

How Companies Incorporate ESG Metrics in Compensation Plans

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The following companies have implemented ESG metrics and made disclosures in their 2022 proxy statements.

Annual Incentive Plans

- **The Chemours Company.** The Chemours Company modified its short-term annual incentive plan (AIP) for 2021 “to ensure that management’s incentives were aligned with emerging important business metrics.” The company shifted the metric mix with the addition of ESG metrics. The ESG metrics are weighted 15% — introducing gender diversity was assigned a 9% weight and environmental projects was assigned a 6% weight. With regard to the 2021 AIP result, the company stated that it “achieved the maximum performance on the environmental projects, but failed to meet the threshold for increasing the percentage of women in the company.”
- **The Disney Company.** Disney’s compensation committee developed “Other Performance Factors” for the fiscal 2021 annual bonus in December 2020. For fiscal 2021, these other factors were part of the company’s strategic objectives and emphasized the importance of one of the company’s priority ESG issues: diversity and inclusion. It was assigned the highest weighting among the other performance factors. This ESG metric, together with the Other Performance Factors, were a 30% multiplier of the targeted amount.



Dow. Dow's annual cash

incentive program is designed to reward employees for achieving Dow's most critical financial and operational goals. The proxy statement said, "Based on feedback from investors, benchmarking, management's recommendation and input from the independent compensation consultant, the committee determined that operating EBIT, free cash flow and ESG metrics were aligned with the company's stated goals to its stakeholders, including employees and stockholders." For the 2021 performance award, the ESG metric (customer experience, sustainability, inclusion) was 20%. With regard to its 2022-2024 performance share program design, "based on feedback from investors, benchmarking, management's recommendation and input from the independent compensation consultant, the committee determined that including ESG metrics in the 2022-2024 performance share program to drive performance on sustainability targets and carbon and climate goals was aligned with the company's stated goals to its stakeholders, including employees and stockholders. The 2022 program design includes enhancements that align with Dow's stated goal to achieve carbon neutrality by 2050 through increasing its positive impact on customers, business and society, while also supporting Dow's commitment to reduce its net annual GHG emissions by an additional 15 percent by 2030. The ESG metric is focused on Scope 1, 2 and 3 GHG emission reduction efforts, including a cumulative GHG emission reduction target, as measured against the 2020 baseline previously announced by the company. The ESG metric represents 20 percent of the 2022 program design."

- **Intel Corporation.** Intel notes that it has a long history of incorporating ESG metrics into its annual cash bonus plan. The annual cash bonus plan for 2021 was made up of three equally weighted performance metrics: revenue, net income and "One Intel" operational goals. Intel also incorporated additional environmental goals as part of the ESG metrics that could increase payouts if achieved. The achievement of preestablished ESG goals could affect the One

Intel score by up to 20 percentage points, potentially increasing total payout under the annual cash bonus plan by up to 7%. Intel has integrated corporate responsibility and sustainability leadership into its compensation program in addition to its business operations throughout the company. Two ESG metrics included goals related to 2030 inclusion goals for gender and underrepresented minority diversity and environmental goals related to energy conservation and net positive water use. “Following extensive stockholder engagement, Intel’s compensation committee approved several changes to its 2022 compensation programs to align to its new go-forward strategy, strengthen its pay-for-performance linkage, provide better alignment with technology peer industry practices and continue its leadership in ESG issues.” In the annual cash bonus plan, there are four equally weighed metrics for the listed officers (other than the CEO). The company’s One Intel operational goals were established to reflect the most critical business priorities, and One Intel operational goals continue to include ESG metrics encompassing 2030 RISE environmental and diversity and inclusion goals.

- **Raytheon Technologies Corporation.** In response to investor feedback over the past few years, Raytheon incorporated a corporate responsibility scorecard (CRS) into its executive annual incentive plan for 2021 to drive management focus and ensure accountability on the company's long-term DEI, environmental sustainability and safety objectives. In line with the company’s continued emphasis on ESG, the company incorporated nonfinancial performance objectives into the executive annual incentive plan starting in 2021. The CRS consists of two categories — people & culture and sustainability & safety — each weighted at 10%. The financial metrics — earnings and free cash flow — are weighted at 40%. With regard to the weighting of the objectives with the CSR, the proxy statement stated that, since it is believed that the relative importance of the objectives within the CRS will evolve over time, specific weightings were not assigned to these objectives to maintain flexibility.
- **Valero.** Valero has historically included quantitative environmental and safety performance measures in its annual bonus program. Valero’s annual bonus plan has three components — financial, operational and strategic. The operational metrics have a 40% weight and include health, safety and environment; mechanical availability and refining cash operating expense management. In 2021, Valero introduced an “energy transition” measure as a modifier within the performance shares program, which links executive compensation with their global refinery Scope 1 and 2 GHG emissions

reduction/offset target for 2025 and growth capital deployed for low-carbon projects and initiatives.

- **Walker & Dunlop Inc.** Beginning in 2021, the company embarked on a new five-year plan, “The Drive to ‘25.” The Drive to ‘25 includes ambitious five-year operational, financial and ESG targets to be achieved by the end of 2025. The ESG targets include increasing diverse leadership, reducing of emissions, donating of 1% of annual income from operations and establishing a cumulative \$60B of affordable housing debt financing volume from 2021-2025. With regard to its executive compensation program, the compensation committee conducted a review, and one of the enhancements made to the 2021 annual incentive program was the inclusion of DEI goals (weighted 10%) that include five objective performance factors.

Long-Term Incentive Plans

- **Uber Technologies Inc.** In 2019, Uber expanded use of performance restricted stock units (PRSUs) to establish a broader, performance-based long-term incentive program and incorporated DEI goals to align with new cultural norms. In 2020, the company added safety goals to the PRSUs. Uber continued its focus on DEI and safety in 2021. Each executive officer’s 2021 PRSU awards were based on the achievement of ESG goals weighted 20% — DEI (10%) and safety goals (10%) — and each executive officer had individual DEI goals under their annual cash bonus plan. Priorities for 2022 included achievement of ESG goals, including DEI, climate change, safety, and driver and courier well-being (see also Dow and Valero above).

Annual Incentive Plan and Employment Agreement

- **Six Flags Entertainment Corporation.** The 2021 incentive plan included a safety metric weighted at 12.5%. It was noted that the company did not achieve thresholds for the safety metric or another metric (guest satisfaction), which were adversely impacted by the pandemic and tight labor market. In the employment agreement of the new CEO in 2021, he was granted a performance stock unit award. The performance goals included ESG achievement metrics. The award provides for payout of additional shares (up to an aggregate maximum) upon achievement of three ESG goals to incentivize sustainable long-term growth. “The Sustainalytics payout

opportunity goal will be based on the company's Sustainalytics ESG risk rating compared to its peer group. The Sustainalytics ESG risk rating measures a company's exposure to industry-specific material ESG risks and how well a company is managing those risks. The company is assigned an ESG risk rating in eight separate categories based on its ESG risk exposure compared to its ESG risk management."

- **Activision Blizzard Inc.** The company added an ESG component to its annual incentive program design, which may include diversity, inclusion, promotion and hiring of veterans, and sustainability as part of executive strategic objectives beginning in 2021. Regarding individual strategic objectives (weighted at 20%), the exact objectives for 2021 varied by executive officer, reflecting areas of importance and influence by role. With regard to the CEO's 2021 employment agreement amendment, it increased the percentage of his target bonus opportunity for 2021 and 2022 that will be based on financial metrics — from 60% to 80% — and provides that the remaining 20% will be based on objective and measurable strategic ESG initiatives. Notwithstanding the terms of the employment agreement, in October 2021, the CEO asked not to receive any bonus until the company has made appropriate progress toward the achievement of the its transformational goals.

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