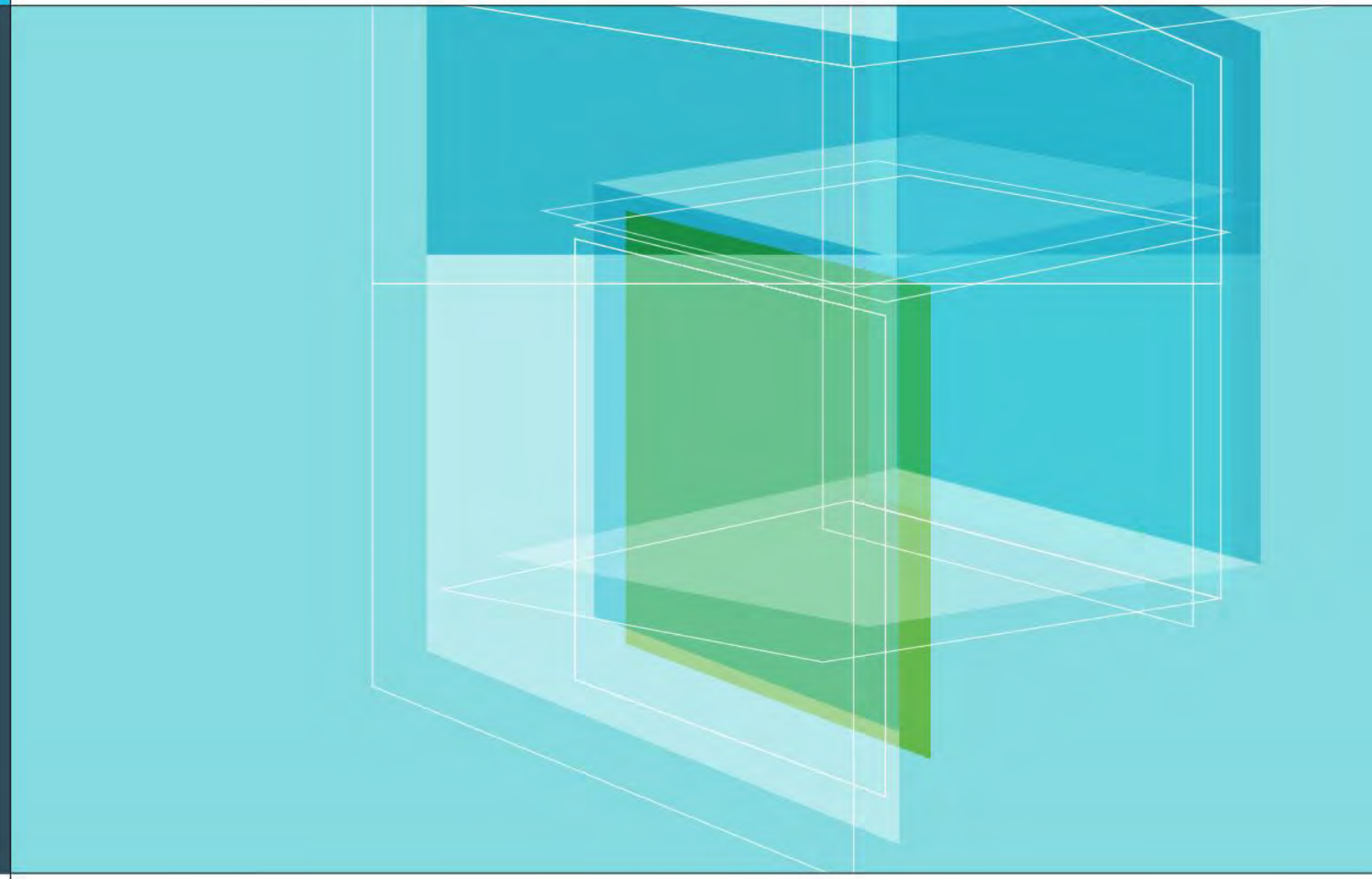
SEMLER BROSSY

Diversity, Equity, & Inclusion Metrics in Incentives Across the S&P 500



EVALUATION OF DISCLOSURE SPECIFICITY IN ANNUAL INCENTIVE PLANS

PUBLISHED IN JANUARY 2022

NOTE: Semler Brossy Consulting Group does not provide tax, legal or accounting advice and does not provide regulatory guidance in the jurisdictions being considered. The Company should consult its respective experts in those fields on such matters, as appropriate.

Summary

Semler Brossy's research on ESG and incentives across the S&P 500 in 2021 indicated that 28% of companies included DE&I as a metric in executive incentive design. This report evaluates the level of specificity disclosed around DE&I metrics for a representative sample of those companies*, exploring whether an outside reader can understand (a) the goals and resulting performance and (b) how performance flowed through to payouts. Note: Specificity as a framework for evaluating disclosure quality does not necessarily indicate goal rigor or quality.

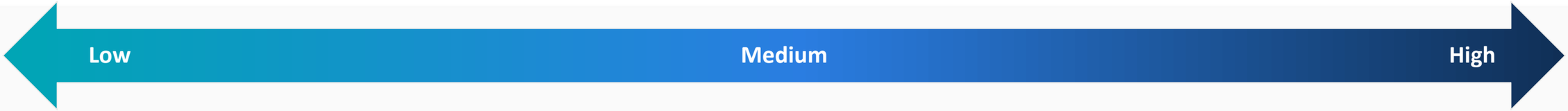
Key findings

- Most companies with DE&I metrics in their incentive design disclosed them in broad terms with low levels of specificity (89% of the sample)
- Few disclosed discrete and specific DE&I metrics (4% disclosed both goal targets and design mechanics and 8% disclosed one or the other)
- Companies frequently characterized performance without detail on pre-set goals i.e., “NEO contributed towards progress on diversity”
- DE&I metrics were often grouped with strategic metrics or as a subset of a discretionary component of incentive design
- 26% of companies added DE&I metrics to incentives in the most recent year reviewed, likely a response to Covid-19 and calls for racial equality

The following pages include details on the evaluation “specificity” framework and case studies of different types of DE&I metrics in incentive designs.

* All S&P 500 companies with proxies filed from 6/1/20 to 5/31/21 (n=133).

Metric Disclosure Specificity Framework



Low Specificity/Broad DE&I Metrics

- DE&I is a broad factor considered, but not disclosed as an explicit metric with performance targets and clear weighting
- DE&I evaluation may well be structured and programmatic internally, but the details are not public
- E.g., 20% of AIP based on individual performance, which considers the actions to create a diverse and inclusive community among other imperatives

Medium Specificity/Hybrid

- DE&I metric has explicit weighting, *or* the Company cites performance targets, but not both
- Implies some programmatic rigor behind DE&I measurement but details are not fully disclosed
- E.g., 10% of AIP based on diversity & inclusion, measured based on employee engagement levels and increased diverse representation (without targets specified)

High Specificity/Explicit Measurement

- DE&I metric has explicit metric weighting and performance targets disclosed
- Signals the DE&I commitment externally, but does not automatically imply strong performance management process around making progress
- E.g., 20% of AIP based on increasing the percentage of women and diverse minorities among senior leadership. Threshold, target, and maximum performance achievements are set at +0.5%, +1%, and +2% annual increases annually

Total Companies	118
Median Revenue	$13.7B

Total Companies	10
Median Revenue	$10.6B

Total Companies	5
Median Revenue	$11.8B

Low Specificity Examples

Company	bxp Boston Properties	Invesco
Revenue Size	$2.7 billion	$6.2 billion
Industry	REIT	Investments
Weighting	33% of the total AIP is based on business & individual goals which include three metric categories, one of which includes diversity initiatives	20% of the total AIP based on organizational strength, comprised of three measures, one of which is DE&I-related. Specific DE&I weighting is not disclosed
Performance Goal or Target	Not disclosed	Not disclosed
Payout and Performance Achievement	Business & individual goals paid out at max (150%) for all NEOs	Individual performance paid out at 100% (target) based on multiple achievement descriptions, including [forming] “new diversity sourcing and pipeline team that builds relationships with universities and other sources of diverse talent”, and [launched] “unconscious bias training beginning with managing directors and cascading to all employees”
Specificity Evaluation	There is no explicit description of what portion of the payout is tied to DE&I-related goals. There is also no explicit description of the specific DE&I-related goals (other than that they influence payouts), and the DE&I payout itself is not specified	There is no explicit description of what portion of the payout is tied to DE&I related goals. There is also no explicit description of the specific DE&I-related goals (although performance achievements for NEOs are disclosed)

Medium Specificity Examples

Company	BROWN-FORMAN	EVERSOURCE
Revenue Size	$3.5 billion	$9.4 billion
Industry	Distillers & Vintners	Electric Utilities
Weighting	10% of the total AIP is dedicated to individual DE&I initiative goals	30% of the AIP is based on operational performance, the evaluation of which is based 50% on five metrics, one of which is DE&I-related
Performance Goal or Target	“Building and growing diversity, building deeper mentoring programs for people of color, establish more robust leadership development programs and better quantitative data on how to analyze diversity at the company”	"40% diverse hires or promotions of leadership level". The target was set 3% higher from 2018
Payout and Performance Achievement	The DE&I portion was achieved at 100% of target, but the company does not provide a description of the specific results or what was achieved	The diverse leadership metric paid out at 200% based on the Compensation Committee's evaluation of the following performance considerations: – "47.6 percent of new hires and promotions into leadership roles were women or people of color" – "Continued support of community efforts that address racial inequality and maintained focus within the Company of our commitment to advance racial equality“
Specificity Evaluation	There is a specific weighting dedicated to DE&I within the total AIP, however, there are no measurable goals or targets disclosed	There is a measurable quantitative goal; however, specific weighting dedicated to DE&I is not disclosed

High Specificity Examples

Company		
Revenue Size	$3.4 billion	$4.8 billion
Industry	Electric Utilities	Apparel, Accessories, and Luxury Goods
Weighting	7.5% of the total AIP is based on two company-wide diversity metrics weighted at 3.75% each	25% of the total AIP is based on company-wide diversity, equity, and inclusion which includes two metrics: organizational education achievements and representation improvements
Performance Goal or Target	The DE&I-related metrics are “increasing representation of people of color and women,” with targets set at 5.4% for people of color and 26.6% for women (not described which employee population the metric considers)	The DE&I-related metrics are measured based on “90-100% training completion by corporate employees” and “improvement of representation metrics for women and underrepresented minorities in the U.S. corporate employee population”
Payout and Performance Achievement	The metric for representation of people of color paid out at 3.7% based on performance achievement at target. The metric for representation of women did not pay out due to below threshold performance achievement at 25.7%	The total AIP paid out between 100% to 135%. The achievement descriptions for education achievements and representation improvements were “exceeded target” and “met”
Specificity Evaluation	There is a specific weighting dedicated to DE&I within the total AIP, as well as measurable targets	There is a specific weighting dedicated to DE&I within the total AIP, as well as measurable targets

Companies Reviewed

Low

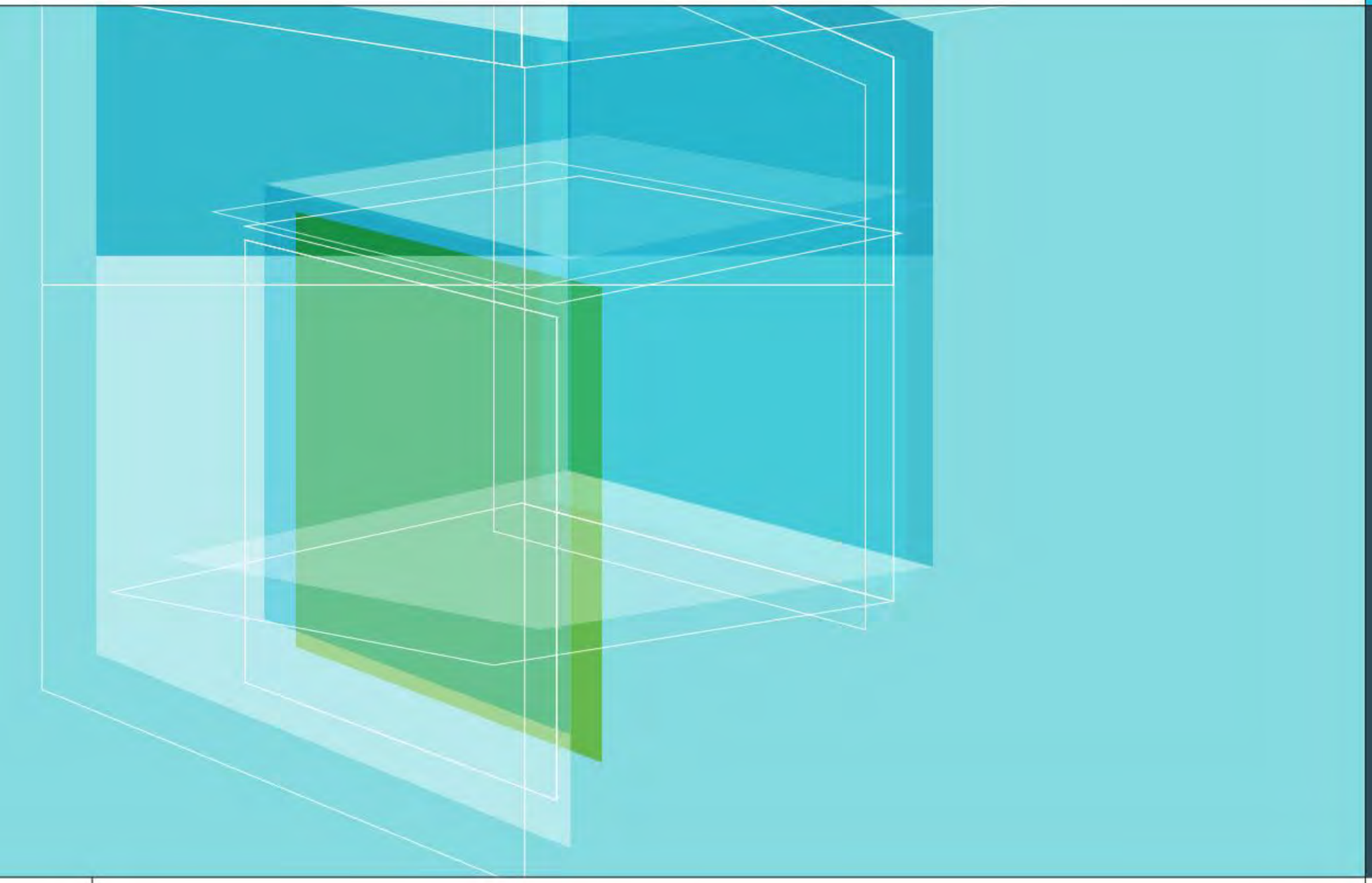
Applied Materials
Abbott Laboratories
Accenture
Allstate
Altria Group
American Express
American International Group
Ameriprise Financial
Aptiv PLC
Automatic Data Processing
AvalonBay Communities
Avery Dennison
Baker Hughes
Bank of America
Bank of New York Mellon
Baxter International
Boston Properties
Boston Scientific
Bristol-Myers Squibb
Broadridge Financial Solutions
Cadence Design Systems
Cardinal Health
Cboe Global Markets
Celanese
Chipotle Mexican Grill
Cintas
Cisco Systems
Citigroup
Clorox
Comcast
Comerica
Danaher
Dover
DTE Energy
Duke Realty
Eastman Chemical
Eaton
Edison International
Edwards Lifesciences
Electronic Arts
Emerson Electric
Equifax
Estée Lauder
FedEx
Fifth Third Bancorp
FMC
Fortive
Franklin Resources
General Dynamics
General Mills
Gilead Sciences
Goldman Sachs Group
Hartford Financial Services
Hess
HP
Hilton
HP
Humana
Huntington Bancshares
IDEXX Laboratories
Intel
Intercontinental Exchange
Interpublic Group
Invesco
Jacobs Engineering
Johnson & Johnson
Juniper Networks
Kellogg
Kimberly-Clark
KLA
Kohl's
Lam Research
Leidos Holdings
Linde
Lockheed Martin
Marsh & McLennan
MetLife
Mettler-Toledo
Microsoft
Moody's
Morgan Stanley
Motorola Solutions
MSCI
Newmont Mining
Northrop Grumman
Occidental Petroleum
Omnicom Group
PayPal Holdings
PepsiCo
Phillips 66
PPG Industries
Prologis
Public Service Enterprise
S&P Global
Starbucks
State Street
Stryker
SVB Financial Group
Synchrony Financial
T. Rowe Price Group
TechnipFMC
The Southern
The Walt Disney
Thermo Fisher Scientific
Truist Financial
United Parcel Service
United Rentals
V.F.
Valero Energy
Ventas
Vertex Pharmaceuticals
Visa
Vulcan Materials
Walmart
Wells Fargo
Willis Towers Watson
Zions Bancorporation
Zoetis

Medium

APA (Apache)
Brown-Forman
Dominion Energy
Dow
Eversource Energy
FirstEnergy Corp.
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WEC Energy Group

High

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