"Tying 'ESG' to Executive Pay"

Wednesday, February 12, 2020

Audio Archive

Course Materials:

- ESG Incentive Metrics
- Measuring ESG

Companies are facing growing pressure to consider environmental, social & governance factors in their board structures and business operations - including demands to incentivize management's focus on ESG goals through executive pay. Tying ESG metrics to executive pay may improve outcomes, but challenges abound.

Join these experts:

- **Dave Eaton**, Associate Partner - Corporate Governance, Aon
- **James Garvie**, SVP of HR, Total Rewards & HRIS, Southern Company
- **Peter Schloth**, Principal, Mercer
- **Steve Seelig**, Executive Compensation Counsel, Willis Towers Watson

John Jenkins, *Senior Editor, CompensationStandards.com*: Hi. This is John Jenkins, Editor of CompensationStandards.com and I'd like to welcome you to today's program, "Tying 'ESG' to Executive Pay." Note that there are links to course materials on the landing page for today's webcast. So please take a moment now to download them.

Investor interest in ESG issues is in an all-time high. That interest extends to how companies take ESG into account in their compensation policies. Companies face growing pressure to consider ESG factors in their board structures and business operations. This includes demands to incentivize management's focus on ESG goals through executive pay.

This is a very complex issue. Fortunately, we've assembled a great panel of experts to help us all get our arms around this topic.

Joining me today are Dave Eaton: Dave is an Associate Partner for Corporate Governance at Aon. James Garvie: James is a Senior Vice-President of HR, Total Rewards and HRIS in Southern Company. Peter Schloth: Peter is a Principal at Mercer. And Steve Seelig: Steve is Executive Compensation Counsel at Willis Towers Watson.

With that, I'm going to turn things over to Steve to start today's discussion. Steve?

Introduction to the Concept of ESG

Steve Seelig, *Executive Compensation Counsel, Willis Towers Watson*: Thanks John. I'll be acting as a facilitator for today's discussion.

By way of background, my overarching guidepost to this discussion is that while we've got environmental, social and governance issues, a growing concern for shareholders, and the corporate proxy has begun to address ESG issues front and center. The degree to which ESG metrics now permeates pay program is growing but is still limited in many industries.

In contrast, we've got certain industries and companies like Southern, who are well underway to crafting their pay programs to focus on ESG issues. We'll talk about those in a moment.

How do we get here? I want to spend a little time on where we are now and where we might be heading. This audience is likely familiar with the famous BlackRock letter from 2019, where Larry Fink spoke of the notion that corporate profits and the sense of corporate purpose are inextricably linked.

In their update in 2020, they took things further to the E side of the ESG when they stated, "We will be increasingly disposed to vote against management and board directors when companies are not making sufficient progress on sustainability-related disclosures and the business practices and plans underlying them."

We saw other action during 2019. We saw a letter from the Business Roundtable. It issued a letter noting that corporate purpose should move away from shareholder primacy, in which it's been for the past 50 years, towards a fundamental commitment to all stakeholders including customers, employees, suppliers, communities and shareholders.

Not everybody embraced the notion that was put forth by the Business Roundtable, particularly the Council of Institutional Investors - they disagreed. They said that the Business Roundtable's notion really undercuts notions of managerial accountability to shareholders.

There's a litany of other views that would be worthy of another session completely. But we're here to talk about pay programs. I want to provide just a little bit of background on the question of how companies might be able to measure their progress on ESG matters.

There are some things that are susceptible with measurement, and some things that might not be. For those who don't work in this area regularly, there are some common standards that we've linked to in our materials, and they are worth reading. They're being offered to companies who want to go ahead and measure these items.

The first thing we cited to was the Sustainability Accounting Standards Board, SASB. They put out a standard. There's a taskforce for climate-related financial disclosure. There is the Global Reporting Initiative. I think James will talk about this because it's part of the disclosures that Southern does. They have sustainability reporting standards, GRI standards that are the persons most widely adopted global standards for sustainability reporting.

Even more recently, back in January, we saw a taskforce that was sponsored by the International Business Council and World Economic Forum. They worked in collaboration with the Big 4 accounting firms and released a consultation draft that proposed a set of common disclosures under four pillars, which are pretty similar to ESG - principles of governance, planet, people and prosperity.

As you might expect from something compiled by accounting firms, within each of these pillars, we've got metrics that companies can use to measure objectively how they're doing in each category. There has been more movement to try and measure what these metrics are.

Lastly, there's different firms like MSCI and Sustainalytics that rate a company's exposure to ESG risks.

This is by way of background for folks who haven't been spending a lot of time, and even for those who are. Most importantly, we're glad to have James with us because he can provide some perspective on how Southern Company has been measuring progress on ESG matters and reporting those results to shareholders and the public at large. James, take it away.

Defining What Metrics Are & Are Not Part of ESG

James Garvie, *Senior Vice President, HR, Total Rewards & HRIS, Southern Company*: Great. Thank you, Steve. The first point that I would make is just in defining ESG. It's very much wet cement. It's something that, it's still in many cases ill-defined, and the reporting around it and the metrics still very ill-defined.

When we think about it, ESG at Southern Company, the E is obviously because we are an energy company, there's clearly a defined environment. Now the E space is somewhat defined. Even the G space in many companies is becoming much more defined around governance and reporting around that.

The S still is the area, when you get into the social, that I think is probably the least defined, Steve, when we think about it. But it's a keenly interesting area where we are so focused on and have been for some time. It's an area that's extremely important too, as in how we report on it and how we've aligned incentive compensation.

Probably the most important thing in kicking off, Steve, is just to say that we've had many questions around this from investors and others - around why is it so important ultimately? But more so than that, how do we align it with strategy? That's what comes first.

It's not a comp plan that you design and hope the strategy will come. We have designed our comp plan to bolt on to our strategy. Environmental strategy was there and was defined. Then how do you ultimately incent to ensure that the strategy does not wander? That you can, in some cases, move that strategy along a little bit more quickly.

So that's really one of the most important aspects I would highlight upfront, Steve.

Seelig: James, let's just talk a little bit about the fact that you actually have gone ahead and issued measurements using the GRI standard. We're getting to this whole question about, what is susceptible with measurement and what isn't? I'm interested in how that came about and how that ended up moving you towards disclosing those issues to your shareholders and the rest of the community at large.

Garvie: Yes. That's why I think we've all got a responsibility in defining what the metrics ultimately look like. As I mentioned, it still is very much wet cement. But there's areas that we can report on. There are areas that we can get out there and say, "Look, there are some decent metrics out there."

One of the things that we look at in our business is really very, very measurable. It is then changing out of what we call megawatts. The changing out of ultimately carbon-emitting megawatts to no carbon-emitting megawatts. That's a very easy measurable thing for us to look at as a business.

It's really about finding what makes sense with your business strategy. That links up with all our integrated resource planning. It links up with the way we think about our business model. You really have to find these metrics to make sense with your business strategy, your business model and say, "OK. Let's find those and let's start to report on things that really make sense and find that point of intersection."

Seelig: Thanks, James. Peter and Dave each work in the space of executive compensation but work in different industries. I'm going to ask each of you to talk about some of the challenges that you're finding within the industry that you're working for, really trying to find measurable ESG metrics that are being communicated out to shareholders.

Peter, why don't you give it a shot first?

Peter Schloth, *Principal, Mercer*: Thanks Steve. I work across industries. Where I've seen ESG measures the most, and the issues being raised are in oil and gas and the utilities sectors. These sectors are not new to using ESG measures. We're been tracking this stuff back to 2010 and these are familiar to them. The nature of the measures are evolving as investors take more interest in this.

When I say evolving, there's traditional historical measures focused on environmental spills potentially in these industries, and health and safety. Now we're seeing more things, like James alluded to, climate change, or diversity and inclusion.

These are kind of more of the sustainability type-oriented measures that people are trying to navigate. These are new. These are some of the challenges we're seeing in helping clients get these things right.

Seelig: Dave, you worked in the tech side of things. Talk about the challenges in that realm.

Dave Eaton, *Associate Partner for Corporate Governance, Aon*: Thanks. In the tech world - and I also work very closely with life sciences and biopharma companies - but they're very similar in a sense that it's a little harder than in extractive industries like materials, utility, energy to come up with the right metrics. No one said this yet. I'm going to use the famous phrase, "what gets measured gets managed". It's hard to figure out what to measure, actually.

The focus has kind of traditionally been on the "G" side of the ESG spectrum. But there's a greater shift across all industries to the "S", into the social purpose focus. We've had a lot of interesting conversations about how exactly you measure that and incorporate that into a compensation plan.

Because a static, almost backwards-looking measure of how many spills or how many accidents did a company have in the past year, is useful. The advantage is it's easy to measure. The disadvantage is it might be too focused on just mitigating risks and not necessarily applicable to a tech company.

What we've been trying to figure out is, what sort of metrics are more about improving future performance. Again, it's easier to look at a utility or energy company. A good example of this will be "reduction of greenhouse gas emissions to x% by year 2025", for example, that would drive a corporate behavior and could also be long-term in nature.

There are a lot of challenges in tech, biopharma to some of these. It is, as people have already said, more about focusing on the "S" right now. I guess we can get into that a bit a little later.

Seelig: Let's stick with that because now is a good time. Certainly, boards and comp committees are talking about the "S" aspect, the social aspects. The word "culture" comes up in discussions. Certainly "diversity and inclusion" come up.

I'm curious about what your experience has been as the comp committee says, "Yes. We want to know more about that." What the corporate response is, and what things within that realm are really susceptible of measurement, which are really hard to get a pinpoint metric on.

Eaton: Yes. Diversity is the number one metric we used, if there is one used within the tech industry. That one is a little easier to measure. You can define how you want to measure diversity. Then you can calculate that.

The harder ones have been, also within that "S" bucket, but employee health, corporate culture, like you said. These are harder measures. Getting into how hard they are to measure is reflected in how much weighting they're attributed in any incentive plan.

Particularly 50% or so of sustainability metrics in the tech industry either have no weight because they're part of a broader bucket of measures or they're part of a personal, individual goal, which really doesn't have much of a weight to it typically.

It's not necessarily that companies don't want to measure these things, or don't want to incentivize their executives to be focused on these. Instead it's hard to measure.

Schloth: I would add on in terms of what investors are interested in but really hard to measure. If you look at Apple, for example, they got a shareholder proposal asking them to put ESG incentive metrics in their executive compensation program.

The point of focus was really around their supply chain and human rights issues, which investors really care about that stuff. Those are things that could impact stock price if you're not treating your workforce in certain countries fairly.

How do you get about measuring that? Should it be an incentive metric? Both are really big, hard questions to navigate.

Eaton: Yes. I would also add on that while investors have been pushing for this and really bringing it up in discussions, it's interesting, if you look back on 2019, there's only approximately 10 shareholder proposals that had to do specifically with linking pay to social criteria. The most prevalent of those was linking pay to drug pricing.

There was not a lot of investor support for these proposals. You know, 22% on average. Johnson & Johnson had 29%. That was the high mark. It's an interesting way for investors to show that they are interested in these issues and that executives should be incentivized to be managing towards these risks and so on.

I was actually surprised when I pulled up the numbers that there were only 10 shareholder proposals regarding that.

Seelig: James, let me ask a question about the more traditional metrics that, of course, utilities have had in place. Particularly, I want to focus on this whole notion of safety versus the question of, let's say, employee well-being or employee health.

I'm wondering how you navigate those issues because, one, it's obviously old school. It's been around for years and years. The well-being side is something that you see being of interest to a lot of companies. You see a lot of literature from firms like myself, my own firm on the whole issue of employee well-being and promoting that. I'm wondering how you navigate that.

Garvie: Yes, and it's interesting listening the conversation on metrics and just what we went through the last few minutes. My experience would tell me here that you end up getting to a spot where there's a lot of focus on output measures, just go back to the point on diversity and inclusion. Inclusion ultimately is the output of getting the metrics right on input measures.

Where I watch the conversation get a little bit tricky is this focus on output measures. If you step back a little bit, what investors are really asking initially is, "Look, we want to see a company focus. You prioritize and tell us what your input measures are." There's an awful lot of those, if you're honest about it and step back.

Wellness is a good example. We get into stuff. Now the output would be a healthy organization. That's your output measure. That's very hard and squishy to measure.

Go back to the input. We have measures and we've had measures in our plan, and we've taken some out because we had such excess with them that we had saturation.

That was really simple stuff. We wanted all of our employees to have engagement with their physician annually.

You just measure that. We're not saying that you're moving your health score. We're not saying that you're getting healthy with those results. That gets into a lot more all good stuff.

If your first step is to say, "We want every employee to have a relationship with their physician and go there once a year." So, you can really get into some things.

"Safety" is the same deal. It's like, ok, if you're measuring just set a recordable incidents, that's one thing. But if you step back and say, "Really, we want a culture of safety." Well ok, what does that really look like? What do we need to measure in order to have a culture of safety?

Then you need to be able to connect the dots with investors and say, "Here's what we're measuring and why. Here's why we believe if we measure this tightly, we will have an output measure which is a more inclusive culture. We will have an output measure that is a safer culture, or a healthier culture, or a more engaged culture with financial wellness."

Those are some of the things that I would say have been important to us as we've looked at, and particularly the "S" and the social side of it.

Seelig: Does anyone want to weigh in the input and output measures? This is certainly something that's been of debate lately. I cited earlier in my opening remarks this whole notion about the consultation draft with the World Economic Forum.

If you see some of the measures they're using there, they are the types of things that you would probably think an accountant would look at- turnover rate, items like that, things that are measurable, that you're not really necessarily getting a qualitative assessment on that.

I'm concerned that ultimately when these things get codified in whatever way and become more and more of an objectively measurable type metric, that we do get away from some of the concerns that you are expressing on that chain. We'll have to be on guard for that as we move forward.

Schloth: Yes. I'm aligned with James. I think there's been a historical focus on quantitative measures of results. Oftentimes, it's too late at that point in focusing more on what's the culture you need to create and how to support that is really important.

There needs to be the storytelling behind it, as James noted, as to why, and why is this going to improve things. Because from a safety perspective, for example, working with some of our colleagues in the insurance side here, they've done studies that clearly show that focusing on these more proactive behavior type measures do help lead to better safety outcomes than focusing on incidents and deaths for example.

It's really important to keep that in mind as you want to do the right things to motivate the right behaviors.

Overall Prevalence of ESG/Sustainability Pay Metrics & Structures

Seelig: That's a good transition to really our next subject area, talking about what we're finding on the prevalence of the pay metrics and the pay metric structures.

I know the audience got the benefit of three of the larger firms out there who were studying these issues. We'll let Dave go ahead and talk about what he's finding from his firm. Pete can talk about then the results he's seeing. I'll mention those, what we've seen, we'll see if they link up. I think they should. Let's see.

Eaton: The prevalence that we've really been seeing is low. That's the first word I'd use. It has something to do with the client base, the industries, like as we mentioned before, tech, life sciences.

Beyond saying that it's just low in terms of how prevalent, it's also looking at how often it's in the short-term plan versus being in the long-term plan. And that's the other thing to look at. It is almost exclusively in the short-term plan. Not many companies are looking in these industries to add it to a long-term plan. It's much easier in some ways to add to it to a short-term plan.

Again, going back to my earlier comment regarding weightings, it's typically a pretty low weighting overall. Sometimes rolled into personal goals, sometimes a broader bucket of more qualitative goals for the company or for the individuals.

That's generally what we're seeing. By nature of the industries, it's more labor-intensive in tech. There's a little more focus on social impact and human capital. Diversity is by far the most used measure within an annual plan, if it's going to be used at all.

Seelig: Thanks, Dave. Pete?

Schloth: Right. Prevalence depends on a number of things. Where you are in the world, is the big thing. In Europe, these are much more prevalent than in the US. The reason being that if you look at Europe, almost half of the assets that investors are managing have a sustainability ESG filter on it. They care about this stuff more than in the US. But the US is catching up quickly. So, we see a growth rate of about 20% annually in the US.

Even when you look at the US, industry is a major driver in terms of the prevalence of these measures. Utilities energy, we've seen, depending on the sample, and maybe it's most useful that we do a study of looking at ESG leaders. Companies who have been designated by these rating agencies as leaders in this space.

When you look at utilities (energy), it's about 80 to 90% of those companies have some sort of ESG incentive metrics. Then consumer staples, financials, it's about 60 to 70%. You get into technology, healthcare, then it's 30 to 40%.

What the impacts they could have would dictate whether or not ESG is a major part of their business strategy. Then if it is, do they need to connect it to incentive plan?

There's a lot of different pieces to think about when talking about prevalence. The advice to organizations is, you have to get specific in terms of what your industry is, what the prevalence is.

I would even dial it back to James' point earlier, and say, what's your business strategy, and how did ESG fit into it, is probably the biggest driver of whether or not you end up putting a metric focused on it.

Seelig: We also have just finished taking a look at Fortune 500 companies. I attached that to the materials in. Much as we're hearing from Dave and Peter, we are seeing the same type of things.

We're seeing that, as Dave said, most if not almost all the ESG metrics are included in the short-term plans and the annual plans. On our first page of data we've got, 50% of them are in the annual plans and only 4% have them in the long-term plans.

We also got a breakdown about whether we have an actual weighted metric of measurable and objectively measurable versus a qualitative and/or individual component. Both of these are really measured together in tandem with other operational or strategic measures.

They're harder to get your hands on exactly what it is that is being looked at. It's sometimes difficult to decipher as you're reading proxies to try and figure out precisely how much impact that has on the overall adjustments that are taking place.

On the second page of what we put together is, we've got prevalence of ESG metrics. You'll see that the people on HR is big. We certainly see that within 32% of companies out there in their annual plans. That's fairly impressive.

The way that they're measured, and how it is that ultimately, it's decided that companies have done a good job on that - again, it's sometimes very difficult to decipher. You'll see customer service is an oldie and biggie, right? That's something that's been out there and has been measurable for years and years. It's not surprising that that's a big one.

Inclusion and diversity: you're now getting below 20% on some of the data that we're seeing in the annual plans.

Health and safety: It's really interesting, if you look at the data for utilities, and for manufacturers, and for materials, companies you see this as a huge issue. But not so much of a big issue for other companies as safety is just not something that's traditionally been measured. It usually falls in the employee health category.

Governance: We've got 14% of companies - environmental and sustainability is 14% of the companies. You can also see the breakdown on our last page between the individual components versus the qualitative and the weighted metrics. It is similar to what we've been talking about all along.

Customer service: You can measure that. That can be objectively measured as you see within the data. As can something like employee health and safety. You're measuring safety. That's objectively measurable.

It's the other things that are harder to measure. 61% of the people in HR measures are based on an individual component. It ends up being really judgmental for a lot of companies in figuring out as the pay programs come out. We haven't even shown here what the pieces are of the overall pay program and how much it factors in. We're still doing analysis on that.

We have - and if you subscribed for our Executive Pay Matters blog, you could see the results of these as we parse through it, dive down a little bit more into each industry. I think folks would be certainly interested in seeing what their own GIC code and even their SIC code looks like. We're continuing to parse through the data on that.

One other thing I'd say about this, and I mentioned it only briefly, but we can only report what we find in the company's disclosure when we're looking at this type of data. What we've got here is a snapshot for 2018.

We suspect that there's a lot more companies represented here that do measure ESG items in the qualitative realm. They simply haven't described it in sufficient detail in their CD&A so that we can measure it.

We strongly suspect though that for the 2019 proxies we're going to see more movement in those disclosures. This is the year when they're facing company's increasing pressure from shareholders who are seeking more details.

That's it on the data side, unless somebody else wants to weigh-in before we get to James. Because it will be fascinating to have him really talk about the way that the Southern pay programs work and how they got to where they are. James, I think it's for you and us to have a dialog on that.

▲ In-House Tips for Designing & Calculating Payouts for ESG Metrics

Garvie: Great. First, let me have the short-term incentive program because we've got a bunch of metrics in there. Going back to the comments that were made earlier about the importance of aligning, one, your pay programs with your business strategy, but behind that is even an overarching philosophy and belief system. You've got to make sure your program is supporting that kind of philosophy and belief system as well.

One of our beliefs is that all employee should participate, and this is something that long before all the ESG stuff became very prevalent, that's a belief that our company had for a very long time. We want all employees to participate in the short-term incentive program.

As such, they basically do, absent one very small union. We have about 95, 96% of our employee base that participates in our short-term incentive plan.

We also believe in having consistency through that program. That brings us to everybody having the same types of measures around safety, the same types of measures around your well-being, which we're trying to broaden into financial, physical, and emotional well-being metric in there as well.

You get into those pieces, you get into ultimately a culture score card that has things in there around diversity, and how quickly we're filling our talent pipeline with diverse candidates. There are all types of metrics that are in there that everyone has, which I think brings, again, a cultural belief we have, a philosophical belief that everyone should participate in the short-term incentive plan.

The long-term plan is where it gets really interesting. We have a very small percent of the population there. We decided that a couple of years ago to rollout a program that aligns with our business strategy of greenhouse gas emission reduction. We committed publicly to a 50% reduction by 2030 and low to no by 2050 was what we put out publicly.

All of that was done and the strategy was around that. It's real simple to kind of bolt on a compensation program for the CEOs around that strategy. So, we did and we put up to 20% of our CEO's long-term incentive tied to a quantitative measure of net megawatt changes which was very measurable. Again, it fit right into our 2030 strategy.

Then we ensure there was enough upside in that plan to drive better performance and ensure that we could move things forward. Most of all, it was to ensure that our strategy did not wander. It was an accountability measure with some upside. It really was to ensure that we stuck to our commitments to what we're saying publicly. That was one of the things.

Then the other was more of a qualitative measure to say, "We can't get to 2050 without serious R&D improvements, without us investing heavily in R&D, without us working with various agencies and the like to ultimately drive research and development in the space."

So, there's a qualitative assessment measure, not the primary measure but the secondary that will adjust payments up or down, depending on how we do on the 2050 commitment of low to no carbon.

That's it in a nutshell Steve, how we thought through it.

Seelig: Yes. So, James, talk a little bit more. You talked both about the short-term and the wide participation in that plan versus the long-term planning. We've seen from our data that you're fairly unusual in that you're chosen that long-term measurement for that. Of course, for the type of greenhouse gas reduction theme that you're targeting, that's not something that's going to happen overnight. It certainly makes sense.

I'm curious about the percentage of comp that on the short-term plan some of these ESG metrics envelope. The big chunk, is it more than 10%? Talk to us a little bit how you came up with what percentages it might and should be.

Garvie: Yes. If you really think through kind of safety, diversity, supplier diversity, that we have in our short-term incentive plan as well, which is ensuring that our first and second tier suppliers that minority are female. So that's even important metric.

Again, very measurable ensuring that our spend there is equivalent to them growing. We set this specific spend target on each one affiliates on the supply chain.

If you put all of that together, supplier diversity and safety, what I'd all put in the "S" category, and diversity and inclusion, culture score card, well-being, those types of things, you're probably up to 15%, maybe 15 to 20%, somewhere in there on our incentive plan, short-term incentive plan.

Seelig: A decent chunk. For the long term, I remembered you mentioning in our prep call that it can be as much as 20% of the LTIP plan. Talk a little bit more about that.

Garvie: Yes, up to 20%. It's tough. When you're doing plan design, the percent are always a little bit of a directional piece of it. The important aspect is, one, it's got to be meaningful enough, which we believe that is meaningful enough, up to 20%. The more important thing is that you've got a plan that you know what that strategy is and you're measuring against it.

When it comes time to place compensation against that, it's literally a reinforcement of that already developed strategy. I know I've emphasized that several times. That's why it was so easy for us to be able to bolt on a comp system on the back end. Sure, yes, it will drive additional performance and there's upside to do that.

The most important is making it somewhat meaningful. 10 to 20% seemed the right category. It's also, how does that work in conjunction with very important other measures? We have equity-weighted ROE, return on equity. As equity-weighted, we believe that's a pretty good proxy for efficiently deploying our capital. It's a little bit of a EVA light. That's now becoming a bit of a buzz word, the EVA measures.

How did all that work together? It's not about just one metric and saying, "Ok, it's that and it's 10%." How does that measure work with EPS growth? How does that measure ultimately jive with ROE, or equity-weighted ROE, or whatever it is?

We think of it more of holistically and thinking about the interplay between the measures, and there was weight as well.

Seelig: James, you've mentioned several times, there's a link in the materials that we had sent out to those who are listening - they're well worth looking at, the whole notion that it was easy to bolt on these metrics because you're already in the realm of communicating on these issues to shareholders.

It would be worthwhile for people to understand the extent to which you are going and providing information to those who are interested in how you're doing on these ESG issues, and how you're moving forward as a company.

Because I found it very unusual to see as much detail in your published materials. I would also say that others are recognizing Southern as being really a leader in the communication side of things. You won an award for your proxy statement as being one of the best in the country for expressing these issues.

Talk a little bit about how you got into the world of communication, what made the company want to be out front on this, and how that's really helped.

Internal & External Communications About ESG-Based Pay

Garvie: Yes. The most important thing to note is there's a whole team of people that are involved, and all the way across the board from our environmental groups to our legal and governance groups, and HR and compensation, and Investor Relations. You go across the board, there's an army.

It really starts at the top. The thing I'm probably most proud of in this situation is the way we disclose and the way we talk about things, is that it's literally a reflection of who we are.

It goes all the way back to, if you've got a very healthy, engaged board environment around these conversations, which I feel we do, and then you've got a healthy leadership conversation that's happening around it, and you've got good dialog that's happening internally. The next evolution of that is you want to hear that with your investors. You want to share where you are and what you're doing internally and be as transparent as you can around those things.

If you're working internally very hard, then it's just a natural extension that it overflows. It's the priority internally. It's the prioritization that we have around it on the dialog and conversation that leadership, management, board are all having around this topic, that ultimately cause you to just spill over into your communication.

You're proud to go and tell investors about it. You're proud to engage in that dialog. You get out there as much as you can and ask for it to be better. "What can we do better? What do you want to see? How can we help you get there?"

Once you get that flywheel spinning, it gets easier. It's going to happen. The traction gets going with it.

Seelig: Great. Thanks, James. We're nearing the end of our time. I wanted to give Dave, Peter - if you have a final word and a final mention of what it is they expect to see in this realm, and what kind of issues that we may have left out in our discussion. Go ahead, Dave. You can take the first shot.

Eaton: All right. Clean palate for me. Yes. My thought would be that this is going to become more and more prevalent, the incorporation of "E" and "S", particularly, but ESG metrics into incentive plans. I love everything that's been said here today, particularly the input versus output measures.

Really, the ability to take that business strategy and culture and beliefs, and translate that into pay to incentivize the executives, this could be something that kind of follows in the same direction as proxy access has, where maybe five years ago there's about 5% of the S&P 500 that had proxy access and now it's over 70%.

It's just a wave of momentum has built among investors and stakeholders that felt it was a big issue. There are definitely indications that that's happening right now for ESG.

My last thought there would be stakeholder and shareholder engagement, which we really didn't touch on too much. Directors and other members of management that are consistently engaging with their shareholders are in a great position to connect on issues - compensation and issues they are connecting on for years.

But connecting on "E" and "S" issues, what's important to the investors? What do they think? Then also in reverse. Speaking to corporate purpose strategy, what they're thinking, and having that dialog, is just going to be really helpful and really important.

SeeligThanks, Dave. Peter?

Schloth: Yes. I agree with what Dave said. I would reinforce that this is something that's not going to go away. There are hundreds of trillions of dollars that have an ESG lens to them, and it's increasing every day. If you want to see where the trend might be going, you could look at what's happening in Europe.

It's more shareholder-friendly over there. It could give you some indication of what might be going on, because they're further along in terms of the prevalence of these metrics, the weightings of them. You can see some of that in the study attached to - where there's a link to it that we did.

The other thing I would reinforce is that when you look at what you want to do from an incentive perspective, as James says, reinforced multiple times. It's not about just putting an incentive metric in to appease investors. You only do that when you want to support your business strategy.

Companies are at very different places in their journey with regard to ESG. Some have great sustainability reports. They're disclosing this stuff. They're on it. They're managing it. They have beliefs. They have a strategy. They're approaching it. Others are just learning what ESG stands for.

As an organization, you're going to have to figure out where you are in that continuum. I would suggest you start with developing your beliefs. What do you want to do from a strategy and disclosure standpoint before you would ever start thinking about the use of incentive metrics?

Seelig: Well that's great. I'd like to thank all the panelists - James, Dave and Peter. I'll hand it back to John. Thanks for having us today John.

Jenkins: Thank you. I really want to thank all of our panelists for a lively discussion of a topic that, as has been mentioned, is not going away. I would also like to thank everyone for listening to today's webcast. And this concludes today webcast. Have a good afternoon.