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PHASED APPROACH

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Kenanga Research says four in five companies on FTSE Bursa Malaysia KLCI have laid out their linkage between remuneration and sustainability

ASILA JALIL
KUALA LUMPUR
bt@nst.com.my

MALAYSIAN companies are expected to link sustainability goals with executive remuneration by phases.

The link came under scrutiny in the United States following some walkbacks by large US companies, the latest being Apple.

Kenanga Investment Bank Bhd (Kenanga Research) said at least four in five companies on the FTSE Bursa Malaysia KLCI have laid out their linkage between remuneration and sustainability.

"We expect the adoption of tying sustainability to pay will be widened to beyond the board and senior management. The pace of adoption would, nevertheless, be varied as some firms take a phased-in approach."

Kenanga Research said some companies have been phasing in the adoption of environmental, social and governance (ESG) aspects, particularly climate-related measures, as in the case of Tenaga Nasional Bhd.

The utility giant aims to implement a phased-approach linking remuneration to key ESG key performance indicators (KPI) and climate-related disclosures in line with the IFRS S2 reporting recommendations, having already subjected C-suite level staff to climate KPIs so far.

"Drawing another example from the plantation sector, SD Guthrie Bhd disclosed that it had implemented the group ESG scorecard in 2022, but only for upstream operations.

"There have also been firms that took a more cautious stance not to hold employees accountable before the corporation is ready.

"PPB Group Bhd's approach is to wait for the fact that there should be sufficient data to em-

bark on this at the management level, which we interpret will be implemented once there is more information," it added.

While historically the accountability has been in the domain of C-suite personnel, firms are starting to cascade this downwards.

Among the companies that have taken this approach are Press Metal Aluminium Holdings Bhd, where its ESG remuneration framework was for management personnel, C-suite members and heads of divisions and departments (2024) and would have been from 2025 expanded to a wider range of roles.

"Some organisations have created sustainability KPI for the entire division, such as for CIMB Group Holdings Bhd where a bonus funding pool over an entire division is tied in to sustainability-related KPI.

"Other firms that have imposed the KPI on employees at large, we observe, typically would prescribe a lighter burden of a smaller percentage weighting versus executives, such as in the case of Hong Leong Bank Bhd prescribing a weight of five per cent for employees," said Kenanga Research.

It said a popular move is to incorporate ESG elements as part of the KPI for senior management's long-term incentive plans.

"This is exemplified by Axiata Group Bhd's senior leadership, whereby remuneration in its incentive plan incorporates both emissions reduction and workplace diversity.

"We also see that in the banking space. ESG KPIs have been integrated into the vesting criteria for senior management for Malayan Banking Bhd, hand-in-hand with traditional financial metrics. To elaborate, long-term performance usually could manifest in equity-based variable pay structures, which are popular among banks," it said.