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Question of the Week:

What are some considerations for companies as ESG continues to find its way into incentive compensation plans?

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“An incentive compensation program should drive behavior, engagement and results that a company wants its employees, customers and investors to know are important to it. Incorporate ESG incrementally and with that broader goal in mind. Set targets that are meaningful to the core of the business and make sense in the industry, that can be communicated clearly, and that are measurable. Then support those targets with robust data collection processes and reporting frameworks to ensure integrity and credibility and to facilitate clear and effective reporting out to key stakeholders.”

Kate Napalkova, Employee Benefits & Executive Compensation, New York and Los Angeles

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“Whenever companies incorporate performance goals into their short-term and/or long-term incentive programs, they should be designed to create shareholder value, align to corporate strategies and drive employee behavior to achieve those strategies. Although ESG metrics are no different from other performance metrics in that regard, companies and their compensation committees should consider additional factors, such as ensuring alignment to corporate culture and values, considering the views of all stakeholders (*e.g.*, employees, stockholders, customers and suppliers), adopting goals that are measurable and well-communicated, weighing any interrelation between financial achievement and ESG success and analyzing legal implications (*e.g.*, employment law considerations for human capital metrics).”

Andrea Rattner, Employee Benefits & Executive Compensation, New York

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“While ESG issues are being talked about at the boardroom level, not every compensation program has goals related to ESG. The use of ESG goals is an evolving process, and I expect more companies will consider the use of these metrics. Where companies are considering ESG goals for compensation plans, they should take into account how integral those goals are to the business, whether the achievement of those goals can be quantified and how long will they reasonably take to achieve. This analysis will give a sense as to whether the goals should be incorporated into annual or long-term compensation, what percentage of the award’s payout will be based on ESG goals and the metrics to be used.”

David Teigman, Employee Benefits & Executive Compensation, New York

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