

Not Affected by One Bad Apple

Examining the trend of linking ESG to remuneration in large cap firms

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Linking executive remuneration to sustainability goals has come under scrutiny with some walk-backs on this stance by large US companies, the latest being Apple. We take the opportunity to examine top firms in Malaysia represented in the FBM KLCI with regard their journey in embedding climate/ESG attainment into executive pay.

By our count, at least 4 in every 5 FBM KLCI counters already lay out their linkage between remuneration and sustainability (for FBM KLCI stocks and extracts regarding executive pay tied to ESG, please see exhibit 3). Even so, we expect the adoption locally of tying sustainability to pay will be continually widened to beyond the board and senior management. The pace of adoption style would be, nevertheless, be varied as some firms taking a phased in approach.

We expect more disclosures ahead of remuneration tied in with ESG. Firms that have disclosed executive remuneration tied into sustainability may have greater shareholder alignment and therefore headstart in materializing their ESG goals. Among them would be GAMUDA, SUNWAY, IOICORP, MRDIY, HLBANK and AMBANK (exhibit 1). Presently, about 5-20% of their remuneration is linked to sustainability.

ESG-linked remuneration saw some pull-back in US corporations. Back in 2021 Apple announced that 10% of its executive bonuses would be based on ESG initiatives, such as greenhouse gas reductions. Therefore, news ([link](#)) this week that Apple it is cutting back on commitment to this bonus “modifier” tied into ESG is a stance reversal. This follows Starbucks Corp (in November 2025, it dissolved a board committee that oversaw labour relations, environment and social initiatives) and other companies that have recently watered down ties between climate/ESG achievements and payout to their executives.

The above development prods us to examine our own Malaysian heavyweight stocks and their own journey so far. The information below are sourced from latest available corporate governance report and sustainability report disclosures which provides comparability but at risk of being not fully up to date as corporates continuously improve on disclosures.

1. Traditionally tied in with C suite, we see widened adoption

Started since around 2021, we estimate 4 out of 5 firms have made clear some linkage of pay to sustainability. We observed that most of these large companies had begun to incorporate sustainability into KPI and remuneration as early as 2021 and some in 2022. Initially with setting the framework, typically the task of the Board of Directors, today most are at implementation phase. Canvassing the 30 FBM KLCI companies, we count at least 80% of firms already giving out information that their senior management or directors have a link between their remuneration with sustainability (see exhibit 3). We have not noted specific sustainability-linked pay disclosures for **KLK** (OP; TP: RM24.00), **PPB** (OP; TP: RM12.50), **PETGAS** (MP; TP: RM18.70), and **YTLPOWR** (OP; TP: RM4.40), among them. Typically, rewards linked to sustainability could manifest in terms of an employee’s variable pay portion, or the profit-sharing portion (e.g. in the case of senior management and directors in **QL**).

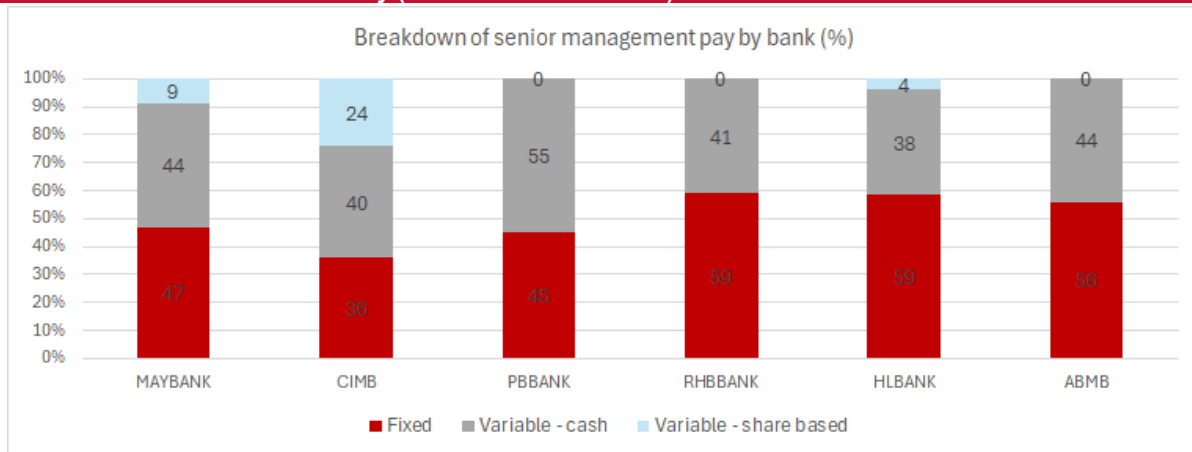
Locally, ESG been tied in to C-suite traditionally, but this has been expanding. While historically the accountability has been in the domain of C-suite personnel, firms are starting to cascade this downwards. In the case of **PMETAL** (MP; TP: RM6.20), ESG remuneration framework had been for management personnel, C-Suite members and heads of divisions and departments (2024) and would have been from 2025 expanded to wider range of roles. Some organizations also have created sustainability KPI for the entire division (rather than just at individual levels), such as for **CIMB** (MP; TP: RM8.45) where bonus funding pool over an entire division is tied in to sustainability-related KPI. Other firms that have already imposed KPI to employees at large, we observe, typically would prescribe a lighter burden of a smaller percentage weighting versus executives, such as in the case of **HLBANK** (MP; TP: RM25.95) prescribing a weight of 5% for employees (and a higher 15% for seniors executives).

Firms could leverage ESG KPI to achieve specific outcomes. Among our sample, a balanced scoreboard method has been popular, especially among banks, but seen in other sectors as well. Some have linked pay to specific areas of business. One common motivation is to reduce greenhouse gases as adopted by both **PETDAG** (MP; TP: RM21.20) and **QL** (MP; TP: RM4.26). Meanwhile, **SUNCON** (OP; TP: RM6.50) linked performance specifically to Operational, Health and Safety to start (and will be expanded to other areas later). Occasionally, the yardstick of success beyond impact to companies themselves, especially for banks tying rewards with supply chain impact. To illustrate, CIMB emphasizes development and maintenance of sustainable supply chain, cybersecurity and data protection, and holds itself accountable to the success of its clients meeting environmental and social action plans.



A way to instill long-term mindset. It is popular that for long-term incentive plans (LTIP) for senior management, part of the KPI would incorporate ESG elements. This is exemplified by **AXIATA's** (MP; TP: RM2.70) senior leadership, whereby remuneration in its incentive plan incorporates both emissions reduction, and workplace diversity. Likewise, we see that in the banking space. ESG KPIs have been integrated into the vesting criteria for senior management LTIP for **MAYBANK** (OP; TP: RM12.35), hand in hand with traditional financial metrics such as ROE and relative total shareholder earnings. To elaborate, long-term performance usually could manifest in equity-based variable pay structures, which are popular among banks. Exhibit 1 below shows breakdown of senior management pay into equity components based on latest corporate governance reports, highlighting **CIMB**, **MAYBANK** and **HLBANK**.

Exhibit 1: Mix of Fixed and Variable Pay (Cash and Share-Based) for Banks



Source: Kenanga Research, Latest published corporate governance reports

PBBANK - refers to senior management staff (excluding Managing director and CEO). **CIMB** - Senior officers of the group that are defined as the Group CEO, EDs and members of Group EXCO and key direct reports of the Group CEO. **MAYBANK** - senior officers defined as members of the group exco, group chief compliance officer, group chief audit executive, group general counsel, and company secretary, and Group chief sustainability officer; does not include President and Group CEO. **RHBBANK** - Key senior management officers. **HLBANK** - senior management team (including GMD/CEO). **ABMB** - senior management including group CEO and group management committee

2. 5-20% of management KPI are tied in to sustainability criteria

SUNREIT, GAMUDA appears to have more ESG/Climate skin in the game. Among those that have disclosed their accountability levels of pay linked to sustainability, we observe this ranges from 5% to 20%. From our small sample, at the higher end of the range, this would include the likes of **GAMUDA** (c.20%) (OP; TP: RM5.30) and **SUNREIT** (c.25%) (UP; TP: RM2.28). Still, some firms are naturally aligned with parent group ESG metrics - **NESTLE** (MP; TP: RM99.20) is one, being aligned with Nestle S.A; at the parent level CEO and CFO, 15% of performance targets are specifically linked to ESG. A selection of firms, which have given colour on executive pay tied in with sustainability cuts across sectors, and are as follows:

Exhibit 2: Companies that have explicitly shared weightages for KPIs relating to ESG/Climate

No.	Company	Remarks
1	GAMUDA	Sustainability-related performance contributes an estimated 20% of the overall executive management KPI evaluation
2	SUNWAY Group	ESG-related KPIs in director scorecards, at weight of 10% or more. For SUNREIT, 25% of scorecard for management has been linked to ESG performance. SUNCON's KPI is tied to health and safety (25% for employees)
3	IOICORP	Up to an aggregate of 15% deduction in bonus if ESG scores are not met for directors and senior management
4	AMBANK	KPIs are embedded within the customer, strategy or operational areas in the executive's scorecard, with weightage ranging from 5% to 15% based on the individual's role and influence
5	MRDIY	Sustainability linked performance for directors. Disclosed weightage specifically for executive vice chairman is 5%, while that for the CEO is 10%.
6	HLBANK	Senior management performance linked to sustainability and climate targets. Key result areas related to ESG and climate hold a 10% weighting for relevant senior executives, and 5% for all other employees

Source: Companies, Kenanga Research

We expect that with the ushering into IFRS disclosure requirements in 2025, starting with large listed firms (>RM2b market capitalization), more information in future reports will be made available with respect to how climate-related considerations are weighed into executive remuneration, and the percentage of such remuneration. Therefore, we don't expect our table above to be static.

Not just carrot, but also a stick approach in approach to cultivating ESG discipline. While most of the KPIs are in the form of a “carrot”, one such case where a “stick” approach is used would be IOICORP, where the plantation giant have set specific limits of up to 15% reduction in bonus entitlement if certain sustainability ratings are not met in aggregate. In a similar vein, specifically in the case of **MRDIY** (OP; TP: RM1.80), remuneration for executive directors are currently explicitly hinged on achievement of FTSE4good inclusion as criteria, for example.

3. However, the pace of growth in adopting sustainability-linked pay may vary

In Malaysia, we expect companies to still be expanding ESG-linked remuneration by phases. Some firms have been phasing in the adoption of the ESG, particularly climate related measures and this is true in the case of Tenaga. The utility giant aims to implement a phased-approach linking remuneration to key ESG KPIs 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, **SDG** (MP; TP: RM5.10) disclosed that it had implemented the group ESG scorecard in 2022, but only for upstream operations. Separately, there have also been firms that took a more cautious stance not to hold employees accountable before the corporation is ready. Case in point, **PPB**'s (OP; TP: RM12.50) approach is to wait for the fact that there should be sufficient data to embark on this at the management level, which we interpret will be implemented once there is more information. Another name that has only stated intention of considering to incorporate in the future is **KLK** (OP; TP: RM24.00).

Exhibit 3: FBM KLCI Firms and Their Approach Towards Linking Sustainability to Executive Pay (Non Exhaustive)		
No.	Company	Remarks
Construction		
1	GAMUDA	Executive management's remuneration is determined via a comprehensive performance review that considers a range of criteria, including financial, operational, and leadership factors. Sustainability-related performance contributes c.20% of the overall evaluation.
Consumer Products & Services		
2	MRDIY	Sustainability-related KPIs are incorporated into the remuneration structure for key senior management. Sustainability linked performance for directors, specifically for executive vice chairman is 5%, while that for the CEO is 10%.
3	NESTLE	Nestle is aligned with Nestle S.A. At the parent level CEO and CFO, 15% of performance targets are specifically linked to ESG.
4	99SMART	The board, CEO, COO, and CFO were assessed on various factors, including ESG elements. Key senior management pay includes fixed salary, bonus, and individual/company performance toward strategic objectives. However, they also recognise the need for a heightened focus on ESG strategies, with an emphasis on mapping progress against set objectives.
5	PPB	The board performance evaluation/assessment for FY2024 included a review of the board members' performance in ESG matters. The senior management evaluation process does not for now include their attainment in addressing sustainability risks and opportunities given a view that there should be sufficient measurable, verifiable and comparable data on ESG-linked performance targets beforehand.
6	QL	Executive directors' profit-sharing component of remuneration are linked to the ESG KPI targets, as is the senior anagement's profit-sharing or performance bonus. Specifically, metrics monitored include the Lost Time Injury Frequency Rate (LTIFR) and also greenhouse gas intensity.
7	PETDAG	Management are assessed on a balance score card, which also includes sustainability outcomes pertaining to diversity and inclusion, cybersecurity, and greenhouse gas reduction. Performance based remuneration is directly linked to sustainaibility achievement.

Source: Companies, Kenanga Research

Exhibit 3: FBM KLCI Firms and Their Approach Towards Linking Sustainability to Executive Pay (Non Exhaustive)		
No.	Company	Remarks
Financial Services		
8	CIMB	CIMB integrates climate related goals into top management performance indicators and variable compensation, adopting a balanced score card approach. Success on sustainability-related KPIs directly impacts bonus pool funding of respective divisions. CIMB's focus goes beyond GHG reductions, emphasizing development and maintenance of sustainable supply chain, cybersecurity and data protection, and client success in meeting environmental and social action plans, among others.
9	MAYBANK	Operates under its "Total Rewards Framework". The Board to set the high-level ESG direction and strategic focus. Its balance scorecard comprises financial and non financial KPIs to drive desired behaviours. For the LTIP, ESG KPIs have been integrated into the vesting criteria alongside metrics such as ROE and relative total shareholder earnings.
10	HLBANK	Selected senior management would be directly responsible for embedding sustainability into all divisional initiatives evaluated against scorecard objectives aligned with sustainability and climate-related non-financial performance targets. Key result areas related to ESG and climate hold a 10% weighting for relevant senior executives, and 5% for all other employees.
11	HLFG	The performance evaluation of senior officers (senior management and persons assuming key control functions) follows a robust and rigorous process that incorporates meritocracy in performance, and compliance management including the management of ESG risks as part of KPI.
12	PBBANK	Sustainability KPIs comprising among others, carbon reduction, resource management and sustainable financing were integrated into the performance evaluation of the management. Quantitative sustainability KPI has been incorporated into the performance assessment of the C-suite and Senior Management.
13	RHBBANK	For relevant members of senior management, sustainability KPIs which include climate-related KPIs have been embedded into their individual Balanced Scorecard. The annual performance incentive reward for these members of Senior Management, as well as key sustainability champions within the Group, are linked to their Balance Scorecard performance.
14	AMBANK	The Group CEO and direct reports have been assigned annual sustainability and climate-related KPIs, since FY2021. KPIs are embedded within the customer, strategy or operational areas in the executive's scorecard, with weightage ranging from 5% to 15% based on the individual's role and influence. Notably, the CSO carries a 75% weightage.
Healthcare		
15	IHH	Added sustainability to scorecard since 2022, which determines performance-linked compensation. KPIs are aligned to our sustainability commitments across the four pillars of Patients, People, Public, and Planet. Over 80% of non-financial targets are linked to sustainability.
Industrial Products		
16	SUNWAY	Incorporated sustainability components into the performance evaluations and remuneration-linked KPIs of our Senior Management since 2021. The achievements of these KPIs will have a weightage of minimally or more than 10% on the scorecard, which will subsequently impact the overall rating and remuneration of the respective Director.
17	PMETAL	ESG-Linked Executive Incentive Remuneration Framework adopted in 2024. Started with management personnel, C-Suite members and heads of divisions and departments, this framework will be expanded to include a wider range of roles.
18	PCHEM	Adopts a balanced scorecard approach that evaluates senior management not only on financial and operational performance but also on sustainability outcomes. Specifically, the MD/CEO and senior management have targets linked to climate change, which is in turn linked to remuneration.

Source: Companies, Kenanga Research

Exhibit 3: FBM KLCI Firms and Their Approach Towards Linking Sustainability to Executive Pay (Non Exhaustive)		
No.	Company	Remarks
Plantation		
19	KLK	Executive remuneration has not yet been linked to climate-related targets which may be considered in the future.
20	SD GUTHRIE	Implemented the group ESG scorecard in 2022 for upstream ops. The Group Managing Director is responsible for the Corporate Scorecard for the Group, which incorporates areas related to ESG as KPIs. The KPIs cover the most material ESG issues of the Group.
21	IOICORP	Incorporated 2 main assessment areas measurable performance, specifically GHG emissions reduction target, and ESG ratings. Up to an aggregate of 15% deduction in bonus if ESG scores are not met for directors and senior management; to elaborate, this would be 3% reduction respectively for scores from S&P Global CSA/DJSI, CDP scores, FTSE4good, SPOTT and Sustainalytics.
Telecommunications and media		
22	TM	KPI is placed on GCFO, Group Chief Network Officer, and Chief Corporate Officer and to be cascaded down to relevant managerial levels.
23	CDB	ESG performance scorecard benchmarks across 4 focus areas for CEO and management.
24	MAXIS	The Board will continue to hold ultimate accountability of Maxis' sustainability strategy, with the various Board Committees overseeing the overall implementation of the Company's sustainability agenda; we have not noted explicit disclosures linking ESG targets and remuneration.
25	AXIATA	OpCo CEOs will be evaluated on business ethics and governance and also digital integrity from 2025. For the LTIP available to senior leadership, the KPIs are linked towards emission intensity reduction and also workplace diversity.
Transportation & Logistics		
26	MISC	Reviews ESG as part of company score card and remuneration, including on the CEO.
Utilities		
27	TENAGA	Climate accountability is embedded into KPIs and starts at president/CEO level and cascades down to all C-suite executives. ESG has been included as part of performance scorecard. Specifically, TENAGA has for top management 3 layers of remuneration namely base salary, short-term incentive and long-term incentive plans. TNB aims to implement a phased approach linking remuneration to key ESG KPIs and climate-related disclosures in line with the ISSB S2 reporting recommendations.
28	YTLPOWR	The ESG Committee supports the Board to set the high-level ESG direction and strategic focus, oversees the implementation of ESG strategies and related matters and reviews, and monitors and provides the Group's ESG strategic plans and initiatives across our value chain; nevertheless, we have not noted explicit disclosures linking ESG targets and remuneration.
29	YTLCORP	YTL Group has taken proactive measures to manage exposure to both short and long term ESG risks, strategically converting them into opportunities; nevertheless, we have not noted explicit disclosures linking ESG targets and remuneration.
30	PETGAS	The Board is entrusted to ensure that the strategic plan of the Company supports long-term value creation and includes strategies on EESG considerations; nevertheless, we have not noted explicit disclosures linking ESG targets and remuneration.

Source: Companies, Kenanga Research

20 February 2026

Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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