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Navigate the Compliance Universe

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Incentive compensation and ESG

By Lisa Beth Lentini Walker

For many years, the gold standard among ethics leaders was having a tone at the top demonstrated through clear alignment of incentives to ethical outcomes. It should come as no surprise with the rise of environmental, social, and governance (ESG) metrics (which by their very nature incorporate ethical conduct) that incentives for executives would begin to reflect ESG metrics in addition to purely financial-aligned metrics. In 2019, Mercer surveyed 135 American and Canadian companies across all industries.[1] At that time, 30% reported using ESG metrics in incentive plans (primarily short-term), and 21% were considering doing so soon.

Now, in the last reported year of 2022, we have seen a dramatic uptick in the inclusion of ESG metrics in corporate incentive plans. In the 2022 American proxy season, while ESG metrics were primarily focused on annual incentives, out of the S&P 500 companies, over two-thirds (207 of 301) reported the inclusion of such metrics as part of compensation of executives.