Doing More, Saying Less: Trends in DE&I Compensation Metrics

Teneo Insights / August 2024

Amidst the debate over corporate ESG and DE&I practices, Teneo's analysis of recent S&P 500 proxy filings reveals an interesting trend: the practice of including DE&I metrics in executive compensation is not only widespread, but increasing in prevalence.

Contrary to headlines suggesting a retreat from DE&I pay measures, our findings indicate more companies have added DE&I metrics to compensation plans than removed them in 2023. However, a notable shift has occurred – many companies are disclosing less detail about the specific DE&I metrics and goals impacting executive payouts. This shift, likely a strategy to reduce backlash from anti-DE&I activists, clashes with investor demand for transparency and the trend towards increased disclosure that began before the inception of say-on-pay. As companies navigate this complex landscape, they must consider the governance and shareholder implications of altering their DE&I pay-related disclosures.

Study Methodology

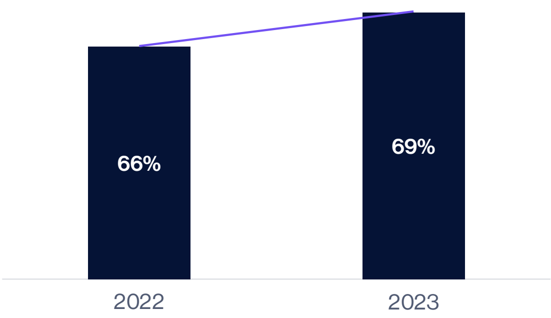
To determine whether companies made any material changes to their compensation practices related to DE&I metrics from 2022 to 2023, we analyzed the relevant proxy statements of nearly half of the S&P 500.[1] Specifically, we analyzed whether companies removed or added DE&I incentive metrics or modified disclosures regarding these metrics. Below are the top eight takeaways from our study. Percentages in figures may not add up to 100% due to rounding.

Key Findings

Prevalence and Disclosure of DE&I Metrics

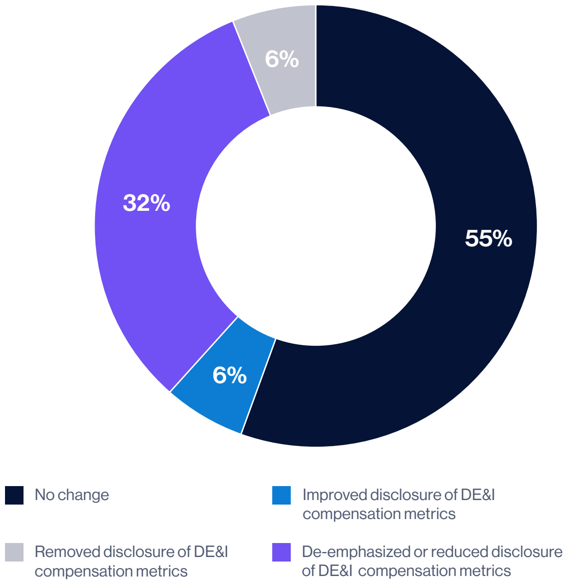
1. More companies tied DE&I to executive pay in 2023 than in 2022. Among the 233 companies studied, 69% (160 companies) disclosed linking DE&I to executive compensation in 2023, up from 66% (154) in 2022 (Figure 1). Only 10 companies completely removed their DE&I-pay disclosures in 2023, offset by 16 companies that added DE&I metrics to their incentive plans during the same time period.

Figure 1: Prevalence of DE&I Pay Metrics (Of Companies Studied)



2. The majority of companies maintained the status quo with respect to DE&I pay metrics. Of those that disclosed DE&I pay metrics in 2022, 55% provided the same level of detail and did not indicate significant changes in 2023 (Figure 2).

Figure 2: YoY Changes to DE&I Compensation Metric Disclosure



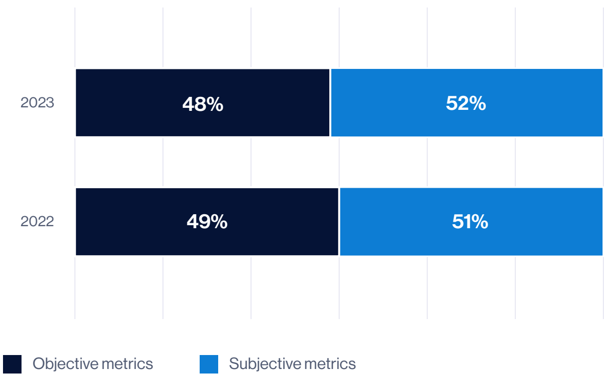
3. However, a third of companies scaled back the disclosure of DE&I pay metrics, or de-emphasized DE&I, while still maintaining it as a pay factor. Those that maintained DE&I pay metrics, but reduced disclosure, often did so by removing mention of the specific metrics and / or goals used. Other means of de-emphasizing DE&I as a metric include using related terms other than diversity (e.g., inclusion, belonging, etc.) or broadening the metrics used (e.g., from a diversity component to a talent component). Nine companies (6%) enhanced their disclosures or practices, providing more detail on DE&I pay metrics and goals, adopting quantitative DE&I metrics or defining the weighting of DE&I metrics in pay plans.

1. For this analysis, we examined 233 S&P 500 companies with their latest proxy filing dates between December 1, 2023, and April 1, 2024. The analysis refers to compensation based on the year it was granted, not the year it was disclosed (i.e., 2023 compensation refers to compensation granted in 2023 and disclosed in the 2024 proxy statement).

Objective vs. Subjective Metric Disclosure Trends

4. Similar to last year, about half of companies disclosed the use of objective DE&I metrics.[2]
Proxy advisors and large investors generally prefer companies to tie DE&I to pay using clear, measurable and objective goals rather than subjective ones. Disclosure of objective DE&I metrics remained relatively steady, disclosed by 48% in 2023 compared to 49% in 2022. This stalls the previous trend of increasing disclosure of objective DE&I metrics. However, this doesn't necessarily mean a shift to subjective metrics; some companies might be holding back due to anti-ESG backlash.

Figure 3: Metric Type (Of Those with DE&I Pay Metrics)



5. Companies that disclosed using objective metrics were less likely to modify proxy language.
Of those that disclosed using objective metrics in 2022, 58% made no material change to disclosure or practices, compared to 53% of companies that disclosed subjective metrics (Figures 4 and 5).

Figure 4: Changes to DE&I Metric Disclosure: Companies That Disclosed Objective Metrics

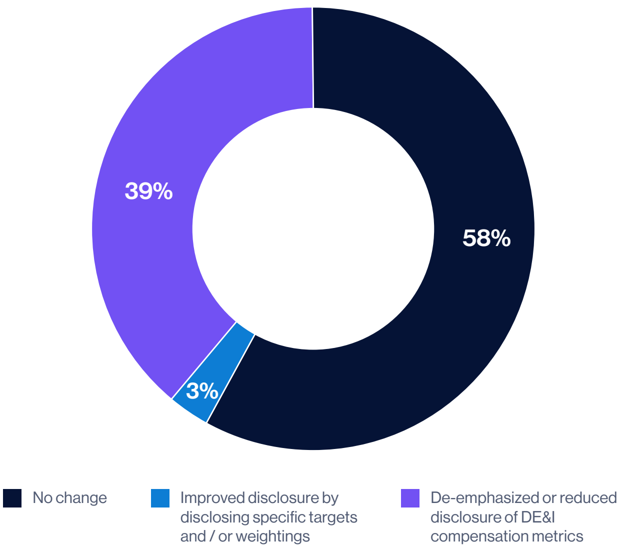
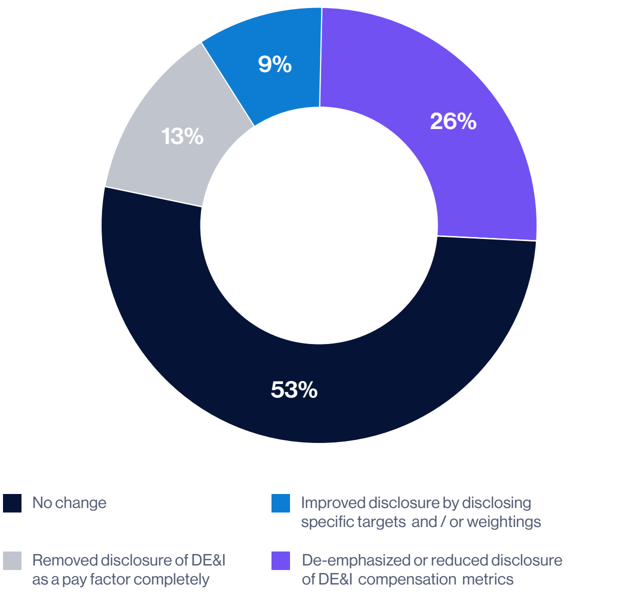


Figure 5: Changes to DE&I Metric Disclosure: Companies That Disclosed Subjective Metrics



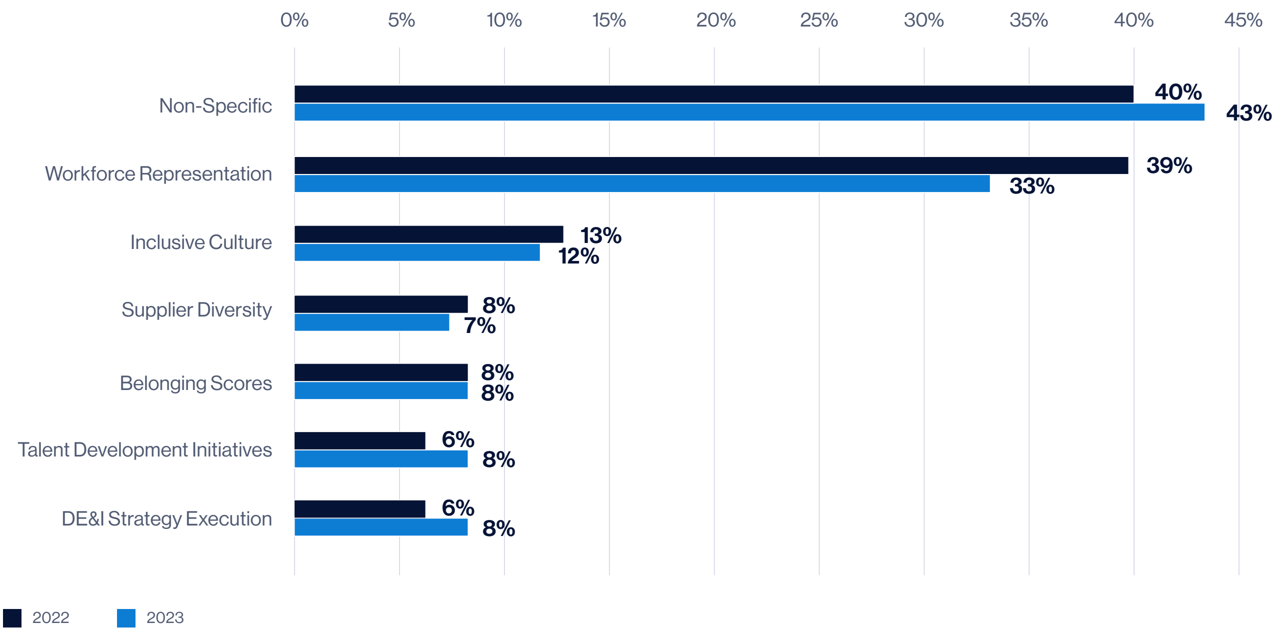
2. This paper distinguishes between companies that disclose using objective metrics and those who disclose using subjective metrics (or whose disclosure otherwise does not indicate the use of objective metrics).

6. None of the companies that disclosed objective metrics eliminated DE&I pay metrics entirely. While both those that disclosed objective metrics and those that disclosed subjective metrics were similarly likely to reduce visibility into DE&I-related pay practices (39% for both groups), only companies that disclosed using subjective metrics fully removed DE&I pay measures from disclosures in 2023. Companies disclosing objective metrics either improved or kept disclosures consistent from the prior year, or else provided less detailed disclosure on DE&I pay measures.

Compensation Design Practices

7. Representation metrics remain the most commonly disclosed DE&I pay measures, despite declining in 2023. In 2023, 43% of companies did not disclose specific DE&I metrics in their compensation plans, stating that pay is only tied to DE&I progress – a three percentage point increase from 2022. Representation goals, often targeted by "reverse discrimination" cases, declined by six percentage points, but nevertheless remained the most commonly disclosed DE&I pay metric, cited by 33% of companies in 2023. Meanwhile, metrics for diverse talent development and broad DE&I strategies, such as establishing DE&I goals or action plans, each increased from 6% to 8% from 2022 to 2023 (Figure 6).

Figure 6: DE&I Metric Frequency

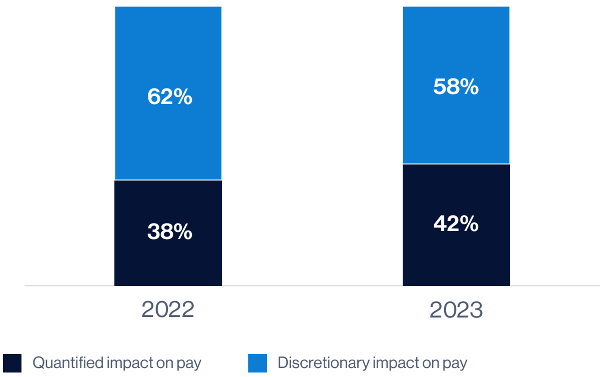


Note: The chart excludes metrics that appeared at less than 5% of companies, such as ERG development / engagement, diverse slates and diversity in new hires / retention. Additionally, please note that the total percentages do not add up to 100%, as some companies utilize multiple metrics to measure success.

8. More companies specified the weighting of DE&I metrics in incentive payouts.

In 2023, 42% of companies formalized the impact of DE&I performance on pay as a separate weighted component or modifier, up from 38% in 2022. Most often, DE&I metrics determined between 5% and 10% of incentive payouts. Shareholders consider a quantified, rather than discretionary, approach to be best practice as it provides consistency and more transparency into pay decisions (Figure 7).

Figure 7: Impact on Pay (Of Those With DE&I Pay Metrics)



Looking Ahead

Despite anti-DE&I and anti-"woke" activities gaining momentum through legal actions and heightened partisan pressure, our analysis of nearly half of S&P 500 proxy statements shows that DE&I metrics remain ubiquitous in executive pay plans. A large majority of companies studied include some form of DE&I metric in their incentive program, with more adding metrics than removing them as of the last proxy cycle. However, many companies have adopted a lower disclosure profile to avoid being targeted by anti-DE&I groups, resulting in fewer external statements on DE&I and reduced detail in disclosures regarding hiring goals and development programs for specific demographic groups, which have been subject to reverse discrimination lawsuits and complaints. Our analysis shows that this trend extends to DE&I pay metric disclosures. While more companies are linking DE&I metrics to pay, some companies are now offering less detail about their specific DE&I factors and goals.

While companies aim to avoid attention from anti-ESG stakeholders and potential legal consequences, reducing transparency on DE&I pay metrics can introduce optical and governance-related risks. This is particularly true for companies that previously showcased their use of DE&I metrics in pay and abruptly changed course, as investors and the public have a low tolerance for waffling on such issues. Further, shareholders and proxy advisors urge companies that adopt ESG-related incentive metrics to incorporate the same rigor and detailed disclosure as financial metrics, and do not look kindly on reverting to a more subjective approach to pay determination. Companies considering changing how they incorporate DE&I factors into executive compensation should carefully consider the impact and avoid introducing new risks while addressing another.

Authors

Sydney Carlock
Managing Director
sydney.carlock@teneo.com

Rose James
Senior Associate
rose.james@teneo.com

Faten Alqaseer
Senior Managing Director
faten.alqaseer@teneo.com

Contributors

Martha Carter
Vice Chair and Head of Governance Advisory
martha.carter@teneo.com

Lisa R. Davis
Senior Managing Director
lisa.davis@teneo.com

Matt Filosa
Senior Managing Director
matt.filosa@teneo.com

Sean Quinn
Senior Managing Director
sean.quinn@teneo.com

Diana Lee
Senior Vice President
diana.lee@teneo.com

Teneo
The Global CEO Advisory Firm

Teneo is the global CEO advisory firm.

We partner with our clients globally to do great things for a better future.

Drawing upon our global team and expansive network of senior advisors, we provide advisory services across our five business segments on a stand-alone or fully integrated basis to help our clients solve complex business challenges. Our clients include a significant number of the Fortune 100 and FTSE 100, as well as other corporations, financial institutions and organizations.

Our full range of advisory services includes strategic communications, investor relations, financial transactions and restructuring, management consulting, physical and cyber risk, organizational design, board and executive search, geopolitics and government affairs, corporate governance, ESG and DE&I.

The firm has more than 1,600 employees located in 40+ offices around the world.

teneo.com