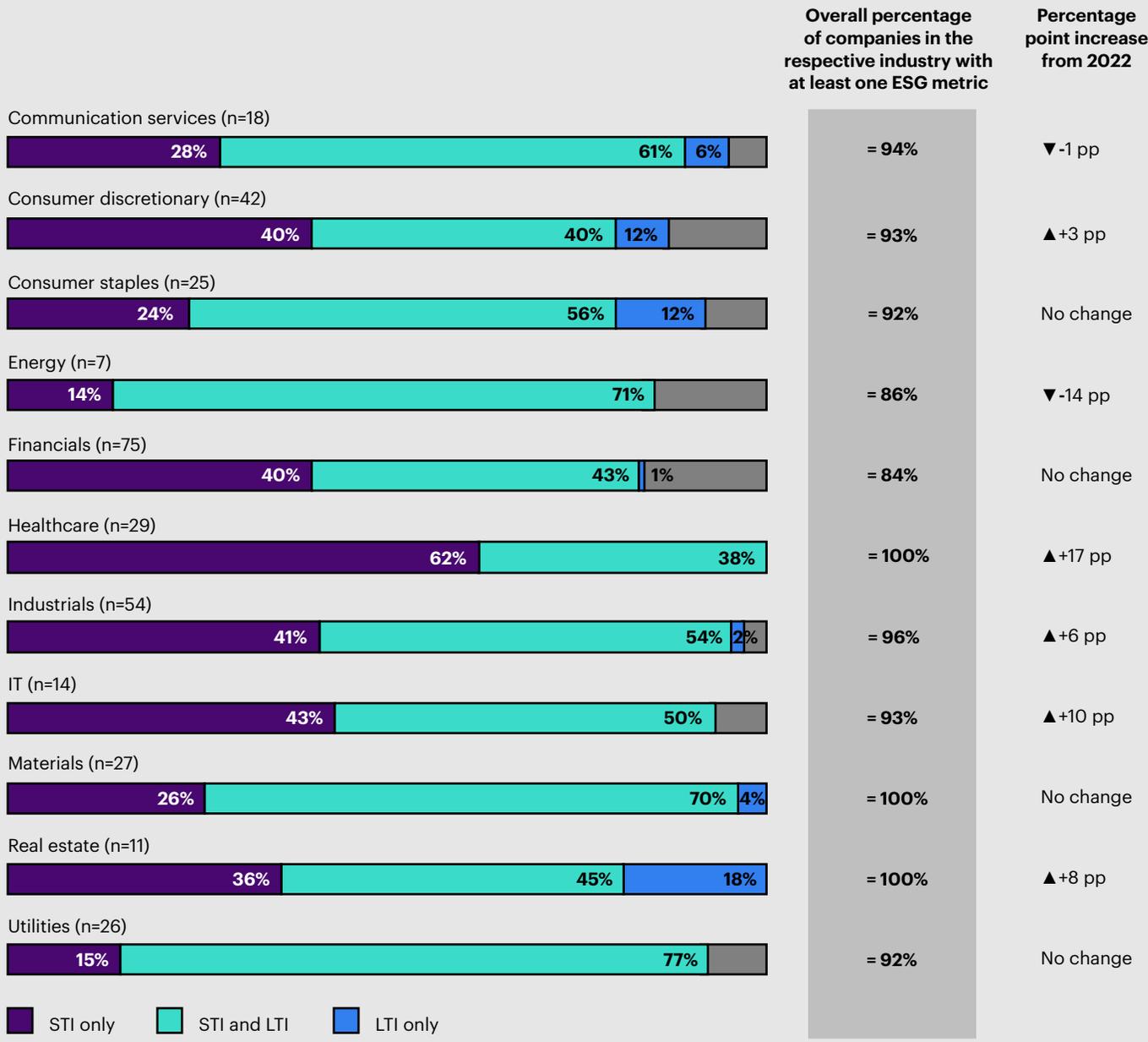
In Europe, the prevalence of ESG metrics is above 80% in all industries. This reaches 100% for three industries: healthcare, materials and real estate. The use of ESG metrics in LTI plans is prevalent, especially in the energy, materials and utilities industries.

# Overall prevalence of ESG metrics in Canada



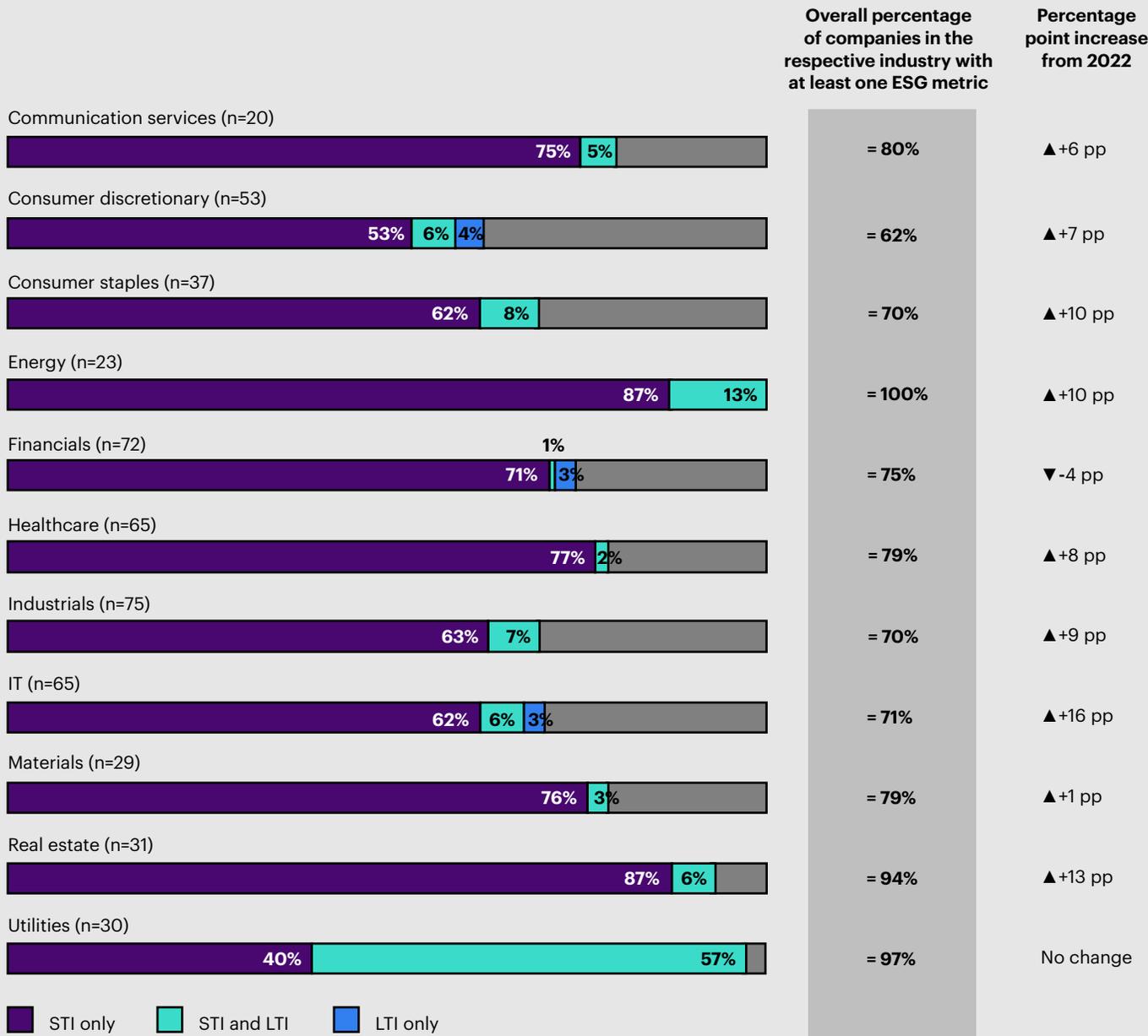
n = number of companies; small samples drive larger year-over-year percentage point changes. Year-over-year changes may fluctuate by +/-1 percentage point due to rounding.

# Overall prevalence of ESG metrics in Europe



n = number of companies; small samples drive larger year-over-year percentage point changes. Year-over-year changes may fluctuate by +/-1 percentage point due to rounding.

# Overall prevalence of ESG metrics in the United States



n = number of companies; small samples drive larger year-over-year percentage point changes. Year-over-year changes may fluctuate by +/-1 percentage point due to rounding.

# How ESG is measured in incentive plans

## Measurement type



### Quantitative/Empirical

Metrics where the outcome is determined using a quantifiable measurement process using numerical values (e.g., absolute amounts, percentage growths)



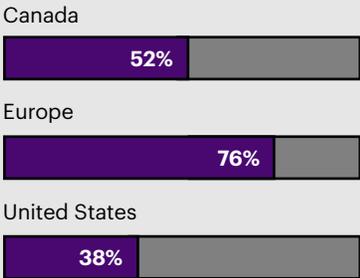
### Qualitative/Discretionary/Undefined

Metrics where the outcome is determined qualitatively using discretion and a judgment-based process (e.g., "improve x," "develop y") or where assessment details are not disclosed

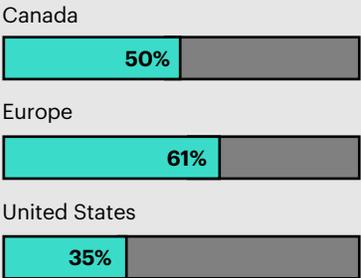
## How ESG metrics are measured in incentive plans in Canada, Europe and the United States

Percentage of companies that measure at least one ESG metric quantitatively

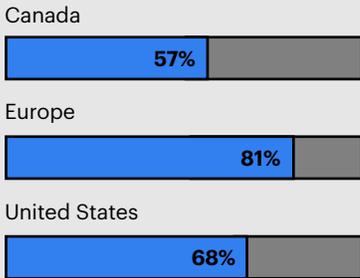
### All plans



### STI



### LTI

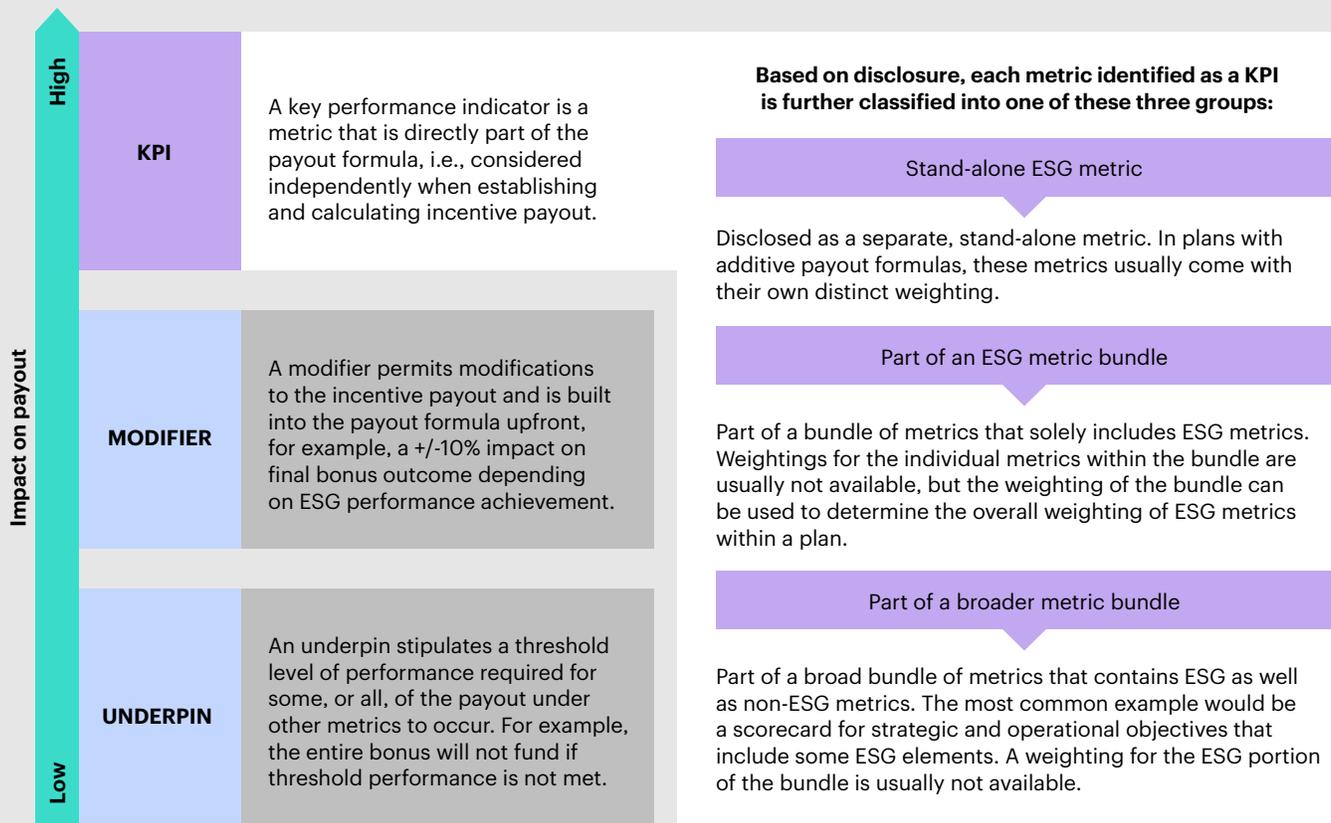


All percentages are expressed as a percentage of companies with at least one ESG metric (in all plans/STI plans/LTI plans).

Across all markets, companies are more likely to measure ESG performance quantitatively in LTI plans than in STI plans.

More than half of the companies in Canada and Europe measure ESG performance quantitatively in their STI and LTI plans. In the U.S., qualitative assessment of ESG performance continues to be the norm when determining STI payout. However, about two-thirds of U.S. companies measure ESG achievement quantitatively in their LTI plans.

## How ESG metrics are incorporated into incentive plans



Some incentive plans may include metrics that fall under multiple categories.

ESG metrics are incorporated into executive incentive plans in three ways. Across all markets, the most common approach is for ESG metrics to be a KPI with discrete weighting, either as a stand-alone metric or part of a bundle. Modifiers and underpins are less common, especially in LTI plans.

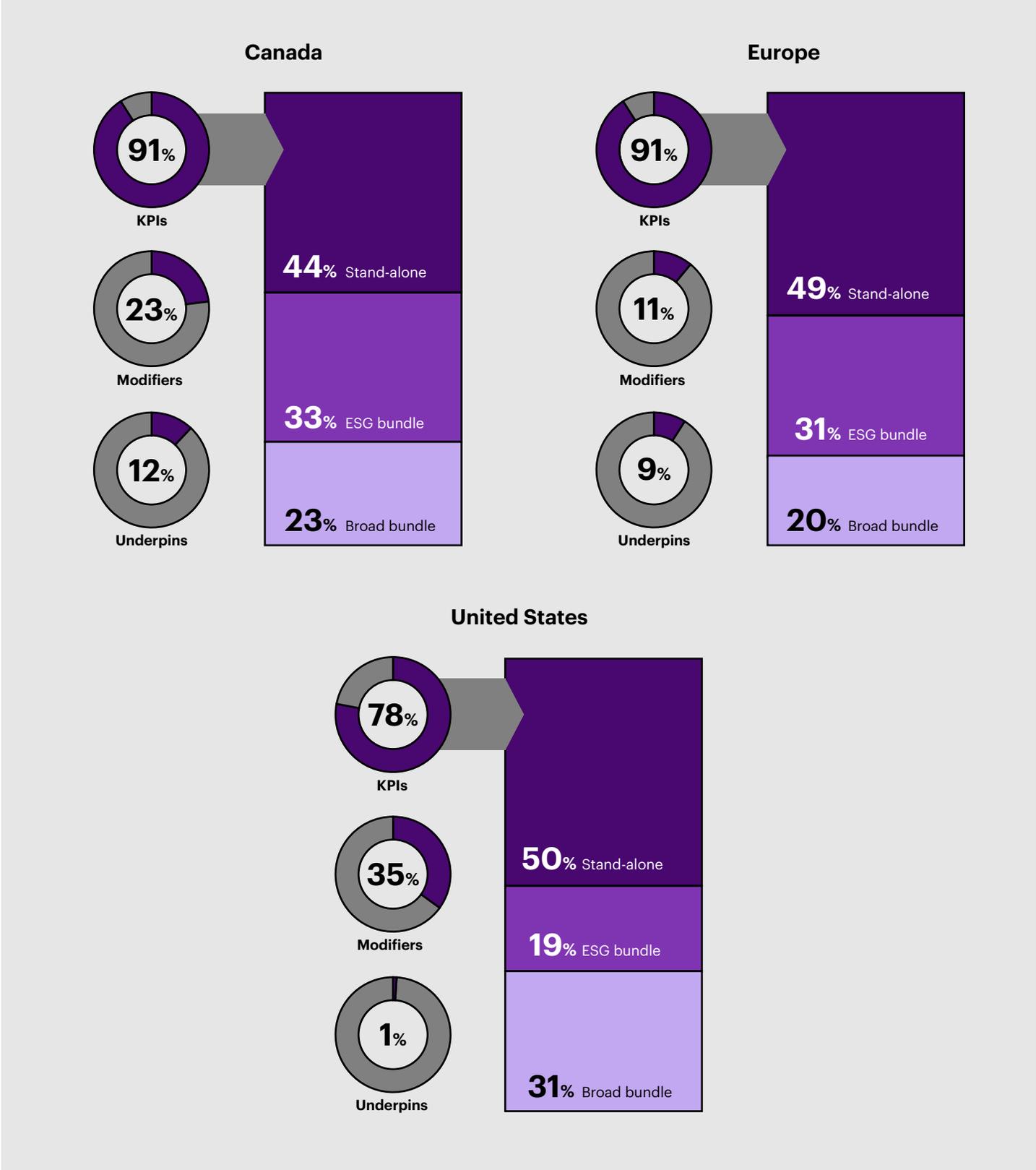
When measured as a discretely weighted KPI, ESG performance can have a considerable impact on overall payout. In Europe and the U.S., the median weighting of ESG metrics is 20%. In Canada, the median weighting is slightly higher at 25%.

### The median overall weighting\* of ESG metrics are

**25%** Canada      **20%** Europe      **20%** United States

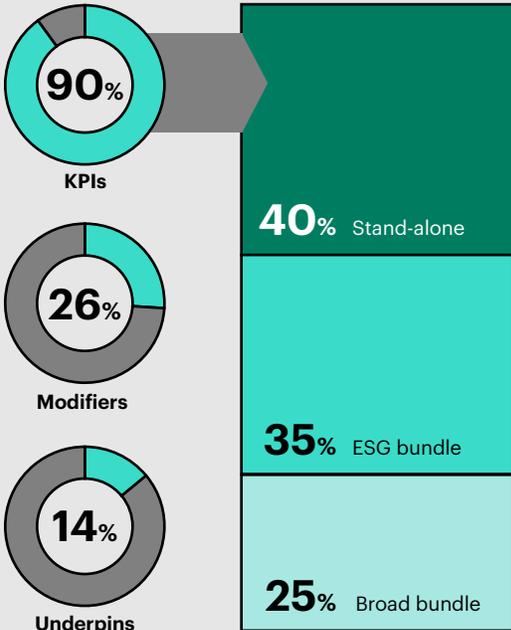
\*The median overall ESG weighting is composed of incentive plans with stand-alone ESG metrics and ESG bundles. Broader bundles include both ESG and non-ESG elements, and therefore the weighting specified to the ESG portion cannot be determined.

# How ESG metrics are incorporated into all incentive plans

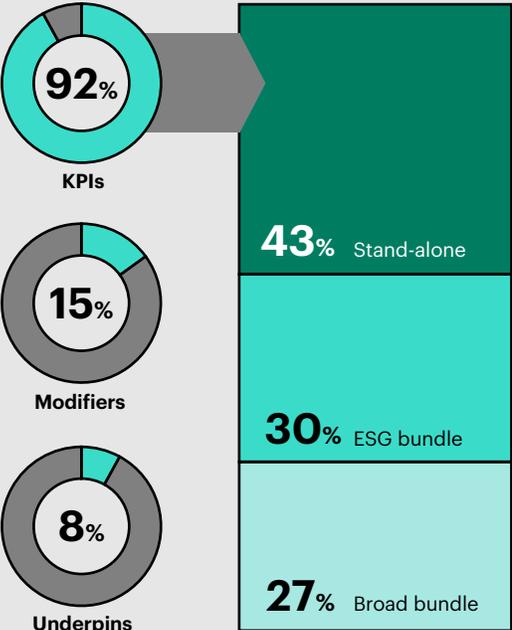


# How ESG metrics are incorporated into STI plans

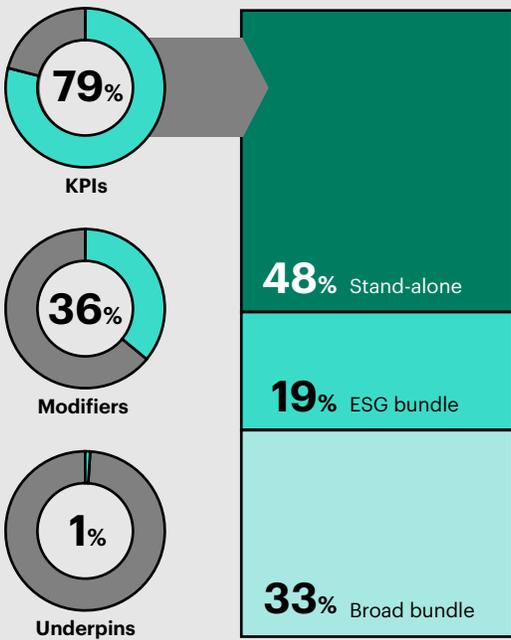
## Canada



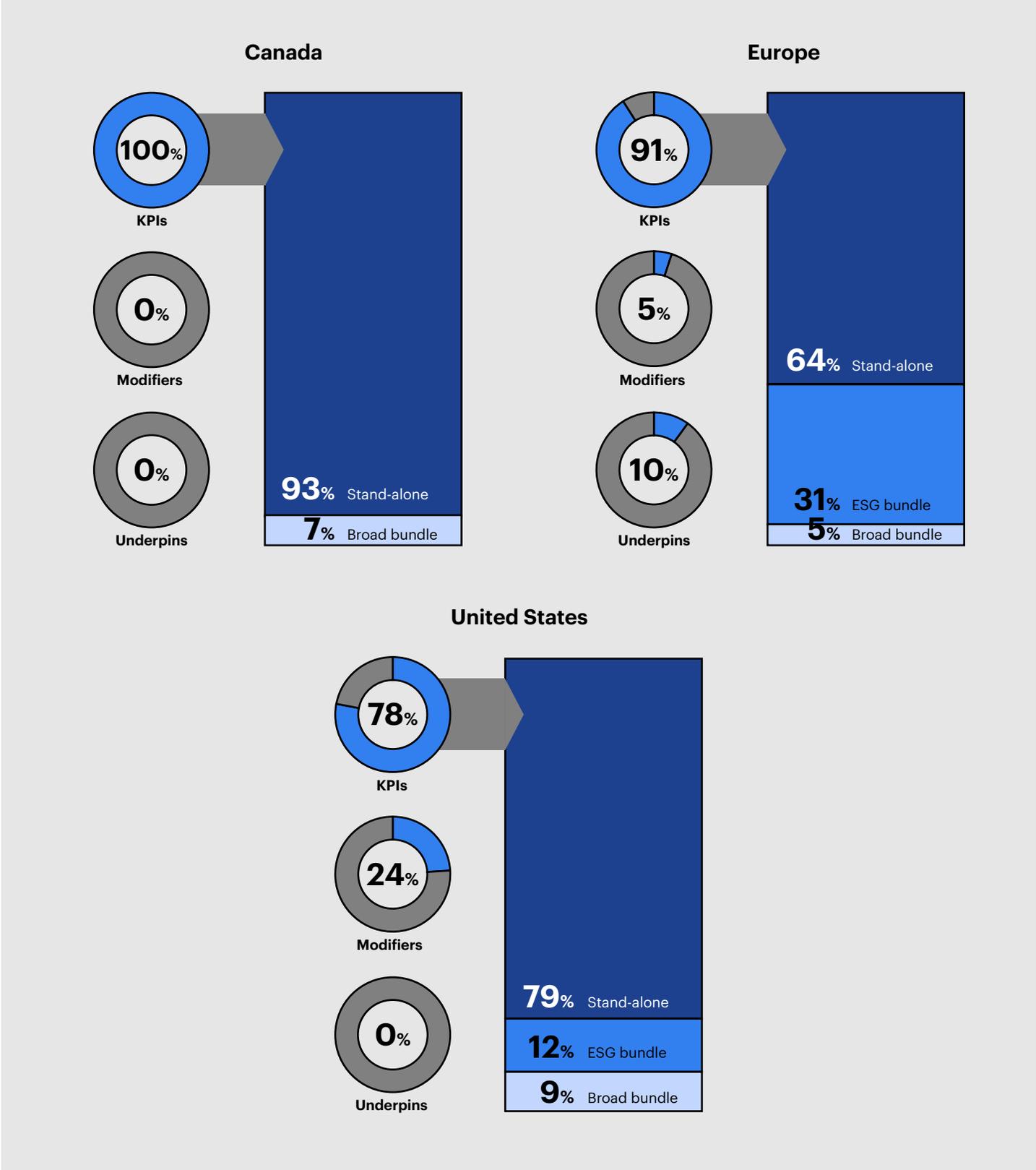
## Europe



## United States



# How ESG metrics are incorporated into LTI plans

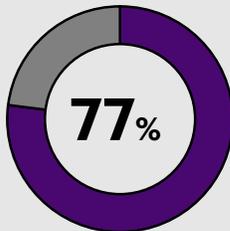


# Asia Pacific ESG highlights

## OVERALL PREVALENCE OF ESG METRICS IN THE ASIA PACIFIC REGION

Of the 352 leading companies in the Asia Pacific sample, 264 companies (75%) disclosed their executive incentive metrics; among these 264, 204 companies disclosed using at least one ESG metric in their executive incentive plans.

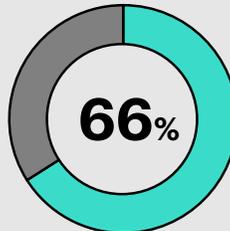
### All plans



of companies use at least one ESG metric in their **incentive plans** (STI or LTI or both)

**47%** of all companies with ESG metrics measure at least one of them quantitatively

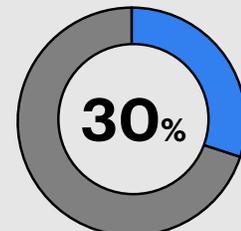
### Short-term incentive (STI)



of companies use at least one ESG metric in their **STI plans**

**42%** of all companies with ESG metrics measure at least one of them quantitatively

### Long-term incentive (LTI)



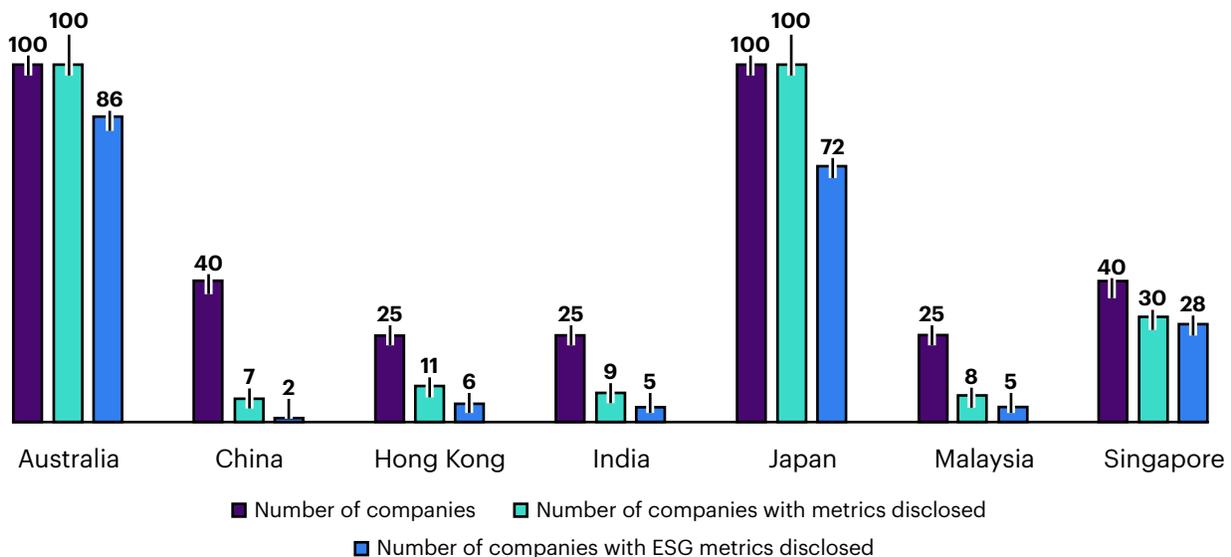
of companies use at least one ESG metric in their **LTI plans**

**38%** of all companies with ESG metrics measure at least one of them quantitatively

## FINDINGS BY COUNTRY

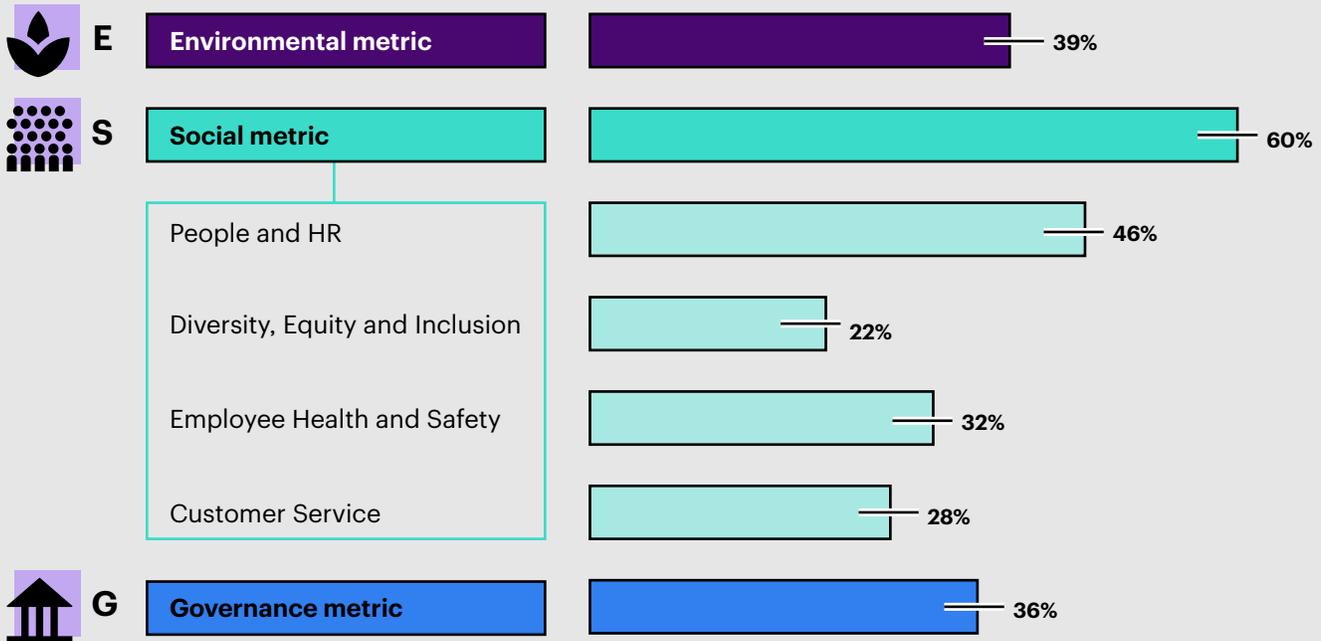
Disclosures on executive incentive metrics are a common practice in Australia, Japan and Singapore but less so in other Asia Pacific markets. These three countries also lead the region in terms of prevalence of ESG metrics. Overall, 77% of Asia Pacific companies that disclose incentive metrics use at least one ESG metric in their executive incentive plans.

### Background: Disclosure practice and data availability for the Asia Pacific region



## PREVALENCE BY ESG CATEGORY

Percentage of companies that use at least one:



All percentages are expressed as a percentage of all companies in the sample.

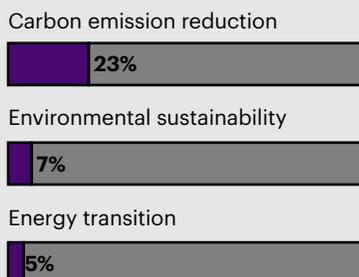
# 57%

of companies include human capital measurements in their incentive plans

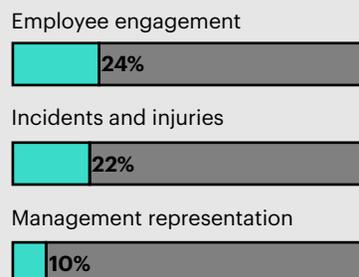
## PREVALENCE BY METRIC TYPE

As in other regions, the metrics related to human capital and carbon emission reduction see the highest prevalence across all ESG categories in Asia Pacific. Within the Social category, employee engagement and safety (e.g., incidents and injuries) are the most common in executive incentive plans. Metrics related to diversity, equity and inclusion are slightly less common in Asia Pacific than in other regions.

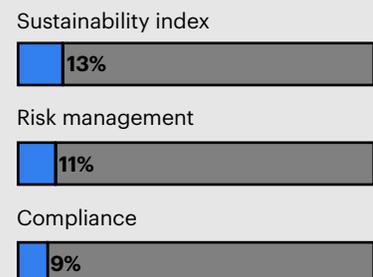
### Environmental (39%)



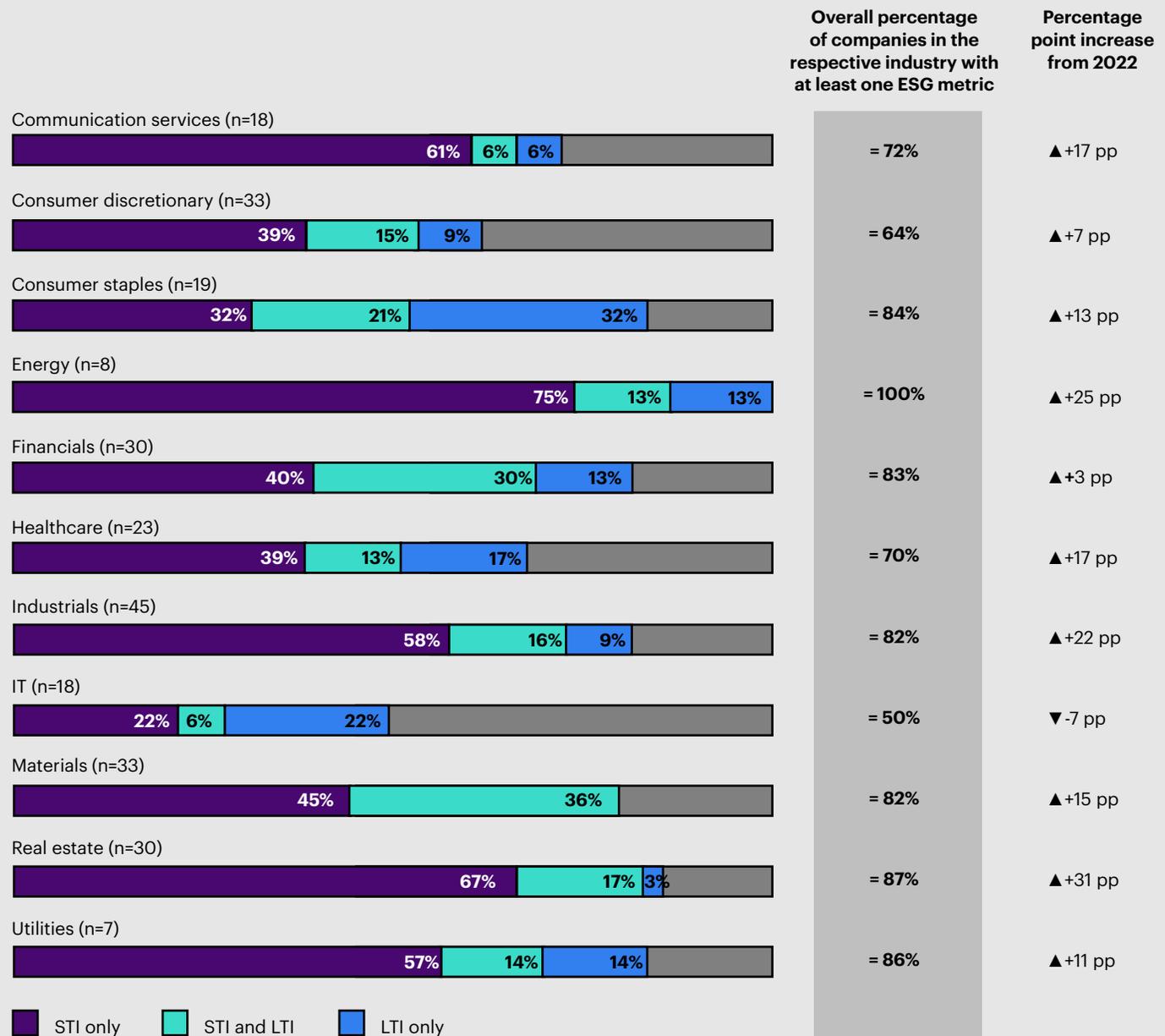
### Social (60%)



### Governance (36%)



## OVERALL PREVALENCE OF ESG METRICS IN THE ASIA PACIFIC REGION



n = number of companies, year-over-year changes may fluctuate by +/-1 percentage point due to rounding.

# Contact us

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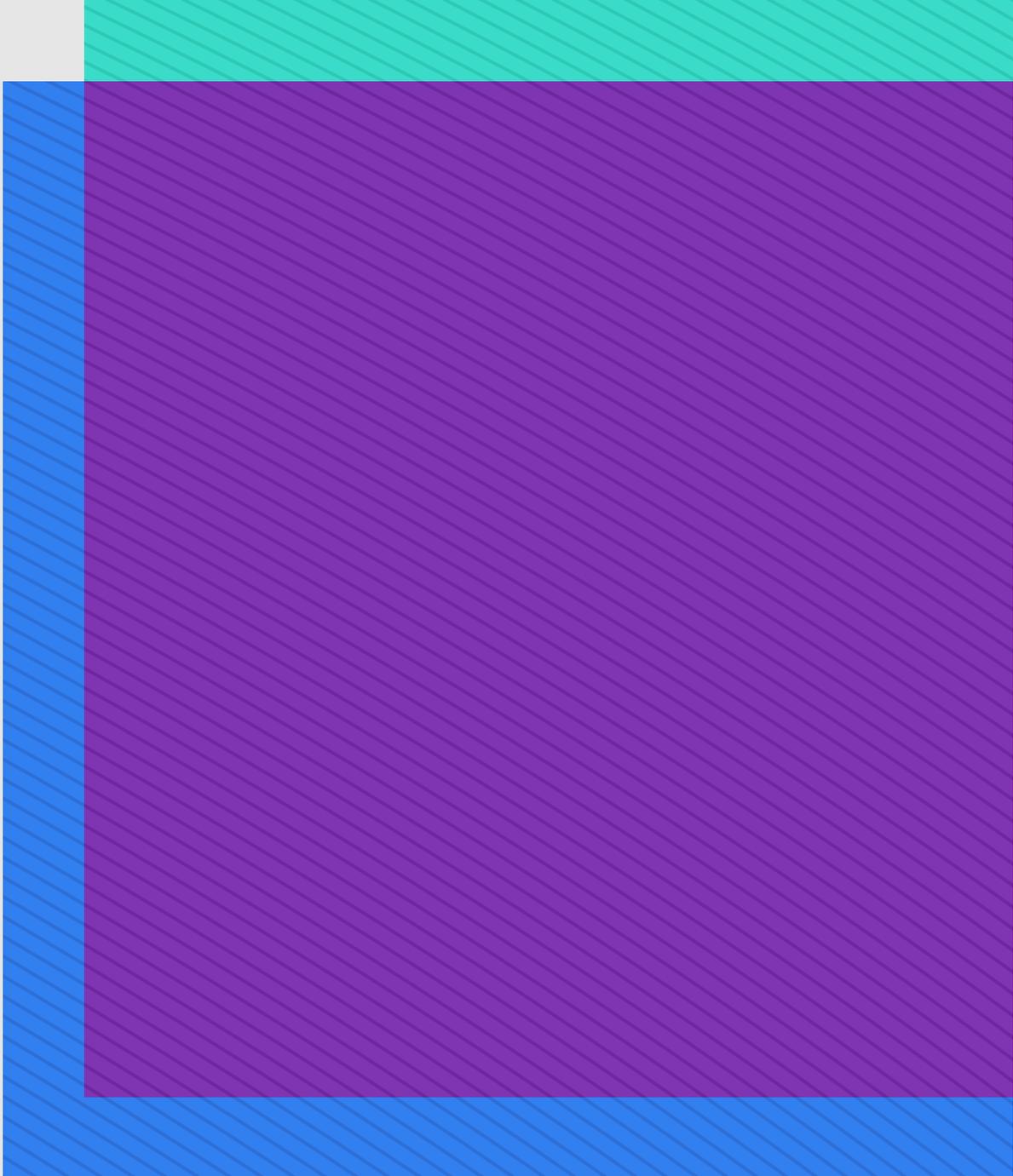
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