Time to take a broader view

Why sustainability-linked executive pay is a work in progress

A KPMG analysis of management board remuneration at the Netherlands' top companies

Table of contents

01	**Introduction:** Why does sustainability-linked remuneration matter?	04
02	**About this research:** How we conducted the analysis	05
03	**Summary of key findings**	06
04	**KPMG's insights and recommendations**	07
05	**Detailed findings and KPMG commentary**	
	Most major companies link remuneration to sustainability somehow, but some are slow to start	09
	Executive pay does not fully reflect companies' sustainability priorities	10
	Board-level sustainability performance metrics are limited and have gaps	11
	Around one third of companies lack long-term incentives for sustainable transformation	16
	Sustainability accounts for one fifth or less of variable pay at most companies	17
06	**How do Dutch companies measure up against companies in other countries?**	19
	Appendix	
I	Companies analyzed in the Netherlands, UK, Germany and Sweden	23
II	European Sustainability Reporting Standards (ESRS) topics	26

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Many institutional investors now base their investment and voting decisions on sustainability performance as well as financial performance. So, it is encouraging to see more and more companies using remuneration policy to incentivize directors to improve sustainability alongside financial performance. However, it is important for companies to select sustainability performance targets that are not only easily measurable but are also the most important for the company and directly linked with the double materiality assessments carried out for their sustainability reporting.

Investors will then carefully assess whether the principle of 'pay for performance' is being applied properly to the sustainability performance targets; a bonus is only appropriate if there has been a material and demonstrable improvement in sustainability performance. This means challenging but achievable sustainability objectives are needed. This report shows there is still a considerable way to go in this regard."

Rients Abma
Executive Director, Eumedion (Dutch Corporate Governance and Sustainability Platform for Institutional Investors)

Reporting of both financial and sustainability performance should be the end result of integrated strategy setting, decision-making and performance evaluation. Management remuneration should therefore be paid on the basis of integrated incentives that combine and balance financial returns with the management of risks and impacts.

The need to integrate sustainability into business and governance means that companies and their boards are experiencing unprecedented learning curves. Supervisory boards are generally well aware of the need to include sustainability in remuneration and performance evaluation policies, but they also understand that changes in remuneration must be preceded by fundamental changes in corporate purpose, strategy, leadership and culture.

This study provides useful insights, food for thought and challenges to guide the development of remuneration and performance evaluation policies that can drive the sustainable transformation of organizations and the value chains they are part of. The study may be of support for supervisory boards for setting performance targets for the managing boards as an integral and linked part of the sustainability roadmap".

Petri Hofste
Supervisory board member at large Dutch companies

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Introduction: why does sustainability-linked remuneration matter?

Greater scrutiny of connections between executive pay and corporate sustainability performance is likely to be one result of the recently introduced EU Corporate Sustainability Reporting Directive (CSRD)[1] and the associated European Sustainability Reporting Standards (ESRS)[2].

Transparency of sustainability-linked board remuneration is now mandatory under the CSRD. What's more, the regulation obliges companies to disclose their sustainability-related impacts, risks and opportunities, thereby increasing pressure on boards to address them.

As a result, KPMG expects investors and other stakeholders to ask whether company executives are incentivized appropriately to drive the sustainable transformation of their organizations.

"The CSRD is not simply about reporting," says Mark Vaessen, Partner at KPMG in the Netherlands and Global Head of Corporate & Sustainability Reporting. "Its ultimate purpose is to drive changes in business practice. More transparent reporting increases accountability and helps financial institutions to direct capital towards greener businesses by providing them with reliable and comparable data on sustainability performance.

"Investors, lenders and other stakeholders want to know that management boards understand their organization's environmental, social and governance (ESG) impacts, risks and opportunities, and have effective strategies in place to manage them. They will therefore expect to see effective pay structures that motivate boards to transform their organizations sustainably."

In this context, researchers at KPMG Netherlands analyzed sustainability-related management remuneration at the 50 largest companies in the Netherlands. They also compared the results for the top 25 Dutch companies with the top 25 companies in the UK, Germany and Sweden.

This paper provides supervisory boards, management boards, investors, lenders and other stakeholders with fresh insights into the current strengths and weaknesses of remuneration schemes at Dutch companies as well as KPMG's recommendations on how they can be improved.

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[1] The Corporate Sustainability Reporting Directive (CSRD) requires companies to report on the impact of corporate activities on the environment and society, and requires the audit (assurance) of reported information. Further information: Delegated regulation - EU - 2023/2772 - EN - EUR-Lex (europa.eu)

[2] The European Sustainability Reporting Standards (ESRSs) are adopted as delegated acts by the European Commission as part of CSRD regulation to enable companies to publish separate sustainability statements as part of their management reports from 1 January 2024. This significantly affects the scope, volume and granularity of sustainability-related information that companies need to collect and disclose. At the time of publishing this paper, 12 ESRSs including two general standards and ten topical standards across the themes of Environment, Social and Governance have been issued. Further information: Delegated regulation - EU - 2023/2772 - EN - EUR-Lex (europa.eu)

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About this research: how we conducted the analysis

Researchers at KPMG Netherlands analyzed the management incentive structures of the top 50 companies on the Amsterdam Stock Exchange[3] as disclosed in the annual reports published in 2023. A list of the 50 companies and the sources can be found in Appendix I.

We asked the following questions:

- Is the Board of Management's remuneration linked to sustainability-related performance targets?
- If yes, which sustainability matters and what key performance indicators are included in the remuneration policy?
- How closely does the remuneration policy reflect the material sustainability matters identified by the company in its reporting?
- What is the balance between incentives based on short-term sustainability performance targets (1 year) vs long-term targets (more than 1 year)?
- What is the balance in variable remuneration between financial and non-financial/ sustainability performance?

ESRS topics and sub-topics were used as a framework for analysis (see Appendix II).

CSRD requirements for disclosure of sustainability-related management incentives

Under CSRD, companies must explain how sustainability-related performance is integrated into the incentive schemes of its governing bodies. Specifically, they must disclose:

i) The key characteristics of the remuneration scheme
ii) The use of sustainability-related targets and metrics in the remuneration policies
iii) The proportion of remuneration related to sustainability performance
iv) Who within the organization is responsible for approving management remuneration policy.

[3] At 31 July 2023

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Summary of key findings

01

A majority of the Netherlands' top 50 companies (41 companies - 82%) links management board remuneration to sustainability performance in some way. However, around one in five has not yet introduced any sustainability-related incentives for the Board of Management.

02

Remuneration is most commonly related to only two ESRS sustainability topics, namely climate change and the company's own workforce.

03

Very few companies base incentives on other ESRS sustainability topics such as circularity, biodiversity or human rights - even when companies identify such issues as highly important material matters in their own reporting.

04

Management performance is typically assessed only on a limited number of metrics that provide a narrow view of the company's overall sustainability performance. For example, only one in five companies (22%) has board performance targets for reducing Scope 3 GHG emissions (emissions in the value chain) even though these emissions must be disclosed under the CSRD and are rapidly attracting investor attention.

05

Similarly, when it comes to diversity, most companies incentivize executives only on the number of women in senior management and not on wider diversity metrics.

06

Of the 41 companies that incentivize their managements for sustainability performance, almost one third (12) set only short-term (12 month) performance targets, even though sustainable transformation requires long-term commitment from company management.

07

A majority of companies pays 20% or less of variable remuneration on the basis of sustainability performance; very few pay more than 30%.

08

The focus of large Dutch companies on ESRS E1 Climate Change (GHG emissions) and ESRS S1 Own Workforce (Diversity; employee engagement; health & safety) is also seen among the top companies in the UK, Germany and Sweden.

09

Companies in the UK, Germany and Sweden also demonstrate a similar lack of balance between short-term and long-term sustainability-linked incentives.

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KPMG's insights and recommendations

Just over 80% of large Dutch companies remunerate their management boards on the basis of both financial and non-financial or sustainability performance. However, remuneration structures do not yet reflect the breadth and complexity of the sustainable transformation challenge, our analysis finds.

Incentives should cover a wider range of sustainability matters

Executives' targets and performance indicators are largely limited to a small number of sustainability matters, with an emphasis on the few that are best understood and most easily measured such as Scope 1 and 2 GHG emissions, employee engagement scores, accident and injury rates, and the number of women in senior management.

Many incentive structures appear to turn a blind eye to sustainability matters that have been recognized as highly important for the company and its stakeholders, but are more difficult to measure and manage – such as circularity, biodiversity, human rights in the value chain and wider employee diversity metrics. A critical observer might say the bar is currently set too low. We see a similar pattern in the other countries analyzed for this report: the UK, Germany and Sweden.

CSRD has upped the stakes and increased urgency

To a point, this trend can be expected. Many companies are still evolving from the old world of corporate responsibility, where environmental and social issues were addressed voluntarily to enhance reputation, to the new world where sustainability is a non-negotiable regulatory and business necessity. It takes time for that transition to be fully understood let alone to manifest comprehensively in management remuneration.

But the CSRD and ESRS have upped the stakes and increased the urgency. Companies must now be transparent about their impacts on people and the planet, as well as the associated business risks and opportunities. As a result, management boards must now be accountable not only for improving those impacts, but also for mitigating the risks and catalyzing growth from the opportunities.

Sustainable transformation relies on determined and focused leadership

It is therefore crucial that company leaders are well incentivized; sustainable transformation cannot happen unless it is driven, with focus and determination, by those at the top of the company.

Investors, lenders and others are watching. Management remuneration provides insight into how well a company's leaders understand the organization's sustainability challenges and how serious they are about addressing them. Financial incentives that are clearly mapped to a comprehensive sustainable transformation strategy may help to win investor and lender confidence; cherry-picked performance metrics that reflect only part of the picture may become a cause for concern.

CSRD provides a starting point for remuneration structures

So what should companies do to ensure management remuneration structures are effective in encouraging sustainable transformation? KPMG recommends using the disclosure requirements and reporting process of the CSRD and ESRS as a starting point. Companies should be able to explain to their investors and other stakeholders how their leaders have been incentivized to deliver a coherent and comprehensive sustainable transformation strategy. This means that board remuneration should be related, clearly and directly, to the full breadth of the company's material sustainability impacts, risks and opportunities as identified and disclosed in the company's CSRD reporting. See Figure 1 below.

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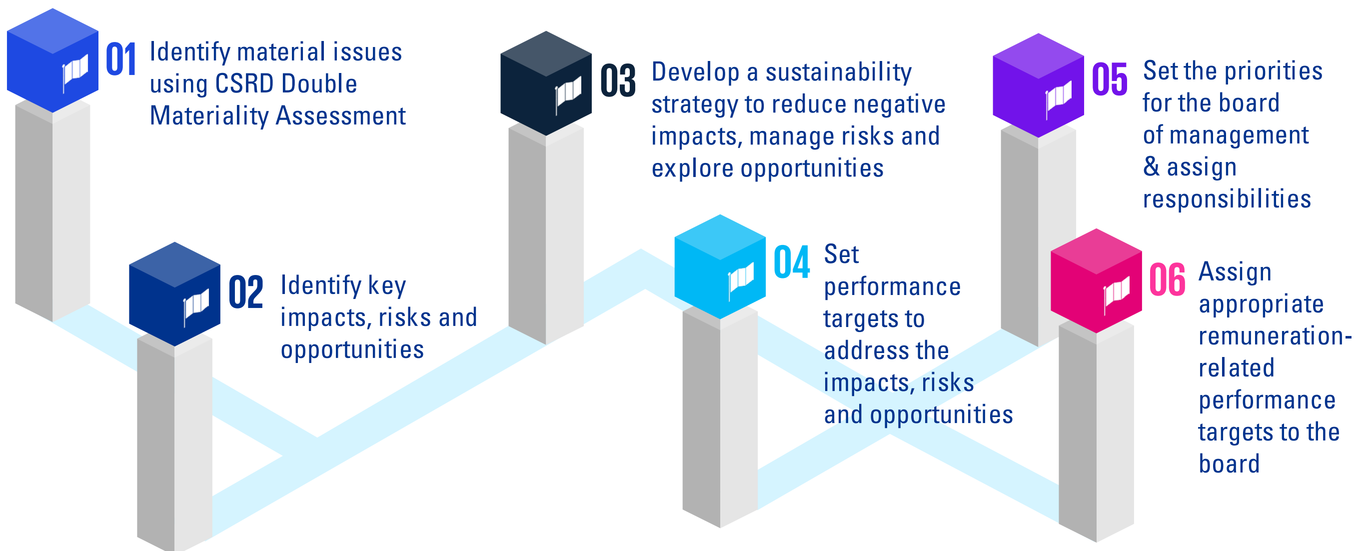
Figure 1:
Recommended roadmap for developing sustainability-linked remuneration incentives for management boards



Furthermore, the CSRD requires companies to disclose those material impacts, risks and opportunities across their entire value chains, not just within their own operations. Therefore, executives should be assessed on how they prevent or mitigate negative impacts, manage risks and pursue opportunities both upstream in the supply chain and downstream in the distribution, sale, use and disposal of products.

A balance between short-term and long-term incentives is ideal

Both short-term and long-term incentives should be in place. Sustainable transformation is by necessity an ongoing process implemented over multiple years. That means incentives need to take a long-term view. At the same time, short-term performance targets are also necessary to ensure milestones are reached, momentum is maintained and incremental progress is achieved.

The proportion of remuneration based on sustainability performance should be significant enough to provide a genuine incentive to executives and should align with the company's publicly stated purpose and sustainability ambition. In principle, the stronger the company's public sustainability commitment, the higher the board's sustainability-related remuneration should be. Currently, paying 30% or more of variable remuneration on the basis of sustainability performance will put companies at the front of the pack. However, paying 10% or less could send a signal of weak commitment to sustainability.

In practice, the strength and impact of the sustainability performance targets also comes into play here; paying 30% of variable remuneration on the basis of sustainability performance is only meaningful if the performance targets are strong.

Key questions for supervisory boards to ask

In conclusion, supervisory boards responsible for setting management board remuneration should ask:

- Is board remuneration clearly linked to a coherent sustainable transformation strategy based on the material impacts, risks and opportunities identified for CSRD reporting?
- Are performance metrics for sustainability up-to-date and relevant within the context of rapidly changing ESG regulation and market realities?
- Does remuneration incentivize results across the value chain and beyond the company's own operations?
- Are both short-term and long-term incentives in place?
- Is the ratio of incentives for financial vs non-financial performance sufficient to incentivize meaningful action on both?

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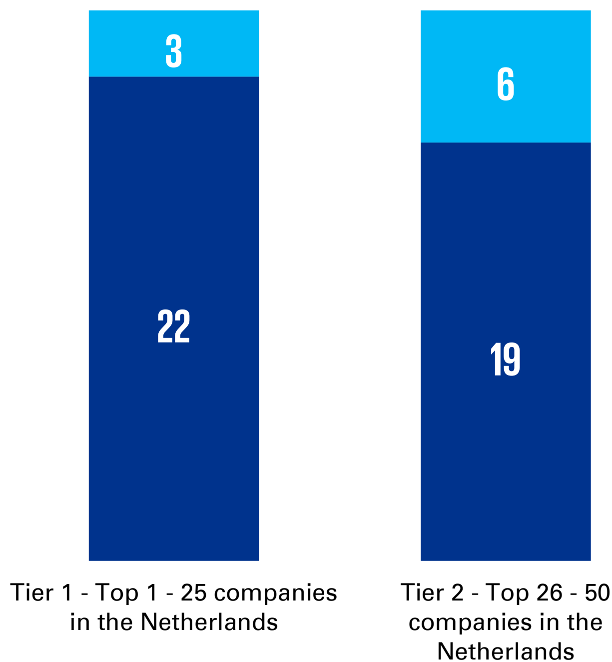
Detailed findings and KPMG commentary

Most major companies link remuneration to sustainability somehow, but some are slow to start

A significant majority of the top 50 Dutch companies (41 companies - 82%) links their management board's remuneration to sustainability in some way. The 25 companies with the highest market capitalization are slightly more likely to do so than the next tier of companies (ranked 26 to 50). See Figure 2 below.

While these may appear to be positive statistics, it is striking that almost one in five of the 50 companies (9) still has no leadership incentives related to sustainability performance.

Figure 2:
Number of Dutch companies with sustainability-linked remuneration incentives for the Board of Management



Base: Top 50 companies in the Netherlands

KPMG Viewpoint

The lack of sustainability-based remuneration at some large companies is a cause for concern

Let's be clear, these are not small businesses. On the contrary, they are the biggest companies in the Netherlands. Financial and other stakeholders can reasonably expect companies of this size to be leading the field rather than lagging behind. For some stakeholders, the total absence of sustainability-related incentives might raise questions about management commitment and capability when it comes to driving sustainable transformation at the organization."

Vera Moll
Director of Sustainability Reporting Advisory – KPMG Netherlands

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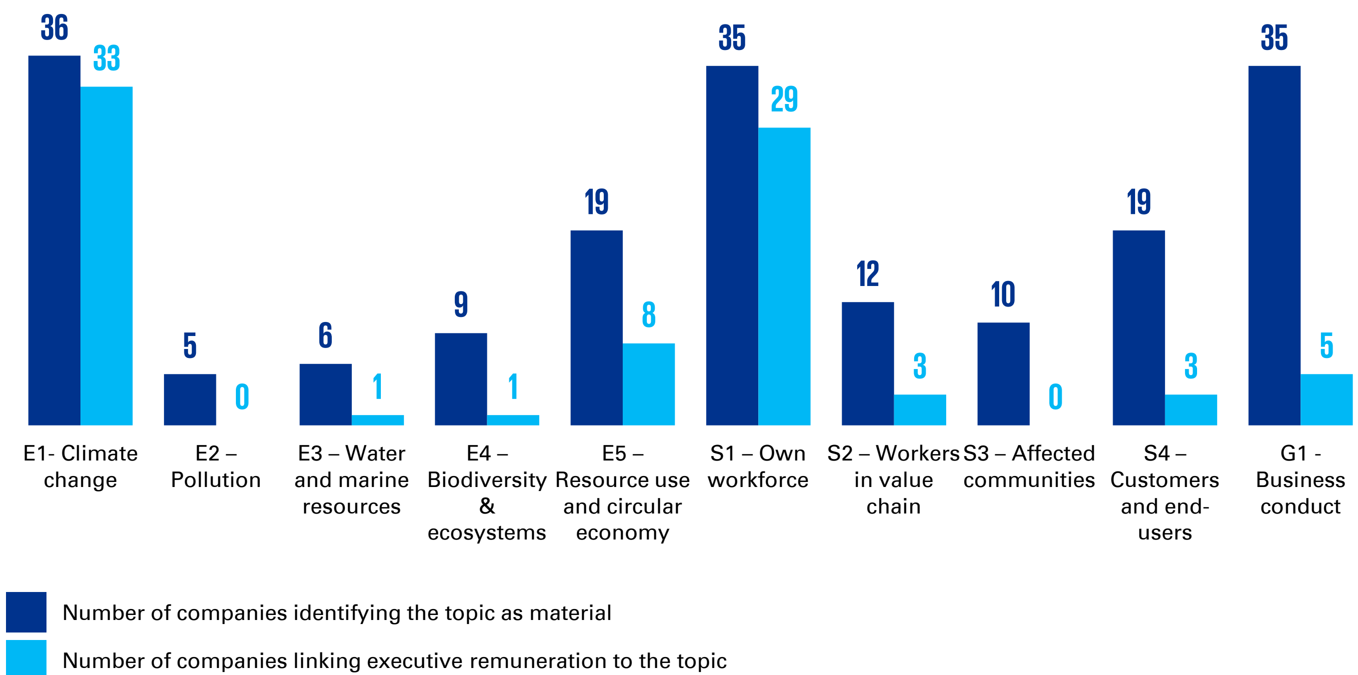
Executive pay does not fully reflect companies' sustainability priorities

At many companies, remuneration structures have a narrow scope in terms of sustainability. Board performance is typically assessed on a small number of sustainability topics that do not fully reflect the company's range of important material issues.

Climate change and the company's own workforce are the sustainability issues most commonly linked to executive pay.

Far fewer companies connect remuneration to other areas of sustainability – such as how the company affects workers in the value chain, local communities or biodiversity and ecosystems. This is the case even when the company's own analysis has identified such topics as "important material matters". See Figure 3 below.

Figure 3:
ESRS sustainability topics most commonly linked to executive remuneration



Number of companies identifying the topic as material

Number of companies linking executive remuneration to the topic

Figure 3 shows the number of top 50 Dutch companies that identify particular sustainability topics as "highly important material matters" vs the number that connect the same issues clearly to their management remuneration. For the purpose of this analysis, we defined the sustainability topics in line with current European Sustainability Reporting Standards (ESRS).

The analysis shows that executive pay at most companies only partially reflects the range of sustainability issues considered importantly material to the company and its stakeholders. For climate change and the company's own workforce, a high number (>85%) of companies that recognize the issue as material also link it to executive remuneration in some way.

However, when it comes to resource use and the circular economy, for example, less than half the companies that recognize the topic as importantly material also link it to executive pay. Similarly, ten companies recognize their impact on local communities as an important material issue, but none of them links the issue to executive pay.

Of the 35 of the 50 companies that identify business conduct as a highly important sustainability issue, only five of them clearly link it to management remuneration.

Mark Vaessen of KPMG, says: "The ESRS for business conduct includes sub-topic matters such as corporate culture, compliance with laws and regulations, and the management of relationships with suppliers including payment practices. Many of these are difficult to quantify and this may be one of the reasons why they are often not included in non-financial remuneration performance indicators. Furthermore, some may be reflected in financial performance indicators; non-compliance, for example, may be reflected in financial performance indicators due to its financial effects through fines and legal settlements."

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Board-level sustainability performance metrics are limited and have gaps

As noted in the previous section, only two ESRS sustainability topics are connected to board remuneration by a majority of top Dutch companies: climate change and the company's own workforce.

When we looked at how these companies assess board performance in these areas, we found that success is evaluated primarily on a small number of tried-and-tested metrics with some conspicuous gaps. This limited approach to assessment and incentivization could lead management boards to take an overly narrow view of their performance in these areas. See Figure 4 in next page.

Few companies link executive pay to Scope 3 GHG emissions

While 30 of the top 50 companies (60%) incentivize their management boards on GHG emissions reduction, only 11 (22%) link executive pay to the reduction of Scope 3 emissions. See Figure 4 below.

Scope 3 emissions are those that are not emitted directly by the company or its energy providers, but elsewhere in its value chain – i.e. by its suppliers or in the use and disposal of its products. Disclosure of Scope 3 emissions is being introduced as a mandatory obligation for companies subject to CSRD.

Assessment of diversity performance focuses primarily on women in senior management

Board performance on the ESRS topic of the company's own workforce is most commonly assessed in three areas: diversity (17 companies), employee engagement (15 companies) and health and safety (14 companies).

Performance in employee engagement and health and safety is typically evaluated using widely-used and accepted measurement methodologies such as employee engagement scores, injury rates and lost work hours.

When it comes to diversity, the most common board performance metric by far is the number of women in senior management (this metric is applied by 13 of the 17 companies with diversity-related board incentives). See Figure 4 in next page.

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Figure 4:

Metrics most commonly used to assess board performance on sustainability

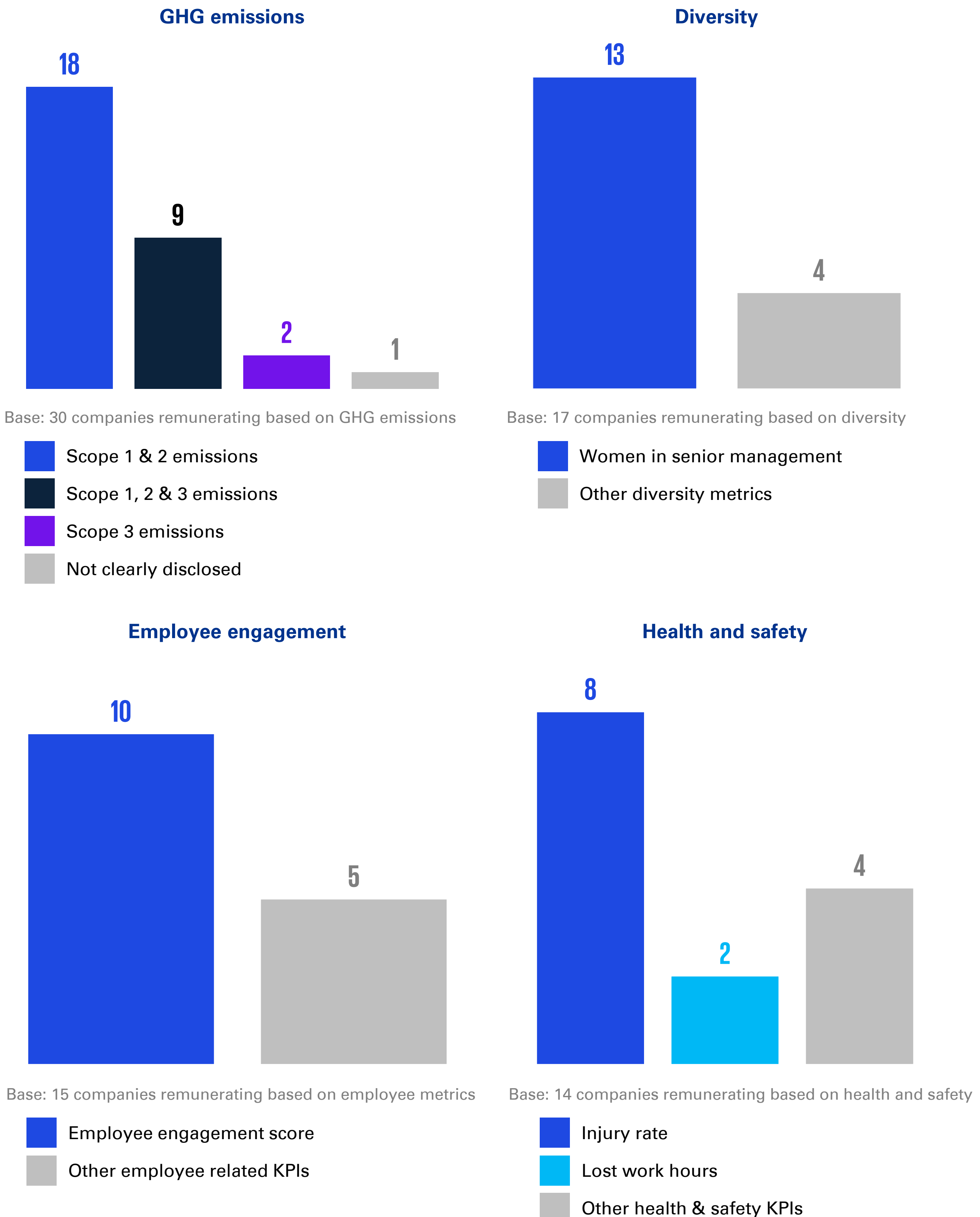

Figure 4 shows how top Dutch companies assess management performance on GHG emissions, diversity, employee engagement, and health and safety. GHG emission performance targets are in place at 30 of the 50 companies (60%) but only 11 companies link executive pay to Scope 3 emissions.

There are 17 companies among the top 50 (33%) that connect board remuneration to diversity. Almost all of these (13) use women in senior management as the sole measurement of performance. Only 4 companies (8%) have any other diversity performance metric in place at board level.

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KPMG Viewpoint

Boards need to get to grips with Scope 3 as quicky as possible

For many organizations, Scope 3 actually represents the bulk of the emissions for which they are responsible. But, until now, these emissions have largely escaped attention due to low rates of transparency.

What has changed is that CSRD is shining a light on Scope 3 emissions. So we expect this issue to attract a great deal more scrutiny from shareholders, lenders, customers and other groups like climate campaigners and activists.

It's therefore imperative for boards to pay urgent attention to their company's Scope 3 emissions. That means ensuring accurate measurement and putting strong strategies in place to reduce them. In that context, it is surprising and a little concerning to see that so few companies have so far addressed Scope 3 emissions in their executive pay structures."

Charbel Moussa
Partner Climate Change & Decarbonization – KPMG Netherlands

Women in senior management is not the only measure of diversity

I am surprised and concerned that only one-third of top companies incentivizes their management on diversity performance. What's more, while women in senior management is an important indicator of diversity, it is by no means the only one. Diversity, Equity and Inclusion (DEI) is maturing rapidly as a sustainability topic and other commonly-used indicators include gender and racial diversity across the entire organization; equity of pay; representation and retention of minority groups in the workforce and many others.

It is not practical to build all these indicators into the pay structures of senior executives; many responsibilities must be passed to the HR function. However, there is a clear opportunity here for companies to send a stronger message that they understand the importance of the diversity issue across their organizations and are serious about addressing it."

Vera Moll
Director of Sustainability Reporting Advisory – KPMG Netherlands

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A note on company-specific performance metrics

Around one quarter of the companies that base executive pay partly on sustainability (12 of 41 companies) have some company-specific performance indicators and targets in place.

These include, for example, performance targets based on improving the company's place in ESG indices, contributing to the Sustainable Development Goals (SDGs) or achieving targets in the company's own corporate responsibility plan.

While many of these performance metrics and targets may result in positive sustainability outcomes, they do not always provide investors and other stakeholders with clear and comparable information to support decision-making. KPMG therefore recommends that sustainability performance metrics and targets are connected as clearly as possible to the material ESG impacts, risks, opportunities and strategies disclosed in CSRD reporting.

KPMG Viewpoint

Why are remuneration schemes limited in scope when it comes to sustainability?

Connections between sustainability performance and management remuneration are currently limited for several reasons.

Firstly, introducing sustainability-related incentives at leadership level requires culture change. Sustainability or non-financial performance has not traditionally been a management board responsibility. In fact, for decades if not centuries, senior executives have been incentivized almost exclusively on achieving financial targets, with some non-financial responsibilities passed to other functions like HR or Corporate Sustainability."

This is changing with growing interest in ESG, the introduction of new European policies to drive sustainable transformation, and associated regulations such as the CSRD. Responsibility for non-financial or sustainability performance is now shifting clearly to leadership level, but some companies are quicker than others to recognize and embrace this trend.

A related challenge is the sheer number and complexity of sustainability matters that fall under the umbrella term of ESG. There are literally dozens of different ESG performance indicators that can be used to measure corporate sustainability performance. It is neither possible nor practical to reflect them all in executive pay plans."

Mark Vaessen
Partner and Global Head of Corporate & Sustainability Reporting – KPMG Netherlands

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KPMG Viewpoint

It is therefore a balancing act to ensure executive remuneration reflects the breadth of issues material to the company's sustainable transformation without becoming cumbersome, overly complex or impractical. Companies must decide which sustainability performance indicators are most relevant to include in management remuneration schemes and which should be applied to other roles such as the Chief Sustainability Officer.

Thirdly, there is the matter of maturity, knowledge and experience across the spectrum of sustainability material matters. Most large companies today are likely to have a sound basic understanding of greenhouse gas (GHG) emissions and certain issues related to their workforce, such as diversity. There are well-developed and widely-accepted methods in place to measure corporate performance in such areas.

But many companies are not so well equipped to assess their own performance when it comes to other sustainability topics such as circularity or biodiversity. Methodologies to calculate baselines, set targets and measure progress in such areas are typically less mature and less widely adopted.

So, while many companies may recognize such matters as highly important and material to the company and its stakeholders, many are simply not yet ready or able to set and achieve meaningful and measurable performance targets at leadership level.

That said, I predict that management remuneration schemes for sustainability performance will need to become more sophisticated and comprehensive as the use of CSRD reporting becomes established in coming years.

The intention behind the CSRD is to give investors, lenders and other stakeholders a complete, consistent and comparable picture of companies' ESG impacts, risks and opportunities so they can factor that information into their decision-making.

It stands to reason, therefore, that they will expect executive pay to be linked, clearly and directly, to the company's complete sustainability strategy rather than to a limited set of issues that are the easiest to measure.

Executive incentives need to evolve to be more clearly connected with the improvement of social and environmental impacts, the avoidance or mitigation of sustainability risks, and the development of strategic sustainability-related growth opportunities. Such an approach would be well aligned with the CSRD framework, but our analysis shows that most companies do not yet have such direct links in place."

Mark Vaessen
Partner and Global Head of Corporate & Sustainability Reporting – KPMG Netherlands

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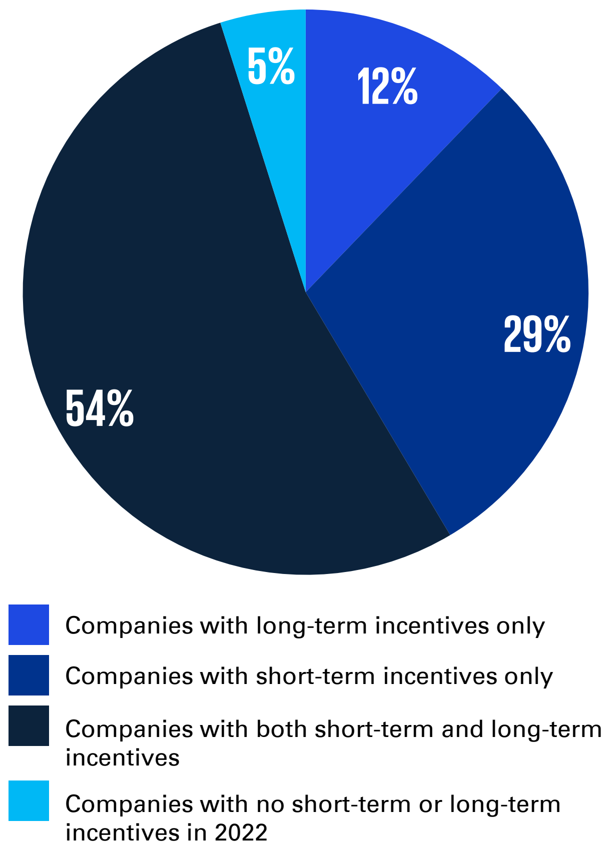
Around one third of companies lack long-term incentives for sustainable transformation

Of the 41 companies connecting executive pay to sustainability performance, around half (22 companies - 54%) pay board incentives based on a mixture of both short-term and long-term targets[4]. However, a significant number (12 companies - 29%) currently base sustainability-related pay only on short term targets. See Figure 5 below.

Figure 5:

Short-term vs long-term sustainability-related performance targets



- Companies with long-term incentives only
- Companies with short-term incentives only
- Companies with both short-term and long-term incentives
- Companies with no short-term or long-term incentives in 2022

Base: 41 companies remunerating the management board based on sustainability performance
Note: Two companies have sustainability-related incentives in place but did not award any in 2022 due to company-specific circumstances.

KPMG Viewpoint

A balanced approach makes most sense

Short-term targets are essential to maintain focus on immediate priorities and ensure there is momentum in sustainable transformation year-to-year. However, delivering real progress on sustainability is inevitably a longer-term undertaking. It requires continuous and incremental effort over many years. That's why a well-crafted balance of both short-term and long-term sustainability performance targets is the ideal scenario for management remuneration schemes."

Menno Kooistra
Partner and Head of ESG Advisory – KPMG Netherlands

[4] For the purpose of this analysis, "short-term" is defined as a 12 month timeframe. "Long-term" is defined as more than 12 months with 3 to 5 years being the typical long-term incentive timeframe applied by the companies under scope of this study.

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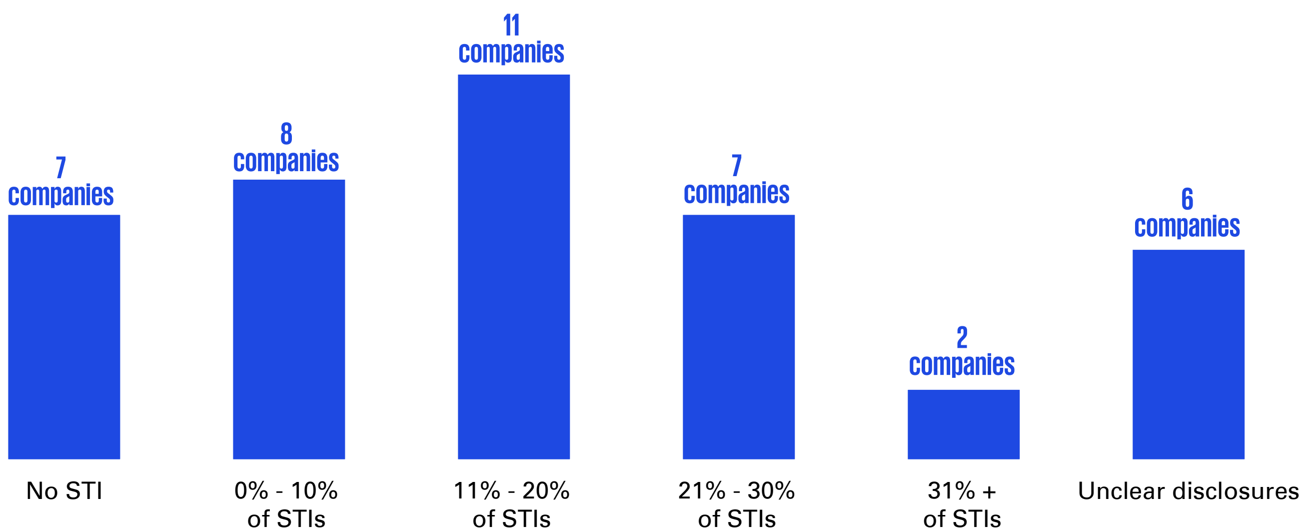
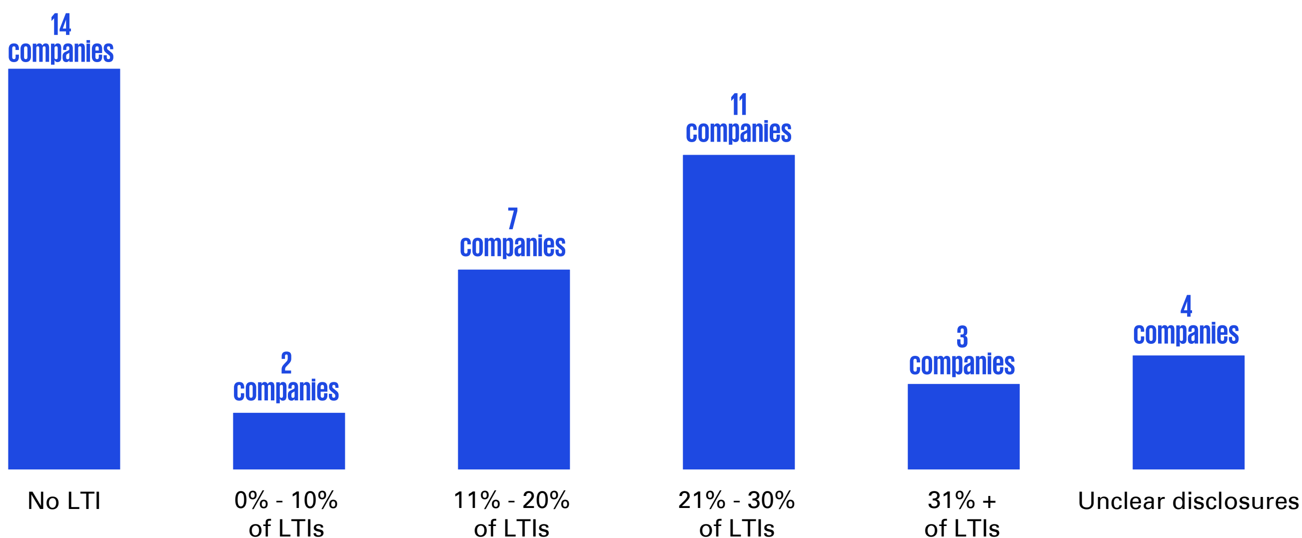
Sustainability accounts for one fifth or less of variable pay at most companies

At the majority of top Dutch companies, sustainability-related performance currently accounts for one fifth or less of variable executive pay; financial performance accounts for 80% or more. This trend is seen in both short and long-term incentive structures. See Figure 6 below.

Figure 6:
Share of variable pay linked to sustainability performance



Base: 41 companies remunerating the board based on sustainability performance



Base: 41 companies remunerating the board based on sustainability performance

Figure 6 shows that very few companies currently link 30% or more of executive incentives to sustainability. When looking at short-term incentives specifically, almost two thirds of the 41 companies (26) either link 20% or less of total incentives to sustainability or offer no sustainability-linked short-term incentives. The picture is similar when it comes to long-term incentives: over half the 41 companies (23) either link 20% or less to sustainability or offer no sustainability-linked long-term incentives at all.

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KPMG Viewpoint

Executive pay sends a strong signal on corporate commitment to sustainable transformation

The ideal balance of incentives between financial and sustainability performance depends on factors including the strength of the company's ESG ambition and the urgency of its sustainable transformation.

I expect to see a greater share of incentives related to sustainability in coming years, but I don't think there is an ideal ratio that applies to every company. We might say that every company should allocate a minimum of 25% of leaders' variable pay based on sustainability, but that might seem low for a company that claims to be purpose-driven. Similarly, we might expect to see a higher weighting towards sustainability at companies with an urgent need to transform in order to meet new sustainability-related regulations.

If a company wants to be seen as serious about sustainable transformation, then putting a greater emphasis on sustainability performance in executive pay is a good way to do it. Right now, that means paying 30% or more of incentives on the basis of sustainability performance and setting quality targets that are relevant to the company's sustainability strategy. Very few companies are there yet."

Emily Condack
Director ESG Governance –
KPMG Netherlands

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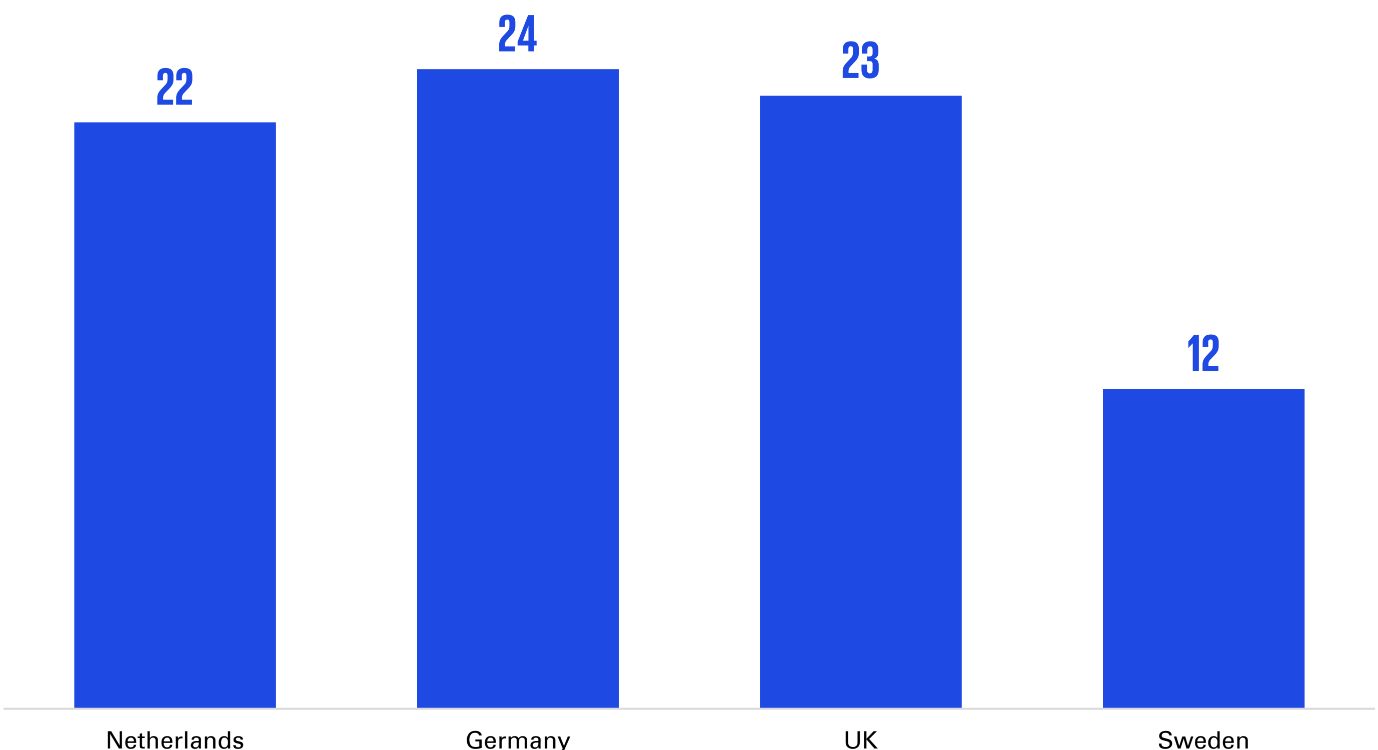
How do Dutch companies measure up against companies in other countries?

We compared results from the top 25 Dutch companies with analysis of the top 25 companies in three other European countries - Germany, the UK and Sweden. Our key observations are as follows:

Sustainability-linked remuneration is less common among large Swedish companies

Almost all the top 25 companies in the Netherlands, Germany and the UK have some sort of sustainability-linked remuneration in place for their management boards. See Figure 7 below.

Figure 7:
Number of top 25 companies with sustainability-linked management remuneration



Base: Top 25 companies in each country by market capitalization

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Board remuneration is focused on a limited number of sustainability topics

As explained earlier in this paper, sustainability-based remuneration for Dutch companies is almost exclusively focused on ESRS E1 Climate Change (GHG emissions) and ESRS S1 Own Workforce (Diversity; employee engagement; health & safety). The same pattern is also seen in the three other European countries we studied.

Executive pay is not connected clearly or directly to any of the other ESRS environmental or social topics, except in the UK and Sweden where a handful of companies base management pay partly on waste-related performance targets (ESRS E5 Resource Use & Circular Economy). See Figure 8 below.

Figure 8:
Sustainability topics most commonly linked to board remuneration

	Netherlands	Germany	UK	Sweden
1.	GHG emissions	GHG emissions	GHG emissions	GHG emissions
2.	Diversity and inclusion	Employee engagement	Miscellaneous metrics	Miscellaneous metrics
3.	Employee engagement	Diversity & inclusion	Diversity & inclusion	Diversity & inclusion
4.	Health & safety	Miscellaneous metrics	Health & safety	Health & safety
5.	Miscellaneous metrics	Health & safety	Waste	Employee engagement; circularity/waste

Figure 8 shows the 5 sustainability topics most commonly connected to executive pay in each of the countries studied.

GHG emissions is the most commonly incentivized area of sustainability performance for company leadership in all four countries. Diversity & inclusion, employee engagement and health & safety also feature in the top 5 remunerated topics in all four countries.

It is also common to see management boards remunerated for miscellaneous sustainability metrics that are not clearly connected to any particular ESRS and therefore provide limited comparability. Such miscellaneous metrics include the company's ranking in ESG indices, contribution to the Sustainable Development Goals (SDGs) or performance against company-specific corporate responsibility programmes. In Sweden and the UK, miscellaneous metrics are the second most common metric for measuring board performance on sustainability.

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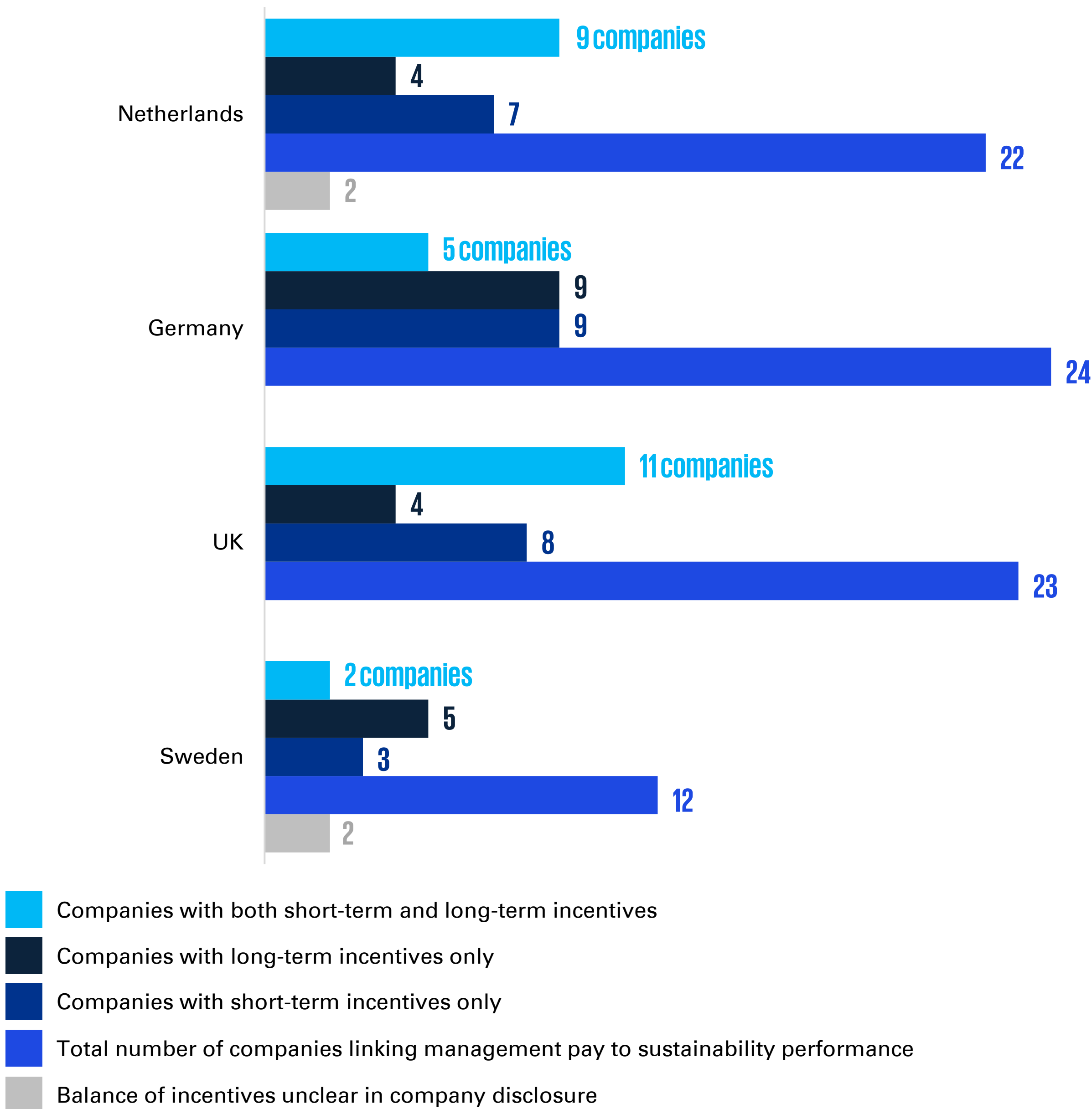
Balance between short and long-term performance targets can be improved in all four countries

KPMG experts believe the best approach is to base remuneration incentives on a mix of short and long-term sustainability performance targets. However, in all four countries studied, less than half the companies with sustainability-linked remuneration have such a balance in place. UK and Netherlands companies are more likely to mix short-term and long-term incentives than companies in Germany or Sweden. See figure 9 below.

Figure 9:

Balance between short-term and long-term incentives for sustainability performance



Base: Top 25 companies in each country by market capitalization

Figure 9 shows that the ideal balance between short-term and long-term sustainability incentives is lacking at many companies across all four countries. Such a balance is most likely to be found in the UK where 11 of the top 25 companies have both short-term and long-term incentives in place for their management boards.

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Appendix

APPENDIX I

Companies analyzed for this study

Netherlands

S.No	Company	Sector
1	ABN AMRO Bank	Banking
2	Adyen	Industrial support and services
3	Aegon	Insurance
4	Ahold Delhaize	Retail - personal care, drug and grocery stores
5	Akzo Nobel	Chemicals
6	Arcelor Mittal	Industrial metals and mining
7	ASM International	Technology hardware and equipment
8	ASML Holding	Technology hardware and equipment
9	ASR Nederland	Insurance
10	BE Semiconductor Industries	Technology hardware and equipment
11	DSM-Firmenich	Food producers
12	Exor	Investment banking and brokerage services
13	Heineken	Beverages
14	IMCD	Chemicals
15	ING Groep	Banking
16	Royal KPN N.V.	Telecommunications service providers
17	Nationale Nederlanden (NN Group)	Insurance
18	Koninklijke Philips	Medical equipment and services
19	Prosus	Software and computer services
20	Randstad	Industrial support services
21	RELX	Media
22	Shell	Oil, gas and coal
23	Universal Music Group	Media
24	Unilever	Personal care, drug and grocery stores
25	Wolters Kluwer	Media
26	Aalberts	Electronic and electrical equipment
27	Air France-KLM	Travel and leisure
28	Alfen	Electronic and electrical equipment
29	Allfunds Group	Finance and credit services
30	AMG Critical Materials	Industrial engineering
31	Aperam	Industrial Metals and Mining
32	Arcadis	Construction and Materials
33	Basic-Fi	Travel and Leisure
34	Corbion	Food producers
35	CTP	Real Estate Investment and Services
36	Euro commercial Properties	Real estate investment trusts
37	Fagron	Medical Equipment and Services
38	Flow Traders	Investment Banking and Brokerage Services
39	Fugro	Construction and Materials
40	Galapagos	Pharmaceuticals and Biotechnology
41	InPost	Industrial transportation
42	JDE Peet'	Beverages
43	Just Eat Takeaway.com	Software and Computer Services
44	OCI	Chemicals
45	SBM Offshore	Oil, Gas and Coal
46	Signify	Construction and Materials
47	TKH Group (TKH)	Electronic and Electrical Equipment
48	Van Lanschot Kempen	Banking
49	Vopak	Industrial transportation
50	Warehouses De Pauw	Real estate investment trusts

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Germany

S.No	Company	Sector
1	SAP	Software application
2	Siemens	Specialty industrial machinery
3	Airbus	Automotive and mechanical engineering
4	Deutsche Telekom	Telecom services
5	Allianz	Insurance
6	Mercedes-Benz Group (ex Daimler)	Auto manufacturer
7	BMW St	Auto manufacturer
8	Münchener Rück	Insurance
9	Siemens Healthineers	Diagnostics & research
10	Deutsche Post DHL	Integrated freight and logistics
11	Bayer	Drug manufacturers
12	Porsche AG Vz.	Auto manufacturer
13	Infineon	Semiconductors
14	BASF	Chemicals
15	Adidas	Foot ware & accessories
16	E.ON	Utilities
17	Deutsche Börse	Financial data and stock exchange
18	Beiersdorf	Household and personal products
19	Daimler Truck	Farm and heavy construction machinery
20	RWE	Utilities
21	Hannover Rück	Insurance
22	Volkswagen Vz	Auto manufacturers
23	Merck KGaA	Drug manufacturers
24	Deutsche Bank	Banking
25	Vonovia	Real-estate services

Sweden

S.No	Company	Sector
1	Atlas Copco	Specialty industrial machinery
2	Investor	Asset management
3	Volvo	Farm & Heavy Construction Machinery, Auto manufacturer
4	EQT	Asset management
5	Evolution	Entertainment
6	Skandinaviska Enskilda Banken	Banking
7	Sandvik	Specialty industrial machinery
8	ASSA ABLOY	Security & protection services
9	Hexagon	Scientific & technical instruments
10	Hennes & Mauritz, H & M	Apparel manufacturing
11	Epiroc Aktiebolag	Farm & heavy construction machinery
12	AstraZeneca	Pharmaceuticals
13	Swedbank	Banking
14	ABB	Electronic and Electrical Equipment
15	Svenska Handelsbanken	Banking
16	Essity	Retail – health and hygiene
17	Ericsson, Telefonab	Communication equipment
18	Nordea Bank	Banking
19	NIBE Industrier	Construction and materials
20	Alfa Laval	Specialty industrial machinery
21	Industrivärden,	Asset management
22	Latour, Investment	Asset management
23	Svenska Cellulosa SCA	Lumber and wood production
24	SKF	Tools & accessories
25	Lifco	Conglomerates

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UK

S.No	Company	Sector
1	Shell	Oil, gas and coal
2	Glencore	Oil, gas and mining
3	BP	Oil and gas
4	HSBC Holdings	Finance
5	Unilever	Consumer goods
6	Rio Tinto	Mining
7	Barclays	Finance
8	AstraZeneca	Pharmaceuticals
9	Compass Group	Food service company
10	GlaxoSmithKline (GSK)	Pharmaceuticals
11	Anglo American	Mining
12	British American Tobacco	Tobacco
13	Lloyds Banking Group	Banking and finance
14	National Grid	Utilities
15	BAE Systems	Defense and security
16	DIAGEO	Beverages
17	RELX	Communication
18	LONDON STOCK EXCHANGE GROUP	Finance
19	RECKITT BENCKISER GROUP	Consumer goods
20	HALEON	Consumer health care
21	EXPERIAN	Information services
22	ROLLS-ROYCE HOLDINGS	Aerospace and auto manufacturing
23	FLUTTER ENTERTAINMENT	Entertainment
24	3I GROUP	Private equity
25	Tesco	Retail

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APPENDIX II

European Sustainability Reporting Standards (ESRS) topics

ESRS topics	Examples ESRS sub-topics and sub-sub topics
E1 – Climate change	GHG emissions, energy, climate change/action
E2 – Pollution	Pollution of air, water, soil, and noise. Substances of (very high) concern
E3 – Water and marine resources	Water withdrawal, consumption and discharge
E4 – Biodiversity & ecosystems	Land use change, water use change, sea use change, Invasive alien species, species extinction
E5 – Resource use and circular economy	Resource inflow, resource outflow, waste
S1 – Own workforce	Diversity & inclusion, health & safety, Equal pay, collective bargaining, child labor, forced labor
S2 – Workers in value chain	Diversity & inclusion, health & safety, Equal pay, collective bargaining, child labor, forced labor
S3 – Affected communities	Land related impacts, freedom of expression, cultural rights, free and prior consent
S4 – Customers and end-users	Customer health and safety, freedom of expression, responsible marketing
G1 - Governance	Business ethics and integrity, corporate culture, compliance, payment practices, corruption, whistle blowers, political engagement

Source: Annex 1: Commission Delegated Regulation (EU) 2023/2772 Delegated regulation - EU - 2023/2772 - EN - EUR-Lex (europa.eu)

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