2021 and Beyond:

Global Trends in Stakeholder Incentives

About this Report

For the past few years, the GECN Group has published research on global trends in corporate governance, including Seven Lessons from Engaged Investors, published in 2019. This year, our Global trends research entitled, “2021 Global Trends in Stakeholder Incentives” focuses on the efforts companies are making to incorporate the interests of stakeholders into their incentive plans. The research is timely given the global COVID-19 pandemic and the accelerating effect this has had on ESG matters. In early 2020, two of the world’s largest global asset managers, State Street Global Advisors and BlackRock, threatened to vote against directors and divest from companies with poor stakeholder disclosures. This continues to signal a real financial cost for companies who fail to have and disclose a compelling stakeholder strategy. Further, the COVID-19 pandemic has forced many companies to examine the balance between financial performance and non-financial performance, as well as how to take into account stakeholder interests, including those of employees, customers, suppliers, and the communities in which they operate.

As a result we are pleased to present this report which analyzes the extent to which objectives pertaining to stakeholders are making their way into executive incentive plans.

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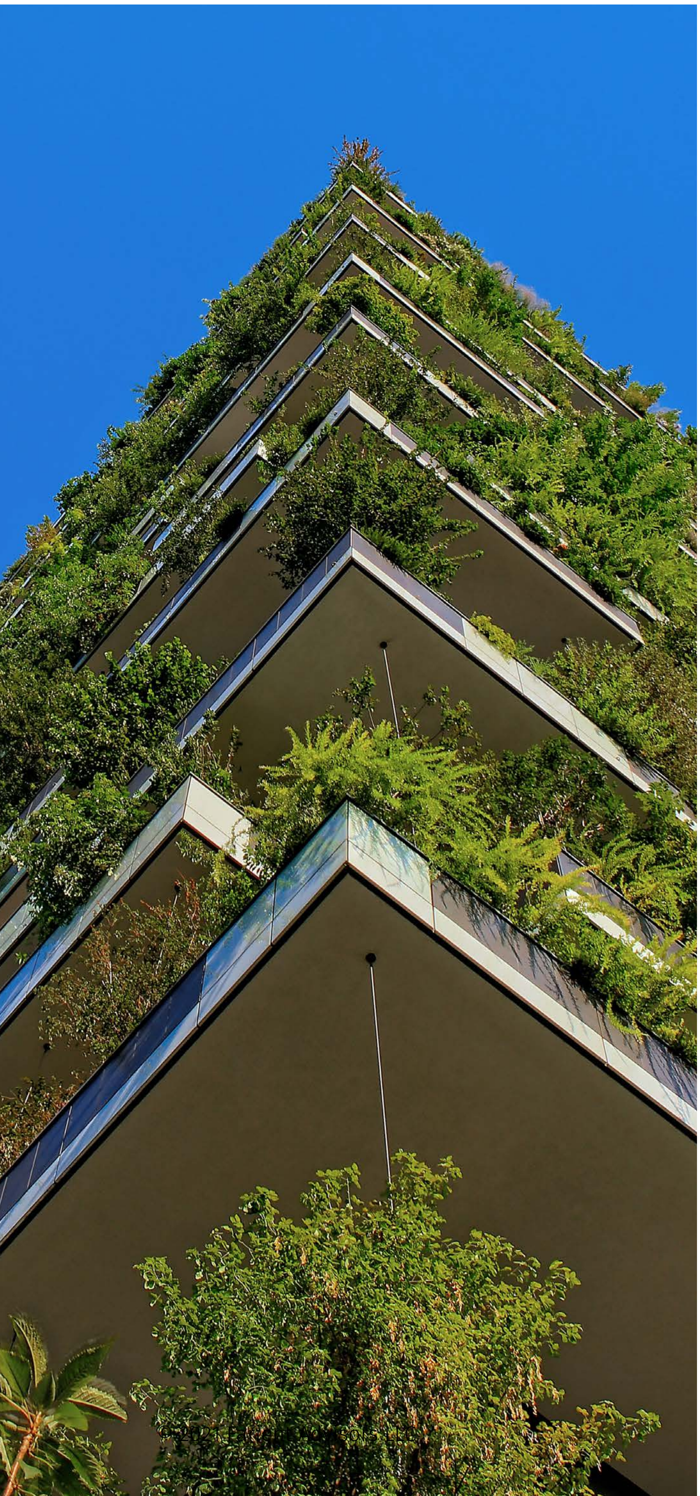
Farient Advisors LLC is an independent executive compensation, performance, and corporate governance consultancy. Farient provides a comprehensive array of advisory services, including compensation program design, board of directors compensation and investor communications. Farient has locations in in Los Angeles, New York, Louisville and Dallas and covers clients in more than 35 countries through its partnership in the GECN Group.

The GECN Group is comprised of leading independent firms around the globe specializing in governance, performance, and compensation. Serving more than 300 clients across 35 countries, GECN consultants advise boards, C-suite executives, and other decision-makers on enhancing value through the strategic use of compensation.

Study Methodology

This study deliberately refers to "stakeholders." While we acknowledge that ESG is the most frequently used moniker for interests that extend beyond "shareholders," we do not feel as though ESG captures the full breadth of non-financial performance and other interests that also include customers and communities. As a result, we are using the term "stakeholder" to refer to Environmental, Social, Governance, Customer, and Community interests, separate from shareholders, for this body of work.



To conduct our research, the GECN Group collected global data on incentives from the most recent public disclosures for companies in the following regions:

- United States – S&P 100
- Canada – TSX 60
- Continental Europe - CAC 40, DAX 30, SMI 20
- United Kingdom – FTSE 100
- Australia – ASX 100
- Singapore – STI 30

We then supplemented these data with interviews with leading corporate directors, investors, and governance professionals. For additional information on participants, refer to page 32.

In analyzing the data and the input of directors, it is clear that there are a multitude of performance measures pertaining to stakeholders (herein referred to as stakeholder measures) being used in incentive plans by corporations today. In order to discern the bigger picture trends, as well as the detail, the GECN grouped all stakeholder measures into the following categories:

CATEGORIZATION OF STAKEHOLDER INCENTIVE MEASURES

SOCIAL

- Fatalities
- Injuries
- Illnesses
- Exposure to Harmful Substances
- Workplace Policies
- Gender Balance
- Diversity & Inclusion
- Employee Engagement
- Training and Development
- Behaviors, Ethics, Values, and/or Culture
- Employee Voluntary Turnover
- Other

ENVIRONMENTAL

- Scope 1, 2 and 3 GHG Emissions
- GHG Emissions (scope not specified)
- Non-Renewable Energy
- Renewable Energy
- Environmental Incidents
- Air Quality
- Land Management
- Water & Wastewater Management
- Waste & Hazardous Materials Management
- Sustainability
- Other

CUSTOMER

- Customer Satisfaction
- Customer Net Promoter Score
- Customer Complaints and Resolutions
- Product Quality and Safety
- Other

COMMUNITY

- Community Incidents
- Community Complaints
- Community Investments
- Other

GOVERNANCE

- Governance at the Board of Directors' level
- Governance at the Executive Level
- Risk Management
- Compliance
- Behaviors, Ethics, Values, and Culture
- Other

The results of our study will assist companies and other organizations to understand practically what is at stake, benchmark themselves to global standards, and identify what's next for companies, their management, and their boards.

We would like to express our deepest appreciation for all who contributed to this effort.

I. Executive Summary

Companies around the world now closely link stakeholder considerations into their strategies, culture, measurement, reporting, and incentive systems. This global study, the fourth in a series of GECN Group research initiatives, examines the steps companies are taking to build a culture of sustainability to support the long-term durability and prosperity of the enterprise, particularly through the application of executive incentives.

Incentive practices vary by region and industry. In some regions, such as Australia, the expectation that companies will incorporate stakeholder measures into their incentive plans is well-anchored. In others, such as the U.S., it is not yet ubiquitous despite high profile commitments by the top 100 plus signatories to the Business Roundtable advocating stakeholder primacy. Regardless of where a company lands on this issue, there is growing cross-border agreement that the board has a critical role to play in providing stewardship so that the company can serve broader, long-term stakeholder interests.

Moreover, COVID-19 has *accentuated* the need to consider broader stakeholder issues and has *accelerated* the pace at which companies are doing so. Around the world, companies are communicating the importance of culture and financial, physical, and emotional well-being.

Significant findings from our study include:

- **Companies are following their own compass.** They, themselves, are driving the quest for stakeholder value. They are not doing so only in response to external forces, such as investors, proxy advisors, environmental activists, unions, or regulators
- **Three key themes are discernible.** These are: Strategy and Culture, Measurement and Reporting, and Incentives and Other Pay Levers. Each company will approach these dimensions differently, coming to different solutions that they deem appropriate for their business. However, regional norms and culture and industry sector also have a significant influence on approach
- **Use of stakeholder measures in incentive plans is significant.** 67% of companies in the regions we studied use stakeholder measures in their incentive plans. While most of these measures populate short-term incentive plans, stakeholder measures are now starting to appear in long-term incentives as well
- **The prevalence of stakeholder measures in incentives differs significantly by region.** Australia leads in the use of stakeholder measures in incentives with an 81% prevalence, whereas the U.S. lags Australia and Europe at 56%
- **The prevalence of stakeholder measures in incentives differs significantly by industry sector.** Utilities, Financial Services, Energy, and Materials companies are the most frequent users of stakeholder measures, whereas Information Technology and Consumer Discretionary companies are the least frequent users of stakeholder measures

Stakeholder prominence is becoming a widely accepted norm. According to the signatories of the Business Roundtable letter, "Each of our stakeholders is essential and we commit to deliver value to all of them..."

Best Practices in Using Stakeholder Measures in Incentives

If stakeholder measures in incentives are warranted, then management and the compensation committee will want to consider emerging best practices in design, including:

- Weight stakeholder measures in a meaningful way. (Most companies currently weight such measures approximately 20%)
- Select one to three stakeholder goals that are consistent with the company's purpose, reflect business priorities and culture, and resonate with plan participants; in other words, don't overcomplicate or dilute the focus of the plan
- Set clear goals along with payout leverages for each measure
- Consider whether to incorporate stakeholder measures in short- and/or long-term incentives, considering the time horizon of the journey as well as the challenge in setting goals
- Craft the narrative for communication materials to investors, employees, and other constituencies to test the consistency and credibility of the message before decisions are made

- **Among stakeholder measures in incentives, Social measures are the most prevalent.** Social measures are used by 61% of the companies we studied, followed by Customer (37%), Governance (32%), Environmental (25%) and Community (10%)
  - Within the Social category, Employee engagement, Diversity, Equity, and Inclusion (DEI), and Health and Safety are the most frequently used measures
  - Within the Customer category, Customer Satisfaction is the most frequently used measure

Regardless of the specific approach, the interviews reinforced our global experience that boards play a critical role in overseeing stakeholder policies, including developing the strategy, monitoring the culture, crafting the message, and ensuring that executive and stakeholder interests are aligned. Takeaways for board members include:

- Keep a broad, global perspective
- Help shape and listen for the "tone at the top"
- Engage with investors on ESG and stakeholder matters
- Restructure board processes
- Consider how to incorporate ESG measures in incentives

II. Growing Stakeholder Awareness and Action

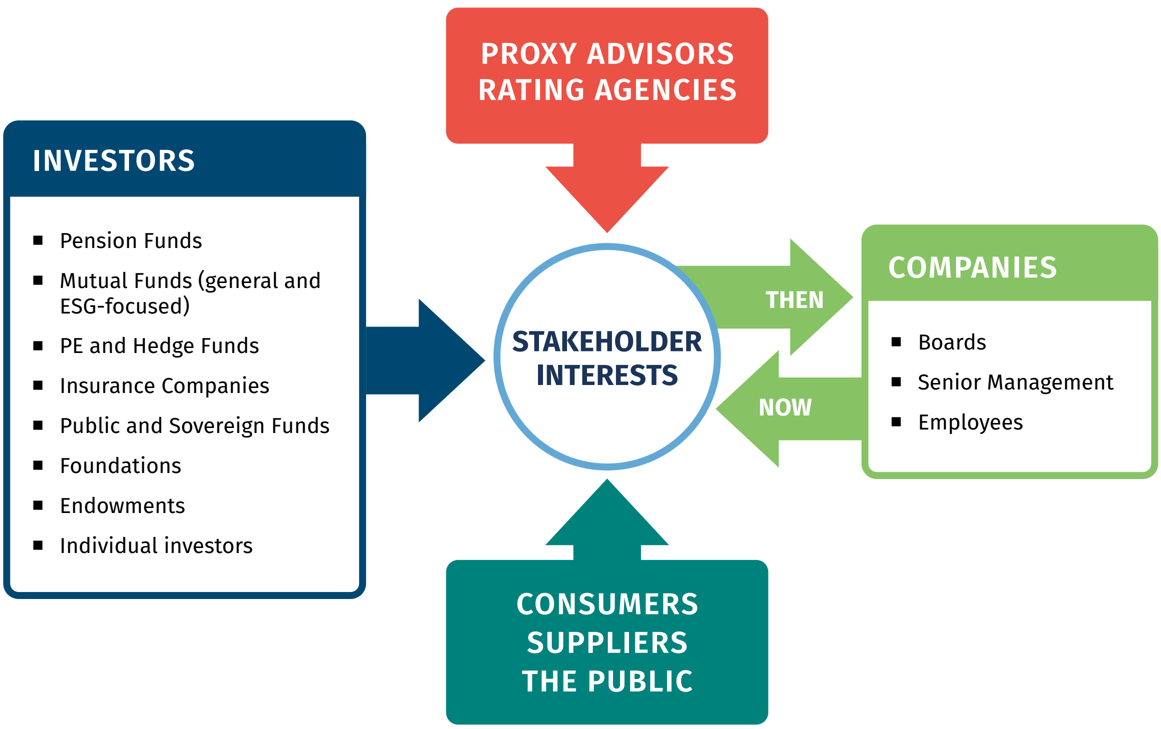
Companies are being asked by shareholders and proxy advisors to assertively address stakeholder issues, primarily by articulating a compelling strategy as to how companies are tackling the sustainability of the business from environmental, human capital, and values-based perspectives. The extent to which they do this is reflected in the financial markets. According to **Brendan Sheehan, Vice President, ESG and Senior Credit Officer for Moody's Investors Service, "Bond markets recognize the importance that ESG factors play in the credit rating process; investors are showing an increased appetite for ESG information and are pushing companies to disclose material risks."** In response, we witnessed CEOs visibly stepping up and leading the charge for 'profits with purpose'. In the U.S., for example, 181 CEOs signed the 2019 Business Roundtable letter on stakeholder prominence.

Additionally, employees are becoming more vocal. Directors point out that responsible stakeholder behaviors and the "tone at the top" are important to employees, who have different expectations of their employers than they once did. One director we interviewed shared, **"The next generation will have a broader view of what makes them engaged with the company's mission."**

Importantly, directors themselves are playing a more active role. In the words of one director, **"Board oversight plays a huge role, regardless of whether it's actually called out and delineated in the charters. Board oversight is a powerful catalyst for change."**

The exhibit below illustrates changes that are afoot. While investors and proxy advisors are asking good questions and demanding real action, the big change is that now, corporations themselves

Change Agents in Driving Stakeholder Interests



are increasingly leading the charge for sustainable strategies as a means toward greater corporate longevity, opportunities, and lower risks. According to **Gordon Cairns, board director of a number of companies in Australia, "My strong view is that the best force to change the discussion is for companies to stand up and be counted. It's not because activist groups are on your case. It's because it's the right thing to do."**

Barely a week goes by when we don't see corporations announcing new stakeholder initiatives. One example is Starbucks Corporation, which recently announced its commitment to a Culture of Inclusion, Diversity, and Equity, along with specific, measureable action steps to create an enduring diverse and equitable workplace.

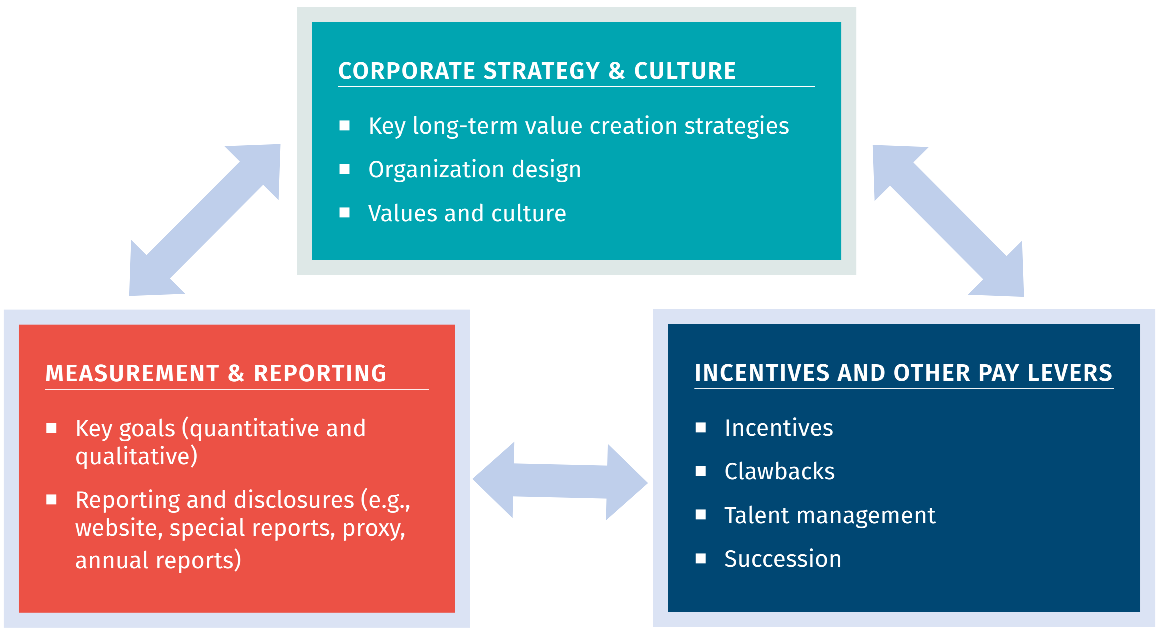
"ESG is very leader-dependent. I am inspired by the number of CEOs of the largest companies who have declared that their companies are stepping up on climate change and on diversity and inclusion. It isn't driven by governments. It's driven by each corporation's values, and the strength of the leaders at the top."

– Georgia Nelson, board director at companies spanning Australia, Canada, and the U.S.

III. Three Dimensions of Stakeholder Value

Often, when we say "stakeholder" or "ESG", the meaning is lumped into one item: incentive measures focused on stakeholder and shareholder interests. But jumping to the issue of whether stakeholder measures are incorporated into incentives skips two critical questions: (1) what is your company's stakeholder strategy and culture? And (2) how do you measure and report on your strategic progress? Strategy and Culture, Measurement and Reporting, and Incentives and other Levers, while all very different, play a supporting role in achieving objectives for stakeholders, as illustrated below:

Three Dimensions of Stakeholder Value



Those we interviewed stated that stakeholder interests need to be an integral part of any long-term corporate strategy. According to **Jeff Ubben, Founder and Managing Partner of Inclusive Capital Partners and a director on a number of boards, including The AES Corporation and Nikola Corporation, "Stakeholder thinking must support the long-term sustainability of the business making money. Companies may emphasize a different part of the stakeholder equation depending upon what business they're in. For example, a software company may emphasize social issues and an industrial company may emphasize decarbonisation. In any event, the strategy must become engrained in the culture and values of the organization."**

Another director reinforced this point by observing, **"If your people aren't happy, your customers won't be happy and you won't be making money."**

Once corporations have defined their strategy and culture, they are expected to report on their goals and progress against those goals. **Julie Southern, board member of several UK FTSE 100 companies says, "It is important for the board to have a serious discussion about what are the right strategies, measures, and accountabilities, and who should report back to the board on these things. The board must be engaged in determining stakeholder measures, and must align with what measures the company and investors think are important."** Reporting on progress against key metrics can take a number of forms including websites, special corporate social responsibility reports, proxy reports, and annual reports. However, most directors feel as though reporting on stakeholder progress needs to be flexible in its timing, and not constrained to once-a-year reporting.

Once the strategies and measurement systems are established, there is generally a separate decision on whether, and if so, how to incentivize progress through the compensation system. This subject continues to be hotly debated. In Australia, the view of whether to include stakeholder measures in incentives is almost always "yes." Some of this may be due to the types of industries that dominate the Australian economy, including extraction, energy-related businesses, and financial services, all industries with a higher incidence of stakeholder measures in their incentive systems. Other reasons may be governance regulations and systems that engage the board more on linking pay and strategy, as well as the idea that saving the environment is a deep-seated value among Australians. Regardless of which is the chicken and which is the egg, one director's view is that Australia is in the forefront, stating **"The Australian people don't see the environment as a challenge or a burden. They see it as the way life should be. It's a different philosophy from that found in other countries."** Similarly, according to **Michael Robinson, a director of Guerdon Associates, a GECN Group company, "it would be unusual for an Australian listed company to not have some portion of their incentives linked to stakeholder measures."**

At the other end of the spectrum, the practices in the U.S. differ considerably from those in Australia. Whether to incorporate stakeholder measures into incentives is clearly considered a choice point and is the subject of some debate. **Jeff Ubben, a proponent of including stakeholder measures in incentives, says "Companies that don't include stakeholder issues in their mission, goals, and/or their incentive plans are just grading their own report cards; they are telling us a story. They need to be held accountable to their story because it may require more investment and a lower return on capital in the short term."**

On the other side of the debate, one director, a proponent of not necessarily including stakeholder measures in incentive plans, expresses a concern that an otherwise exemplary company on stakeholder issues would become less flexible and more narrowly focused if stakeholder measures were shoehorned into its incentive plans. She also is concerned that stakeholder measures can add complexity to plans that are already considered by investors to be too complex. Regardless of whether such measures are incorporated into incentives, directors generally agree that compensation committees should be "all over" stakeholder measures, particularly diversity, equity, and inclusion (DEI), and should command strong oversight on the full breadth of DEI results.

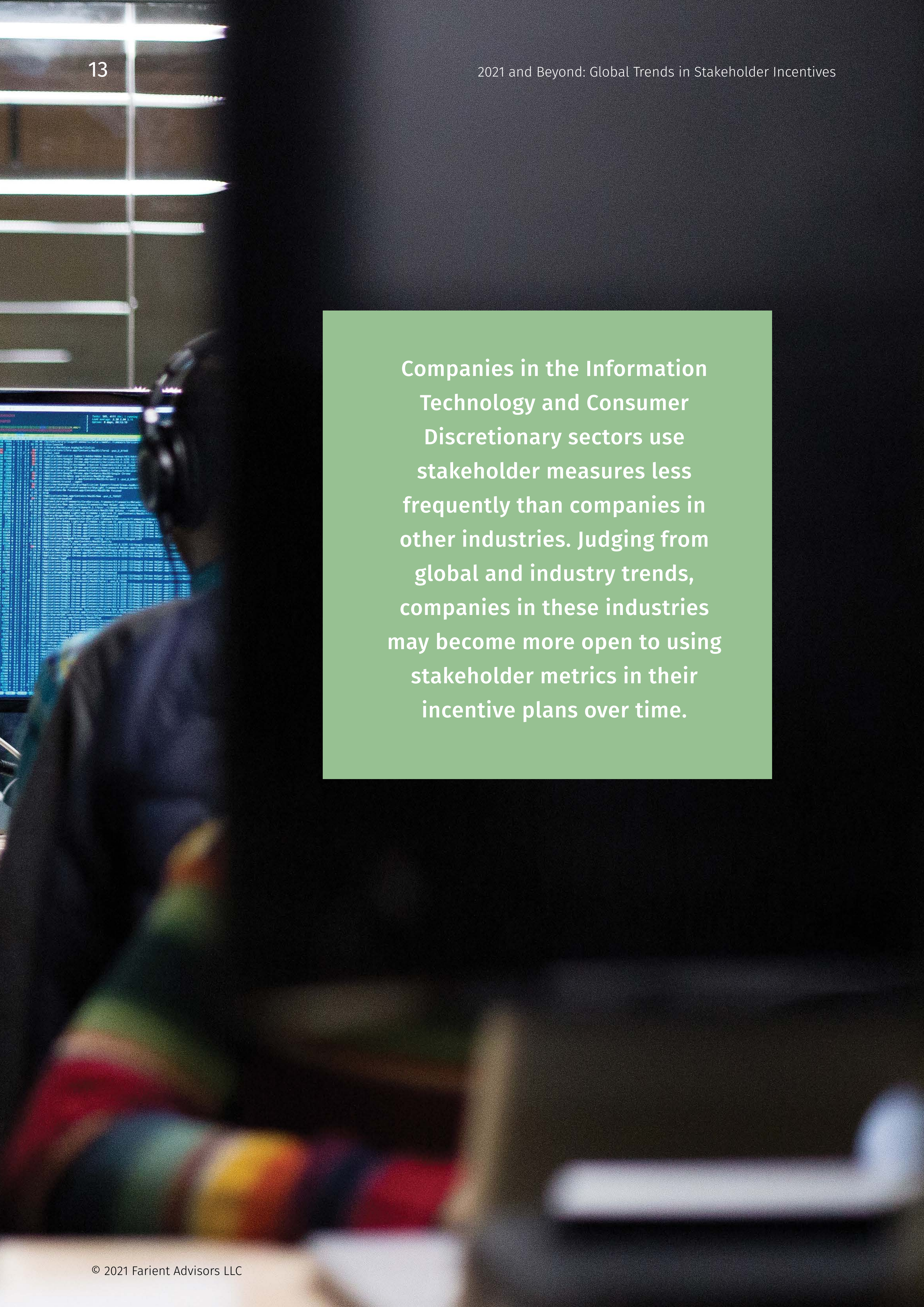
There are compelling arguments for and against incorporating stakeholder measures into incentive plans.

ARGUMENTS FOR

- It shows that the company is “walking the talk”
- It focuses participants on areas requiring improvement
- Investors favorably view stakeholder metrics
- In some regulated industries (e.g. banking) some regulators may expect some connection to governance, compliance, or other measures
- Stakeholder considerations now factor in the investment strategies of global asset owners

ARGUMENTS AGAINST

- Stakeholder metrics can contribute to incentive plan complexity
- Incentives may not be the most effective way to mobilize the organization around Stakeholder initiatives
- It is a challenge internally to agree on which stakeholder measures
- Some stakeholder measures may not be easily quantifiable



Companies in the Information Technology and Consumer Discretionary sectors use stakeholder measures less frequently than companies in other industries. Judging from global and industry trends, companies in these industries may become more open to using stakeholder metrics in their incentive plans over time.

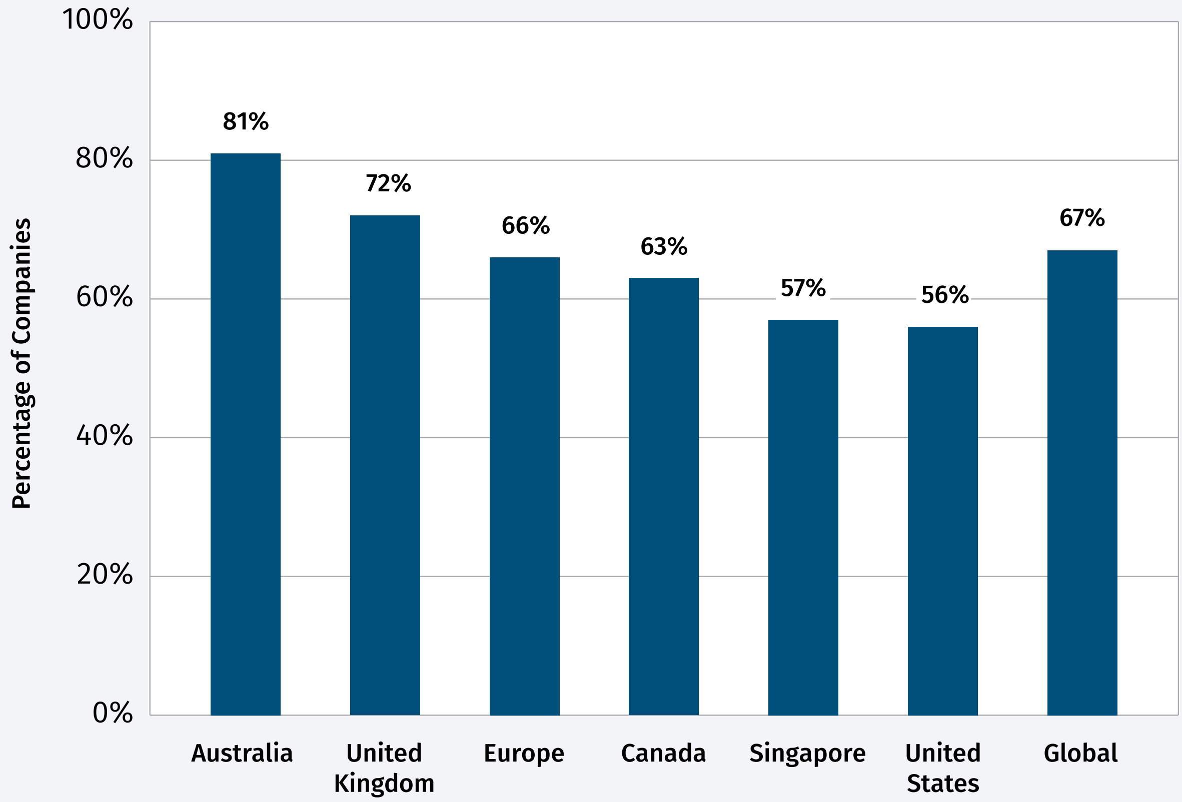
IV. State of Play: Stakeholder Incentives

Whether or not stakeholder measures in incentives are appropriate for your company, there are unmistakable trends around the emerging interest, importance, and prevalence of such measures in incentive plans. The most significant findings from our study are delineated below.

Use of stakeholder measures in incentives differs dramatically by region.

Globally, 67% of companies in our sample use stakeholder measures in at least one of their incentive plans. Likely driven by differences in culture and industries, there are dramatic differences in the use of stakeholder measures in incentives by region. Australia leads in the use of such measures, followed by the UK. The U.S. currently lags the other regions. Given last year's public commitments by the CEOs of the U.S.'s largest companies, we expect a more rapid uptake in U.S. adoption of stakeholder incentives as social and environmental concerns rise to new heights.

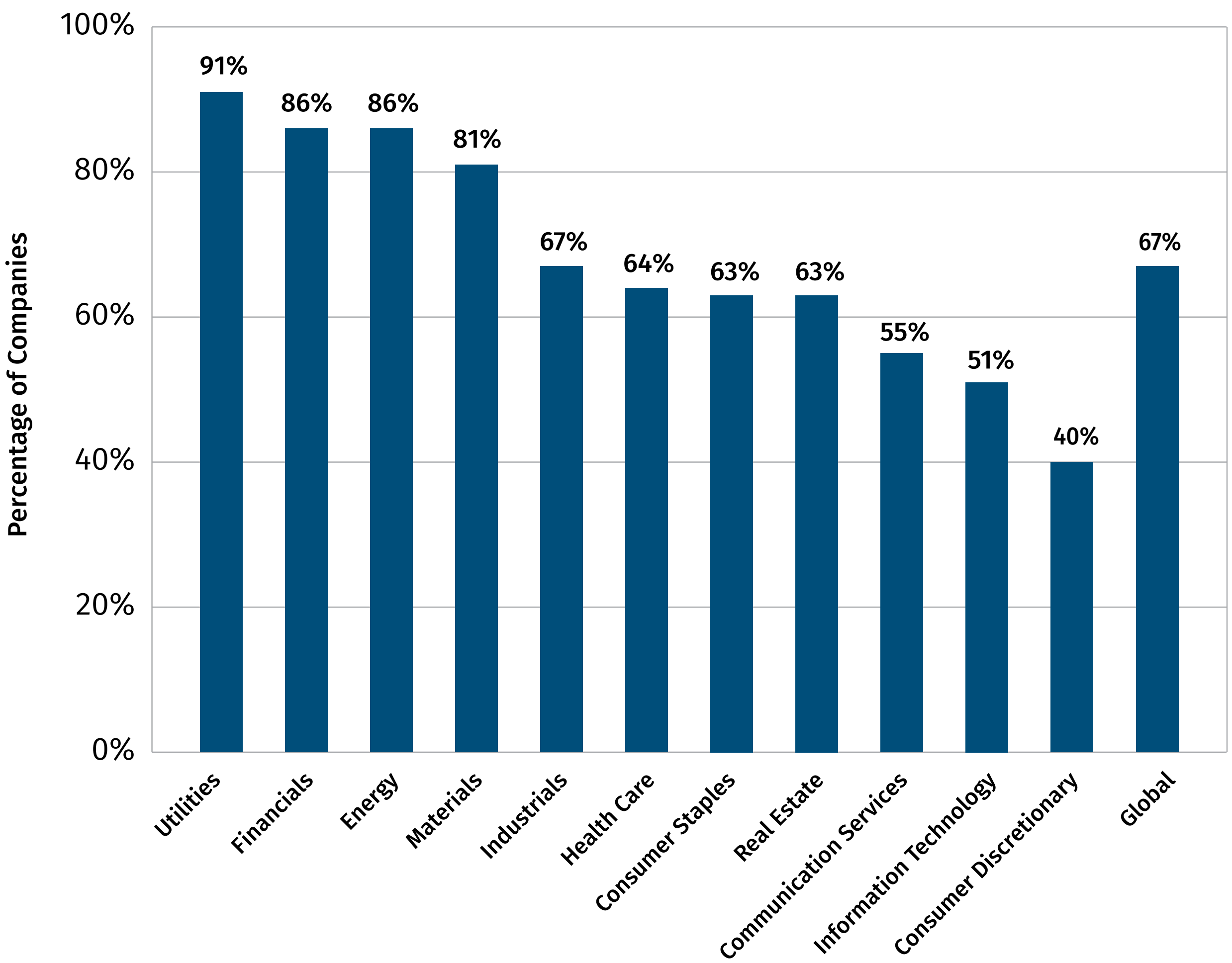
PERCENTAGE OF COMPANIES USING STAKEHOLDER MEASURES IN INCENTIVES BY REGION



Use of stakeholder measures in executive incentives differs dramatically by industry.

Not only does the use of stakeholder measures differ by region, but their use differs by industry as well. The Utilities, Materials, Energy, and Financial Services sectors use stakeholder measures the most, while the high-tech and consumer discretionary sectors, including automotive, household durable goods, and clothing, use such measures the least. It is easy to see why Utilities, Energy, and Materials companies focus on health and safety concerns as well as their carbon footprint. And it is easy to understand why financial services companies give nearly equal attention to governance, employee well-being, and customers in their incentive plans. To illustrate the point, **Catherine Livingstone, Chairman of The Commonwealth Bank of Australia, says "The bank has a significant presence in Australia which means we have responsibility to focus on the financial well-being of our customers and communities, for example, the financial abuse dimension of domestic abuse, financial literacy more broadly, mitigating the impact of disasters on people's finances, encouraging customers to think about climate risks for their homes which are usually their main financial asset etc."**

PERCENTAGE OF COMPANIES USING STAKEHOLDER MEASURES IN INCENTIVES BY INDUSTRY



Use of stakeholder measures in incentives by region and industry reinforce one another.

Interestingly, the trends by region and industry accentuate one another. For example, in Australia, there is hardly an industry in which stakeholder measures are not prevalent. Even in the Consumer Discretionary sector, where the use of stakeholder measures in incentives is relatively light globally, 75% of Consumer Discretionary companies in Australia incorporate stakeholder measures in their incentive plans. In contrast, only 20% of Consumer Discretionary companies in the U.S. use stakeholder measures in incentives.

PERCENTAGE OF COMPANIES USING STAKEHOLDER MEASURES BY INDUSTRY AND REGION

	AUSTRALIA	UNITED KINGDOM	EUROPE	CANADA	SINGAPORE	UNITED STATES	GLOBAL
Utilities	100%	100%	100%	50%		100%	91%
Financials	94%	89%	69%	80%	100%	87%	86%
Energy	80%	100%	100%	89%		83%	86%
Materials	88%	79%	67%	90%		50%	81%
Industrials	92%	81%	80%	60%	33%	33%	67%
Health Care	50%	75%	67%	50%		67%	64%
Consumer Staples	80%	60%	71%	80%	33%	55%	63%
Real Estate	90%	67%	33%	0%	70%	0%	63%
Communication Services	50%	75%	60%	50%	100%	33%	55%
Information Technology	50%	67%	50%	0%	100%	60%	51%
Consumer Discretionary	75%	36%	50%	20%	0%	20%	40%
Global	81%	72%	66%	63%	57%	56%	67%

MIN MAX

One reason why the incidence of stakeholder measures in incentives differs by region is because there is a different mix of industries in each region.

The region with the highest prevalence of stakeholder measures in incentives, Australia, has a heavy mix of Materials and Financial Services companies in its economy. Similarly, the region with the second highest prevalence, the UK, has a heavy mix of Financial Services companies in its economy. Companies in these industries most frequently use stakeholder measures in their incentive plans. Hence, Australia and the UK also have the highest prevalence of stakeholder measures in incentives.

Conversely, the region with the lowest prevalence of stakeholder measures in incentives, the U.S., has a more highly diversified economy, with a heavy mix of Technology companies, while Continental Europe has a heavy mix of Consumer Discretionary companies. The Information Technology and Consumer Discretionary industries use stakeholder measures in their incentives less frequently than companies in other industries. As a result, the U.S. and Continental Europe also exhibit the lowest prevalence of stakeholder measures in incentives.

PERCENTAGE OF COMPANIES BY INDUSTRY IN EACH REGION

	AUSTRALIA	UNITED KINGDOM	EUROPE	CANADA	SINGAPORE	UNITED STATES	GLOBAL
Utilities	4%	6%	4%	7%		4%	5%
Financials	17%	22%	14%	17%	13%	15%	16%
Energy	10%	2%	1%	15%		6%	6%
Materials	17%	14%	10%	17%		2%	11%
Industrials	12%	16%	17%	8%	30%	12%	14%
Health Care	6%	4%	10%	3%		15%	7%
Consumer Staples	5%	10%	8%	8%	10%	11%	8%
Real Estate	10%	3%	3%	3%	33%	2%	6%
Communication Services	6%	8%	6%	7%	3%	9%	7%
Information Technology	6%	3%	9%	7%	3%	15%	8%
Consumer Discretionary	8%	14%	18%	8%	7%	10%	11%
Total	100%	100%	100%	100%	100%	100%	100%

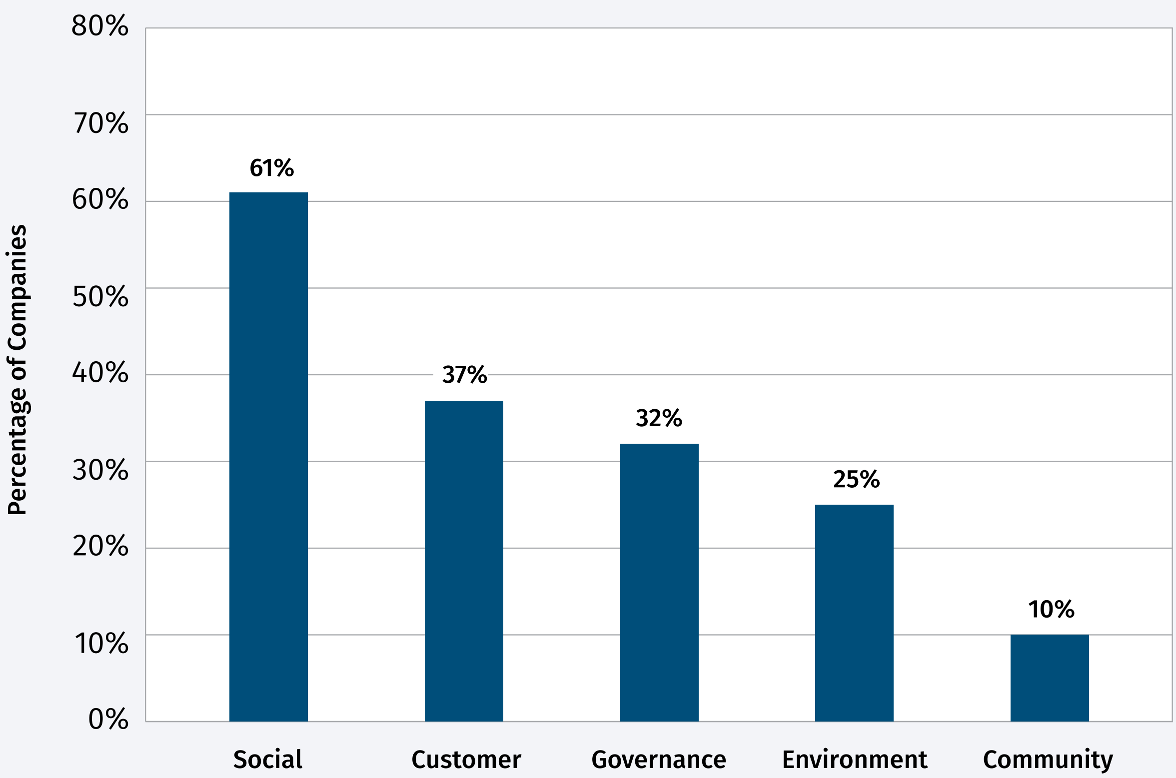
Most highly represented industries by region (as indicated by number of companies)

Social measures are the most prevalent stakeholder measures used in incentives, followed by Customer and Governance measures.

Social measures encompass a multitude of sub-measures, including health and safety, employee engagement and diversity, equity, and inclusion (DEI). These measures are highly prevalent in incentives and are becoming more prevalent given the spotlight on social issues. With regard to employee engagement, **Marie-Pierre Rogers** shared, **"In Switzerland, many companies have employee surveys they run once or twice a year. Before, it used to be a human resources-centric exercise; now they are very closely looked at by the CEOs to better assess employee morale and engagement, and address concerns, if any, early on. There is also strong engagement around diversity, with most executive search processes requiring a diverse set of candidates."**

In addition, Customer metrics are popular as they are viewed as driving customer satisfaction and top line results directly.

PERCENTAGE OF COMPANIES USING ESG MEASURES IN INCENTIVES BY TYPE OF MEASURE



The type of stakeholder measures used in incentives also differs considerably by industry.

Utilities, Materials, Energy, and Industrial companies tend to make liberal use of Social measures given their emphasis on health and safety. Financial Services companies focus on Social, Customer, and Governance measures, given their emphasis on employee well-being, customer satisfaction, risk management, and meeting regulatory requirements. Not surprisingly, the value drivers and competitive hot spots in each business also drive choice in the types of stakeholder measures used.

PERCENTAGE OF COMPANIES USING STAKEHOLDER MEASURES IN INCENTIVES BY TYPE OF MEASURE AND INDUSTRY

	SOCIAL	CUSTOMER	GOVERNANCE	ENVIRONMENT	COMMUNITY	TOTAL
Utilities	77%	41%	64%	59%	5%	91%
Financials	73%	71%	65%	10%	17%	86%
Energy	86%	14%	11%	71%	11%	86%
Materials	81%	40%	13%	48%	19%	81%
Industrials	61%	32%	28%	29%	9%	67%
Health Care	53%	31%	25%	8%	0%	64%
Consumer Staples	56%	34%	27%	15%	7%	63%
Real Estate	63%	37%	33%	40%	17%	63%
Communication Services	52%	24%	24%	12%	6%	55%
Information Technology	46%	27%	35%	8%	3%	51%
Consumer Discretionary	35%	25%	20%	16%	5%	40%

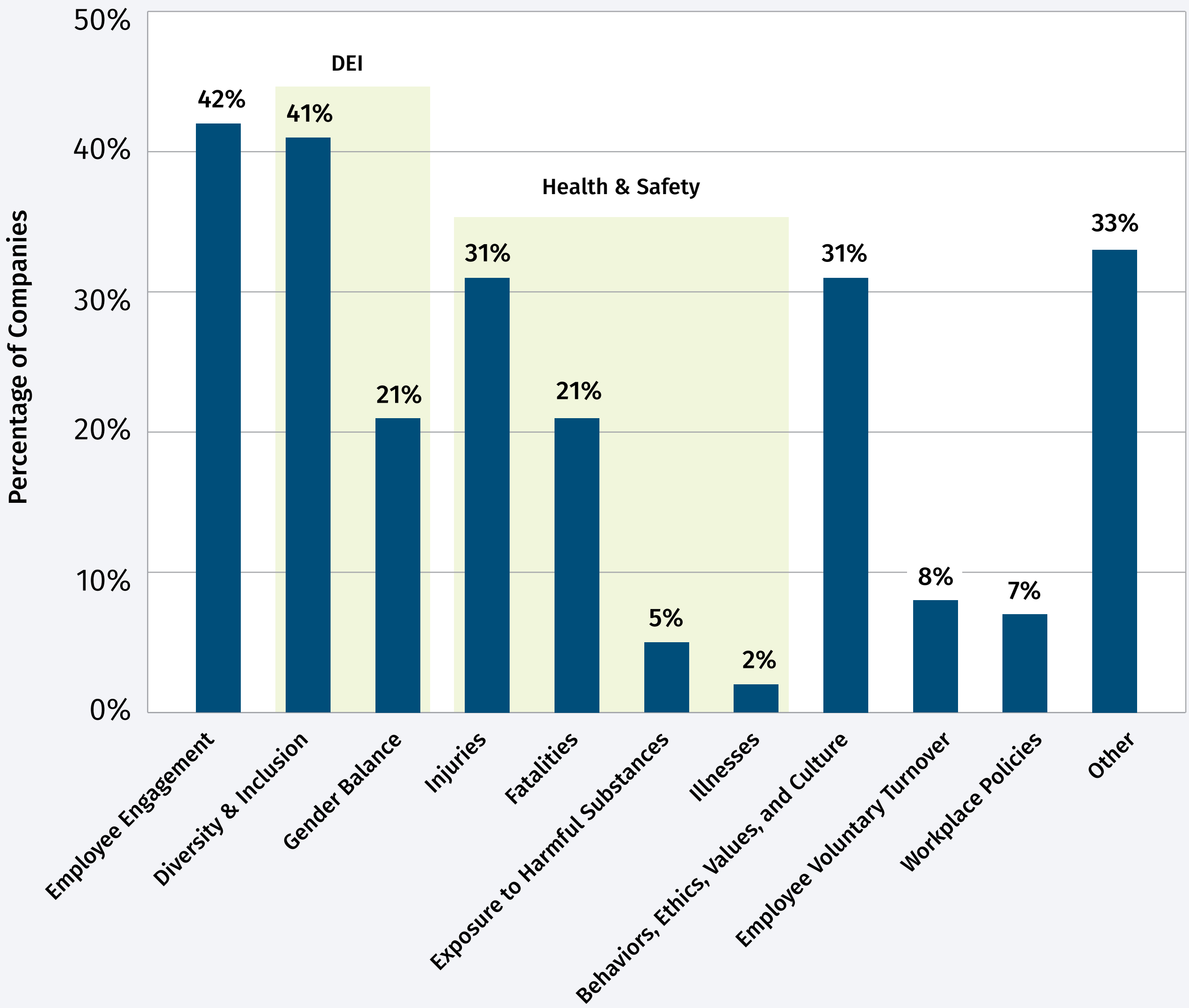
Prevalence of Measures ≥ 60%
Prevalence of Measures between 40%–59%
Prevalence of Measures < 40%

Note: Totals add to as much or more than any given type of measure since companies often use more than one type of measure in their incentive plans

For each type of stakeholder measure, there is a wide variety of sub-measures used in incentives.

Not only are Social measures the most frequently used stakeholder metric in incentives, but there is a wide variety in the types of Social measures used. In fact, we registered well over a dozen types of Social measures, even when grouping Diversity, Equity, and Inclusion (DEI) measures and Health and Safety measures into just two categories. This suggests that the measures are highly tailored to individual company needs. **Jeff Ubben** makes the point, **"it's important to do the work and pick out the one or two metrics that are core to the business and will drive long-term value because performance against these metrics will increase the company's sustainability."**

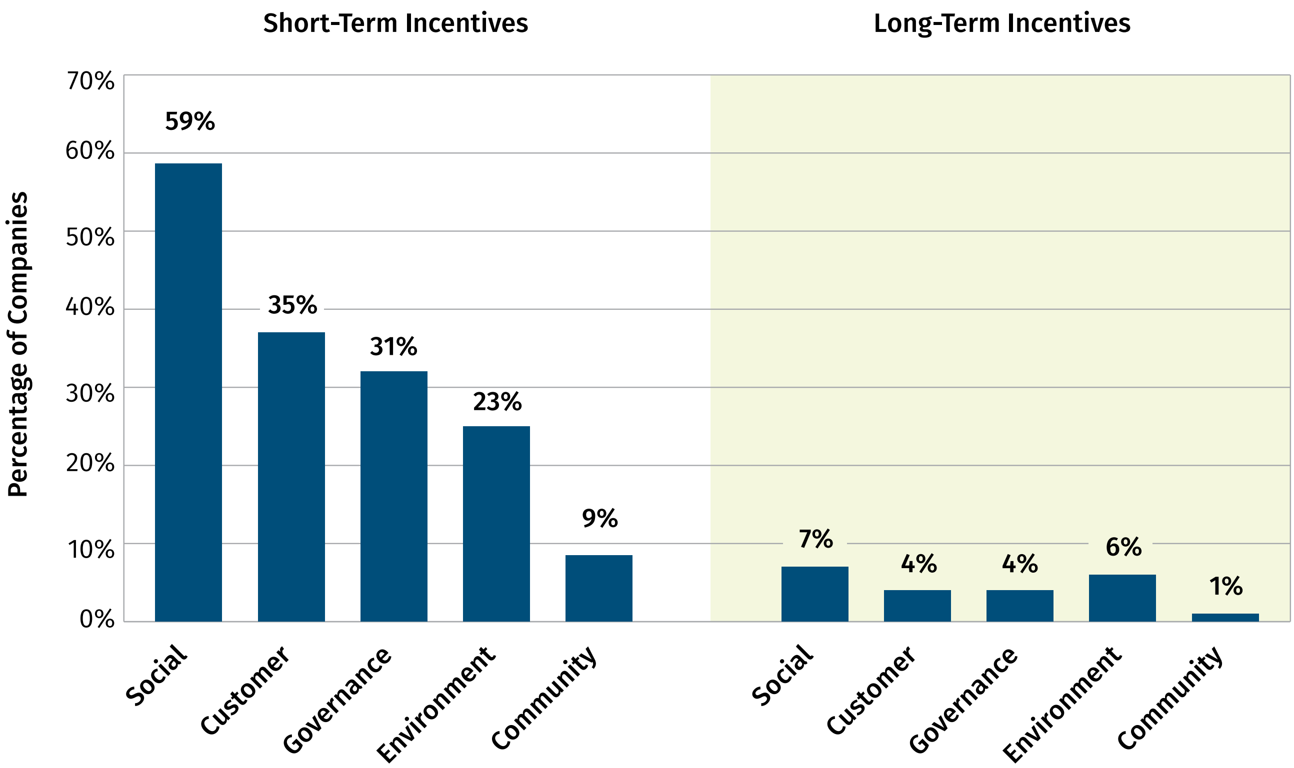
PERCENTAGE OF COMPANIES USING ESG MEASURES IN INCENTIVES BY TYPE OF MEASURE



There is a wide variety in the types of other stakeholder measures used as well. The most popular sub-measures are:

- **Customer:** customer satisfaction (61% of those companies using Customer measures)
- **Governance:** behaviors, ethics and values (49% of those companies using Governance measures)
- **Environmental:** environmental incidents and greenhouse gas (GHG) emissions (28% and 24%, respectively, of those companies using Environmental measures)
- **Community:** community investment (36% of those companies using Community measures)

PERCENTAGE OF COMPANIES USING STAKEHOLDER MEASURES IN SHORT- AND LONG-TERM INCENTIVES BY TYPE OF MEASURE

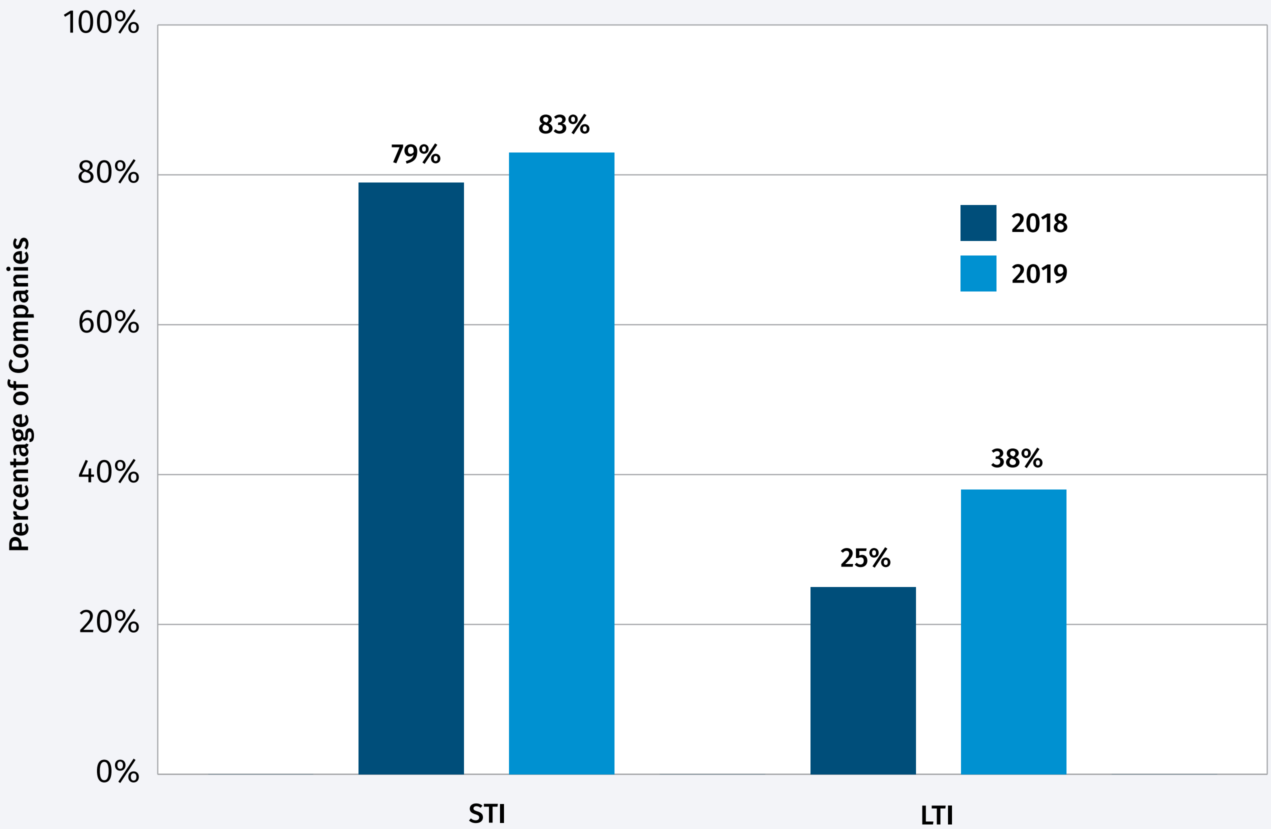


Stakeholder measures are most prevalent in short-term incentives, but are starting to become more prevalent in long-term incentives, at least in certain industries.

Stakeholder measures are mostly found in STI plans, as shown in the chart below. This is because short-term plans have traditionally been the place for strategic and qualitative measures, whereas long-term plans have traditionally been the place for quantitative financial and market metrics.

However, this is beginning to change. Companies are now recognizing that making serious progress on stakeholder measures is often a long-term proposition, which aligns with the goal of LTIs to promote the long-term view. As a result, stakeholder measures are making their way into long-term incentive plans with increasing frequency, at least in certain industries and countries. For example, among the largest U.S. utilities, the use of stakeholder measures in long-term incentives plans grew from 25% last year to nearly 40% this year. This is a very significant increase in one year for a statistic that traditionally moves very slowly.

PREVALENCE OF STAKEHOLDER METRICS IN INCENTIVE PLANS AMONG LARGE U.S. UTILITIES

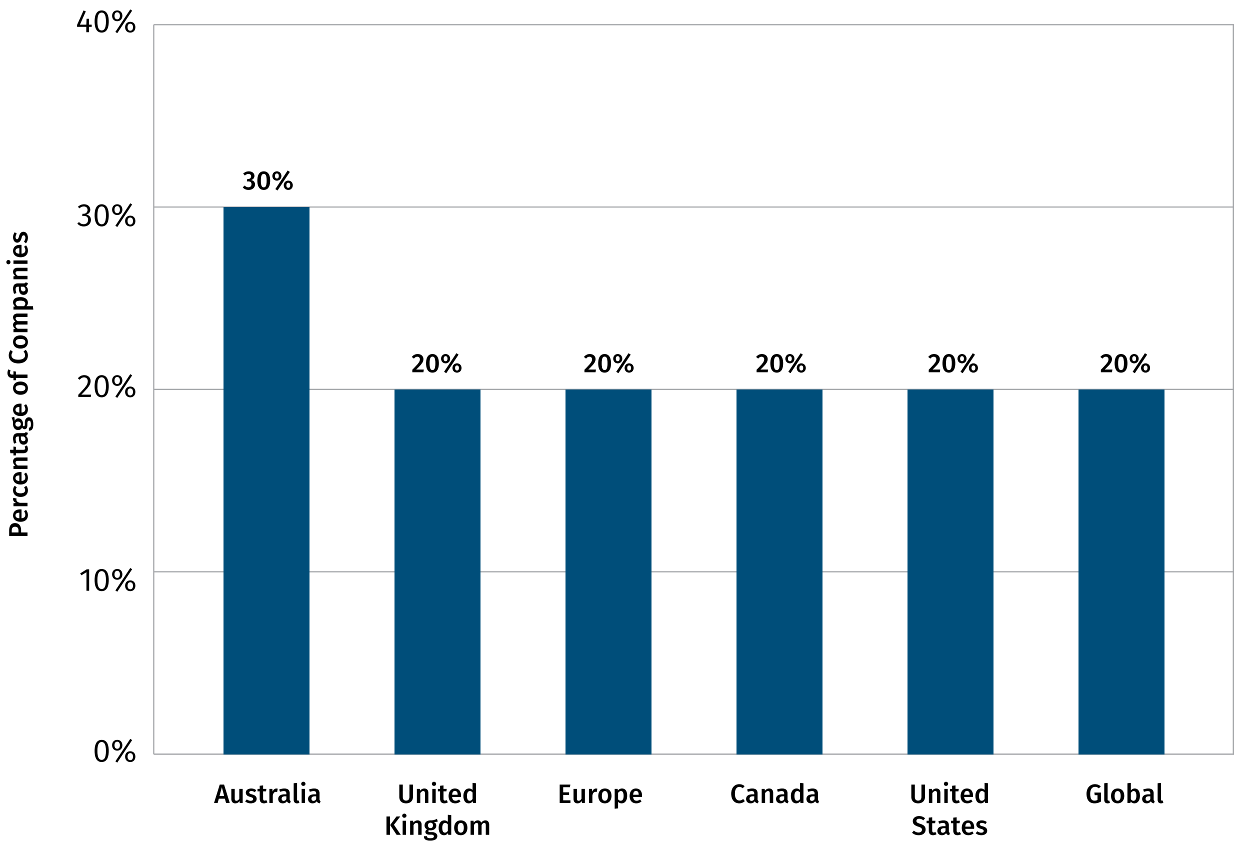


When stakeholder measures are used in incentives, they typically are weighted approximately 20% of the overall target award opportunity.

Incorporating stakeholder measures in executive incentive plans is clear a signal to shareholders that the company intends to improve stakeholder performance and hold management accountable for ensuring meaningful progress. In this regard, the number one item investors are asking about during this year's shareholder engagement process revolves around ESG.

Globally, stakeholder measures are weighted approximately 20% in incentive plans. While the topic is commanding the spotlight in most shareholder engagement discussions, companies, nevertheless, are cautious about the weight they are willing to put on stakeholder measures. This is because they recognize the continued importance of achieving quantitative financial results, alongside of stakeholder results. This phenomenon is relatively consistent across regions, with Australia as the only outlier at a median weighting on stakeholder measures of 30%.

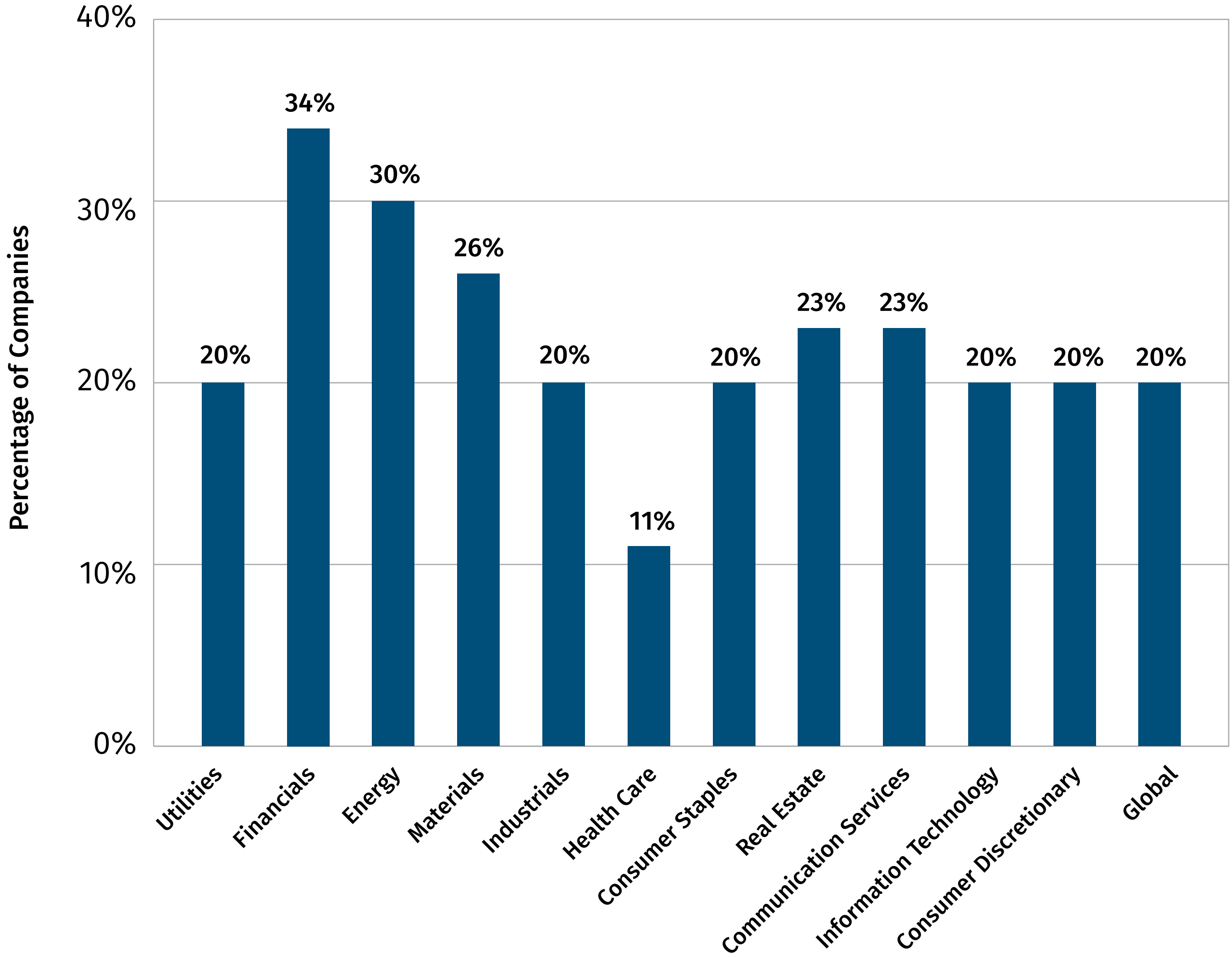
MEDIAN WEIGHTING OF STAKEHOLDER MEASURES IN INCENTIVES BY REGION



Companies in Singapore did not report weightings for the stakeholder measures in their STI plans

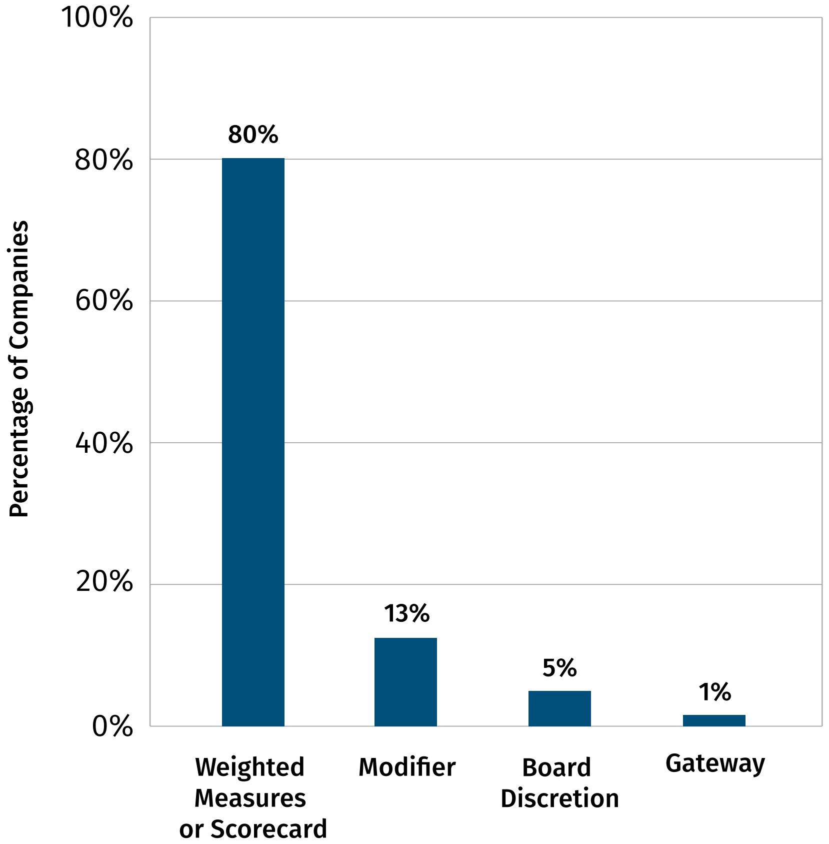
Even in the industries in which stakeholder measures are aggressively used, companies tend to weight stakeholder measures at about 20% of the total incentive mix.

MEDIAN WEIGHTING OF STAKEHOLDER MEASURES IN INCENTIVES BY INDUSTRY



As shown in the chart below, stakeholder measures are typically incorporated in incentive plans as weighted measures or within a weighted scorecard. Increasingly, these measures apply to all plan participants at the corporate or business unit level, but there are sometimes individual measures as well. A minority of companies use stakeholder measures as modifiers, threshold gateways, or as a basis for general discretion.

MECHANISMS FOR INCORPORATING STAKEHOLDER MEASURES INTO INCENTIVES AMONG COMPANIES USING STAKEHOLDER MEASURES IN INCENTIVES



MECHANISMS FOR INCORPORATING STAKEHOLDER MEASURES INTO INCENTIVES AMONG COMPANIES USING STAKEHOLDER MEASURES IN INCENTIVES

WEIGHTED METRICS	SCORECARDS	INDIVIDUAL MEASURES
• Metrics generally reflect important corporate initiatives	• Scorecards include a number of stakeholder measures	• Measurement categories may adhere to themes or goals provided by leadership
• Measures are weighted and have goals and goal ranges	• Measures may be weighted and leveraged or unweighted; however, target goals often are assigned to each metric	• Individuals are expected to use these themes in setting their individual objectives
• Achievement is generally disclosed "after the fact"	• Assessments of scorecards generally start with objectivity, but often incorporate subjective judgment as well	• Assessments often are subjective

Disclosure around non-financial goal ranges is generally not as specific compared to financial and/or operational goal ranges

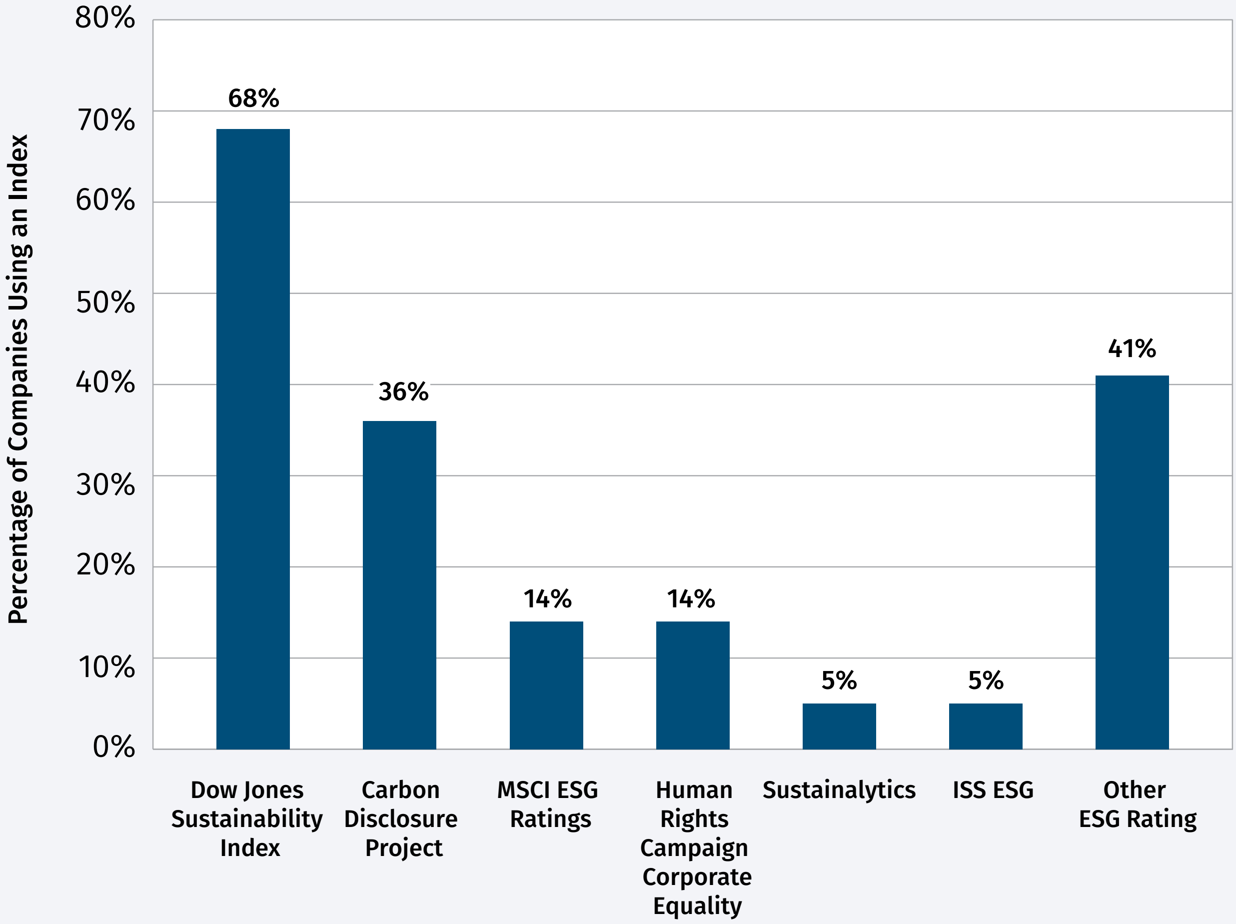
Most companies use internally-derived goals for assessing performance on stakeholder measures for incentives.

However, when external benchmarks are used, particularly in the realm of environmental metrics, companies sometimes measure performance against an industry standard benchmark. According to **Prof. Dr. Michèle Sutter Rüdisser, Adjunct Professor at the University of St. Gallen, Switzerland, "Many companies have been striving for ESG-related goals for years and take it very seriously. Personally, I think it's essential for a good corporate governance culture. In the companies in which I'm engaged as an independent, non-executive board member, ESG is of strategic importance, be it within the company's product offerings, its investment strategy, or its compensation structure (e.g., metrics defined by the UN Sustainable Development Goals and/or respective EU regulation)."**

Companies that use internal (vs. external) benchmarks do so to focus on improvement and to achieve better line-of-sight to the strategy for participants. However, companies that use external benchmarks do so for reasons of objectivity, compelling disclosures, and better engagement with third party rating agencies and investors. Internal benchmarks are sometimes seen by external stakeholders as too subjective and potentially susceptible to manipulation. Yet, many companies use them because they are tailored to their specific strategy and corporate purpose.

Among those companies that use external measures to benchmark performance against stakeholder measures, most use the Dow Jones Sustainability Index and the Carbon Disclosure Project. However, the benchmarks used for reporting on progress against general strategic stakeholder and ESG objectives often differ from the incentive benchmarks shown below.

PERCENTAGE OF COMPANIES USING EACH INDEX TO BENCHMARK PERFORMANCE OF STAKEHOLDER MEASURES IN INCENTIVES



Among Companies that Use an Index to Benchmark Stakeholder Performance

V. Impact of COVID-19 on Use of Stakeholder Measures

Nothing has changed the way we think about stakeholder interests more than the COVID-19 pandemic. People, governments, and commercial enterprises across Asia, Europe, North America, the United Kingdom, Australia, and Africa have been challenged not just on the financial but the social level. Employees have been dealing with uncertainties of their future employment, while changing the way in which they work and engage with co-workers and the company itself. This phenomenon has heightened concern for all stakeholders, including those who put their capital at risk, i.e. shareholders. **Brendan Sheehan of Moody's** highlighted that **"for 2021 and beyond, the pandemic will intensify the focus on other credit-relevant ESG trends. Stakeholders and shareholders will focus more on areas like health care and income inequality. The consequences of not considering the broad scope of social risks will continue to be amplified by COVID. We can count on more scrutiny of institutional preparedness, as well as on risks."**

Several directors interviewed for this research echoed similar sentiments about protecting stakeholders during this precarious time. **Gordon Cairns** expressed what many other directors shared with us, **"Companies feel a responsibility toward their stakeholders. What has happened under COVID is that the good companies have effectively said, 'the health and safety of our people and our customers is our number-one priority no matter what it costs'."**

Globally, COVID-19 has broadened Human Resource and Compensation Committee agendas. Companies, facing the new reality, have had to change their technology and collaborative approaches. They have been forced by circumstance to review the full gamut of human resources functions, including work flow, organization, workforce planning, compensation, benefits, recruitment, training, employee well-being, and talent management processes.

Georgia Nelson reinforced the idea that COVID is accelerating change. **"I think the pandemic has accelerated at breakneck speed changes in technology and lifestyles. These changes probably would have happened over the next 20 years. Now, it seems like all of this has been compressed into two years. This issue of 'pace' requires us to pay attention as the long-term sustainability of companies depends on the stability of the community and all stakeholders."**

COVID also will have an impact on compensation. Companies will continue to focus on making it through this difficult period, with many executives sharing the pain on compensation. It also means holding their executives accountable for making progress on stakeholder objectives, including human capital management. From a compensation perspective, we expect to see a growing prevalence and weighting of stakeholder metrics, with the "S" or Social aspect of stakeholder measures taking a front row seat as companies pivot to a "new reality".

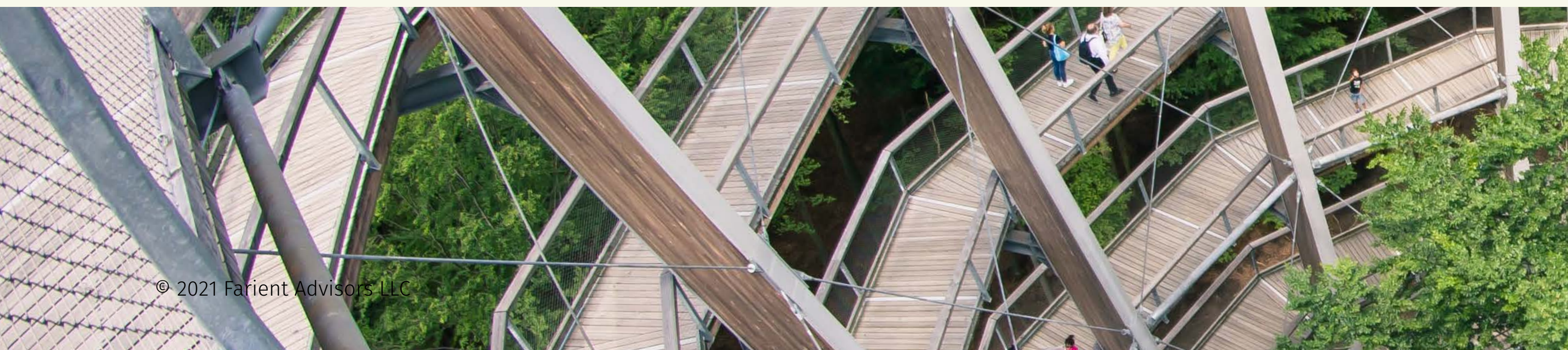
VI. The Future of Stakeholder Agency and Executive Compensation

Stakeholder prominence is carving out a global role for the future. From deep-seated social concerns to ensuring the long-term sustainability of our planet, corporations are taking it upon themselves to drive for solutions. What is clear from this study is that while some regions are moving faster and in different ways from others, there is an unmistakable trend toward companies demonstrating their commitment to a broader definition of value, namely stakeholder value. The attitudes and actions being discussed do not appear as “one off” programs, nor are they limited to the efforts of a good public relations campaign. They access the very heart of a corporation and stimulate board, management, and employees to query the purpose of their company and what gives it license to operate.

In this regard, it is incumbent upon the corporation to create real substance in three areas:

- **Strategy and Culture:** create a plan of action to improve on stakeholder value, and foster a culture that values and drives toward such improvements
- **Measurement and Reporting:** measure progress by setting clear and quantifiable goals, and then report externally on progress against those goals so constituents have robust mechanisms by which to judge the corporation and its value
- **Incentives and Other Levers:** hold the organization and its executives accountable for achieving stakeholder goals, and align the interests of executives with those goals, whether it be through performance management, pay, promotions, personal recognition, or other means

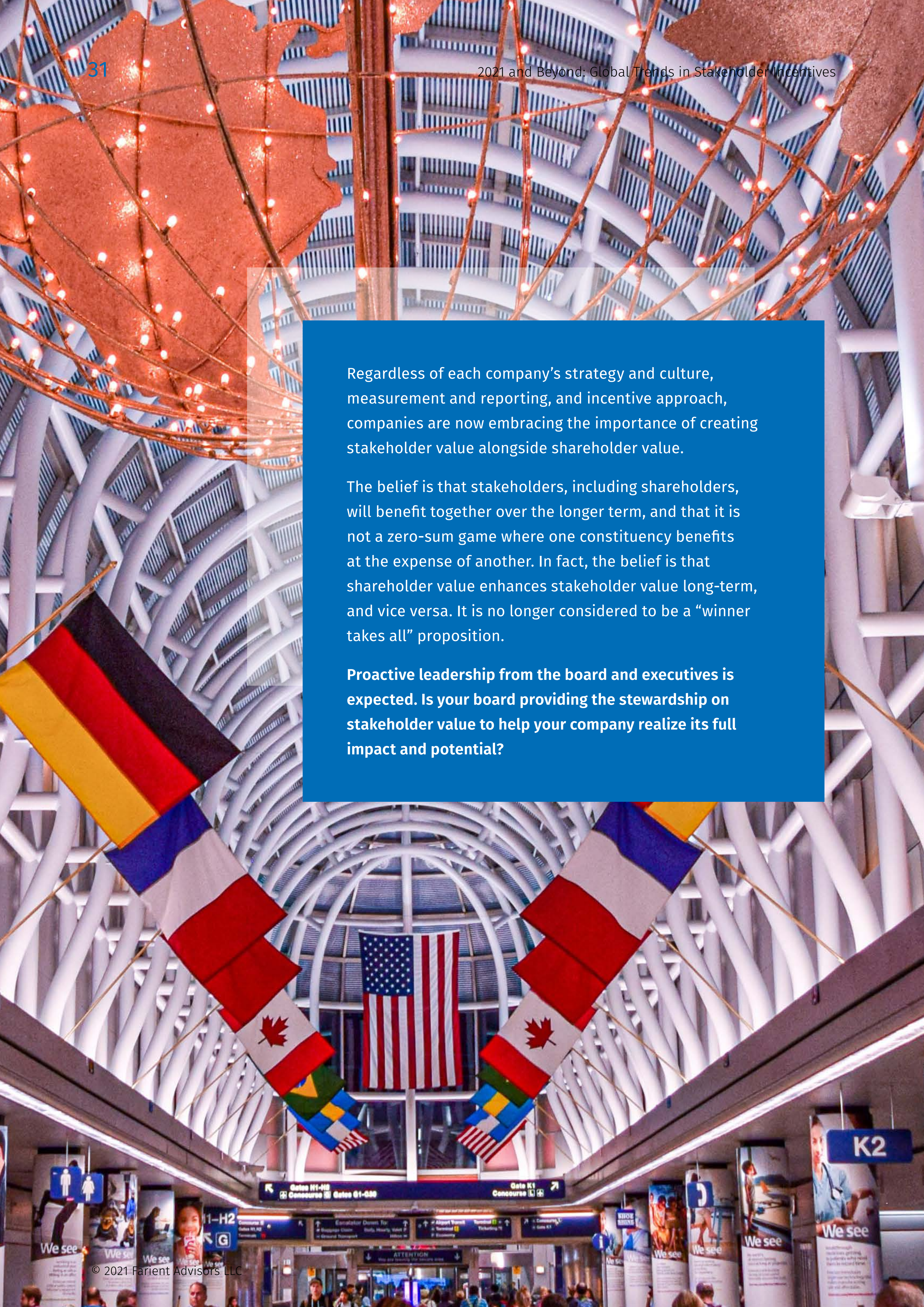
Even if certain regional differences exist, there is evidence that capital is flowing toward companies that make it their business to create broad stakeholder value. In the words of one institutional investor, **“Passive investors are becoming more active owners in the push for stakeholder value.”**



Specific Actions Boards Can Take

Boards have a critical role to play in overseeing stakeholder policies, including developing the strategy, monitoring the culture, crafting the message, and ensuring that executive and stakeholder interests are aligned. There are five types of actions that boards can take to position their companies for success in their quest for stakeholder value.

- **Keep a broad, global perspective.** As our study has shown, practices differ around the world and by industry. We can learn not only from what others are doing, but why they are doing it. The philosophical and cultural underpinnings behind the motivations are at least if not more interesting as the substance of change
- **Help shape and listen for the "tone at the top."** Companies can say that they are aiming to produce stakeholder value, but if they can't back it up with substantive plans, investments, measures, goals, and actions, they are not "walking the talk". It is incumbent upon boards to ensure that there is consistency between talk and action from all employees, starting at the top
- **Be prepared to engage with investors on ESG and stakeholder matters.** Leading the list of what investors want to discuss during engagement meetings is a company's stance and progress on stakeholder matters. Many investors were on this track well before COVID-19 became a reality, and now have intensified the focus. Boards and management should be prepared to discuss what their companies are doing to enhance stakeholder value during the upcoming round of engagement meetings
- **Restructure board processes.** Boards need to re-think how they will oversee stakeholder issues. There needs to be a "home" for each stakeholder issue requiring board oversight. For example, on behalf of the whole board, the HR and Compensation Committee may be assigned diversity, equity, inclusion (DEI), culture, employee engagement, and workforce strategies, in addition to its normal responsibilities. In other instances, the full board may claim responsibility for environmental matters or delegate to a new ESG Committee. Regardless of the approach, the board then needs to determine how it will implement these oversight functions by rethinking board and committee charters, calendars, skill requirements, committee membership, and education. This is a potentially significant re-direct, but thinking through these issues in advance can pay significant dividends later
- **Consider how to incorporate ESG measures in incentives.** Our study shows that pressure is mounting for companies to form a view of how to incorporate stakeholder measures in incentive plans to reinforce the company's strategic intent and demonstrate commitment. While stakeholder measures have come to be expected in some regions (e.g., Australia), they are still a choice point in others (e.g., U.S.), and the board needs to consider what approach makes the most sense for the company. A starting point can be to incorporate these measures in the performance management system and to track performance even if this does not at first impact compensation.



Regardless of each company's strategy and culture, measurement and reporting, and incentive approach, companies are now embracing the importance of creating stakeholder value alongside shareholder value.

The belief is that stakeholders, including shareholders, will benefit together over the longer term, and that it is not a zero-sum game where one constituency benefits at the expense of another. In fact, the belief is that shareholder value enhances stakeholder value long-term, and vice versa. It is no longer considered to be a "winner takes all" proposition.

Proactive leadership from the board and executives is expected. Is your board providing the stewardship on stakeholder value to help your company realize its full impact and potential?

We wish to thank the individuals who contributed their knowledge, experience, insights and time and in so doing, helped us compile this report:

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Director and Chairman of the Woolworths Group and Origin Energy; Director of Macquarie Group and Macquarie Bank

Mike Hawker: Australia and United Kingdom

Deputy Chairman BUPA ANZ Group; Director Aviva Plc Group (UK), BUPA Global Board UK, Washington H. Soul Pattinson and Company Limited

Rick Lee: Australia

Chairman of Oil Search

Catherine Livingstone: Australia

Chairman and Director of The Commonwealth Bank of Australia, Director Worley Parsons Limited, the George Institute for Global Health, and Saluda Medical Pty Ltd; President of the Australian Museum Trust

Georgia Nelson: Australia, Canada, and United States

Director of Cummins Inc., Ball Corporation, TransAlta Corporation, and Sims Limited

Phil Pryke: Australia and New Zealand

Director of Goodman Group (Australia) and Carbine Aginvest Corporation Limited (New Zealand)

Marie-Pierre Rogers: Switzerland

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Prof. Dr. Michèle Sutter-Rüdisser: Switzerland

Adjunct Professor of Organizational Control and Governance, University of St. Gallen, non-executive and Independent Director of various companies

Brendan Sheehan: United States

Vice President, ESG and Senior Credit Officer for Moody's Investors Service

Julie Southern: United Kingdom

Director at EasyJet, NXP Semiconductors N.V., Ocado Group plc, and Rentokil Initial plc

Jeff Ubben: United States

Founder and Managing Partner, Inclusive Capital Partners and a Director on a number of boards including: The AES Corporation, and Nikola Corporation

Dr. Rolf Watter: Switzerland

Partner at Baer & Karrer, Chairman of PostFinance, and Director at AP Alternative Portfolio and Faber Castell (Holding)

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We hope our research is illuminating and contributes to continuously improving corporate and stakeholder engagement.

We invite your questions and comments. Please direct all inquiries to GECN Group leadership.

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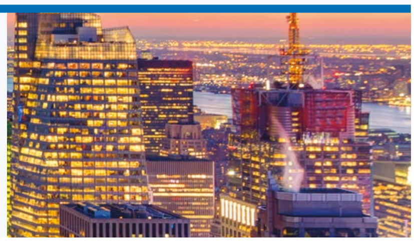

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