ESG in Remuneration in Nordic Large-Cap Companies
Benchmarking ESG metrics and targets in executive management remuneration

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ESG metrics and targets in executive remuneration

A focus on ESG in the Nordics

The world is awakening to the significant environmental and social issues that it faces, and there is growing pressure on governments, businesses and individuals to drive meaningful change. With the increasing focus on climate change around the world, many businesses across the globe are making commitments such as ‘Net Zero by 2030’ and aligning their long-term strategy to an ESG framework.

A number of proxy agencies and investors have recently included updates on the use of ESG metrics in their guidance on executive remuneration. Executive pay can play a part in focusing the attention of the board, driving ESG ambitions and delivering a ‘tone from the top’.

ESG and executive pay - an investor perspective...

“ESG performance conditions may be used but targets should be material to the business and quantifiable.”
Institutional Shareholder Services (ISS), December 2021

“In order to accelerate and secure meaningful ESG progress, there must be strengthened alignment between the desired outcomes and the companies and individuals we expect to produce them. Significant, measurable and transparent ESG targets should form part of senior management compensation plans for all European public companies.”
Cevian Capital, March 2021

In the wider European market, there has been a marked increase in the focus on ESG in executive pay in recent years. Amongst the top Nordic companies, approximately 45% incorporate ESG metrics into the annual bonus, whilst 19% incorporate them into the long-term incentive plan, based on the 2022 AGM season. The trend is similar to that of the UK, where the adoption of ESG is more prevalent in the annual bonus than LTI.

Within the Nordic companies, the disclosure around weightings of ESG measures used in annual bonus and LTI was limited, with only around 16% of the companies disclosing the weightings. Where disclosed, the typical weighting was 10% for the annual bonus, and ranged from 10% to 20% for LTI.

Percentage of companies disclosing ESG metrics in executive remuneration in each of the Nordic countries

<table>
<thead>
<tr>
<th>Country</th>
<th>ESG metric in annual bonus</th>
<th>ESG metric in LTI</th>
<th>ESG weightings</th>
<th>ESG weighting of annual bonus</th>
<th>ESG weighting of LTI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Denmark</td>
<td>50%</td>
<td>29%</td>
<td>Limited, over 50% do not disclose the weightings</td>
<td>10-20%</td>
<td>10-20%</td>
</tr>
<tr>
<td>Finland</td>
<td>42%</td>
<td>16%</td>
<td>Limited, over 50% do not disclose the weightings</td>
<td>10%</td>
<td>10-20%</td>
</tr>
<tr>
<td>Norway</td>
<td>45%</td>
<td>15%</td>
<td>Limited, over 50% do not disclose the weightings</td>
<td>12.5%</td>
<td>10%</td>
</tr>
<tr>
<td>Sweden</td>
<td>30%</td>
<td>10%</td>
<td>Limited, over 50% do not disclose the weightings</td>
<td>9-10%</td>
<td>No disclosures</td>
</tr>
</tbody>
</table>

1. As part of the analysis, data from a total of 86 companies from Denmark (24 companies), Finland (19 companies), Norway (20 companies), Sweden (20 companies), and Iceland (3 companies) was used based on ISS recommendations available. See appendix for which companies were included in our analysis here
There is some variety in the design of measures used by Nordic companies with some using ESG as a standalone metric, as part of a scorecard or within a basket of individual / strategic measures.

Environmental and social measures are currently the most prevalent in incentive plans within both the annual bonus and LTI. However, the approach to ESG within executive remuneration is still evolving, and there is limited disclosure on target setting and assessment of performance to date.

As a country example, the most frequently used measures for the Danish companies are those focused on CO2 reductions or wider sustainability followed by employee/customer related metrics such as engagement or diversity targets.

Going forward, we expect the focus on ESG to continue as remuneration committees look to further align strategic priorities with remuneration frameworks, with increased scrutiny from investors and shareholders.

Our recent global report from January 2022\(^1\) shows that there are discrepancies between CXOs’ climate ambitions and the climate actions their companies are taking. Organisations are struggling to implement actions that demonstrate they have embedded climate considerations into their culture and have the senior leader buy-in and influence to effect a meaningful transformation. Over a third of organisations have not implemented more than one of five “needle-moving” sustainability actions, see below.

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1. Nasdaq OMX Copenhagen Large-Cap Index. The index was comprised of 48 share listings, of which three were listings of multiple share classes (45 individual companies) as of 31 March 2022. The index includes Danish listed companies with a market cap above EUR 1bn.

Five tougher actions that global companies surveyed are struggling to implement:

- 37% are tying senior leaders’ compensation to environmental sustainability performance
- 49% are developing new climate friendly products or services
- 40% are incorporating climate considerations into lobbying/political donations
- 46% are requiring suppliers and business partners to meet specific sustainability criteria
- 44% are updating/relocating facilities to make them more resistant to climate impacts

Top actions that companies are taking – globally:
- Sustainable materials – 67% are using more sustainable materials (e.g., recycled materials, lower-emitting products)
- Energy use – 66% are increasing the efficiency of energy use (e.g., energy efficiency in buildings)
- Energy efficiency – 57% are using energy efficient or climate friendly machinery, technologies, and equipment
- Air travel – 55% are reducing the amount of air travel after the pandemic

Companies are less likely to have undertaken the tougher actions as defined by Deloitte’s analysis – with one exception; requiring suppliers and business partners to meet sustainability criteria. Some of the tougher actions where Danish and Nordic companies can improve are related to developing new climate friendly products and services as well as tying senior leaders’ compensations to environmental sustainability performance.

Relevant questions for Boards and Executives to ask:
- How are other companies going about setting up their organisation for this, including data collection and reporting systems?
- What, when and how you should report on the EU Taxonomy and the EU Corporate Sustainability Reporting Directive?
- How other companies are combining sustainability and financial data into their performance management system?

The approach to ESG within executive remuneration is still evolving, and there is limited disclosure on target setting and assessment of performance to date, particularly as this is the first or the second year of remuneration reporting required for Nordic listed companies under the Shareholder Rights Directive and its implementation into the local Companies Act.
Our approach and how can Deloitte help?

At Deloitte, we guide our clients on remuneration strategy, design, committee work, policy, implementation, communication and reporting. We cover all aspects of executive remuneration and share plans. Our experienced team includes specialists within human capital, performance management, remuneration and share plan structuring, tax, valuation and accounting specialists, actuaries and lawyers. We provide advice on all areas, including implementation, investor relations, accounting, legal and tax issues. Our practice is built upon an integrated model, linking all of these areas, often fragmented across many staff-functions in the companies that wish to implement incentives programmes.

Our approach:

Our team:

**Design**
- Strategic plan design
- Business relevant performance measures
- Cost effective funding and specialist advice on tax, accounting, legal and financial issues
- All employee schemes

**Remuneration committee advisors**
- Insight on shareholder views and assistance with consultation
- Updates on market trends and corporate governance
- Executive and board pay benchmarking updates
- Assistance with drafting remuneration policies and remuneration reports

**Implementation & communication**
- Drafting incentive plan rules
- Drafting share scheme participant document
- Drafting employee communication documents
- Tax assistance, global tax analysis, tax efficient arrangements, tax guides and binding rules

The experience and breadth of our practice means that we have particular strengths in the key areas of investor relations and implementation of incentive schemes. We also have access to a wide knowledge base within Deloitte – both across borders and within specific industries. This breadth of experience and access to specialist resources allow us to understand your specific situation and customise solutions for your needs.
Our contacts

If you would like further information on any of the areas covered in this report or help in interpreting and using this data, please feel free to contact any of the persons below:

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Appendix

Danish companies included in the analysis
1. Ambu A/S
2. A.P. Møller - Mærsk A/S
3. Bavarian Nordic A/S
4. Carlsberg A/S
5. Chr. Hansen Holding A/S
6. Coloplast A/S
7. Danske Bank A/S
8. Demant A/S
9. DSV A/S
10. FL Smidth & Co. A/S
11. Genmab A/S
12. GN Store Nord A/S
13. ISS A/S
14. Jyske Bank A/S
15. Netcompany Group A/S
16. Nordea Bank Abp
17. Novo Nordisk A/S
18. Novozymes A/S
19. Pandora A/S
20. Rockwool International A/S
21. Royal Unibrew A/S
22. Tryg A/S
23. Vestas Wind Systems A/S
24. Ørsted A/S

Icelandic companies included in the analysis
1. Arion Bank hf.
2. Íslandsbanki hf.
3. Marel hf.

Norwegian companies included in the analysis
1. Adevinta ASA
2. Aker BP ASA
3. Aker Solutions ASA
4. Autostore Holdings ASA
5. Bakkafrøst P/F
6. DNB Bank ASA
7. Equinor ASA
8. Gjensidige Forsikring ASA
9. Kongsberg Gruppen ASA
10. Leroy Seafood Group ASA
11. Mowi ASA
12. Nordic Semiconductor ASA
13. Norsk Hydro ASA
14. Orkla ASA
15. SalMar ASA
16. Schibsted ASA
17. Telenor ASA
18. Tomra Systems ASA
19. VÅR Energi ASA
20. Yara International ASA

Swedish companies included in the analysis
1. Assa Abloy AB
2. Atlas Copco AB
3. Epiroc AB
4. EQT AB
5. Ericsson AB
6. Essity AB
7. Evolution AB
8. Hennes & Mauritz AB
9. Hexagon AB
10. Investor AB
11. Latour AB
12. NIBE Industrier AB
13. Nordea Bank AB
14. Sandvik AB
15. SEB AB
16. Svenska Handelsbanken AB
17. Telia Company AB
18. Swedbank AB
19. Volvo AB (AB Volvo)
20. Volvo Car AB

Finnohish companies included in the analysis
1. Cargotec Oyj
2. Elisa Oyj
3. Fortum Oyj
4. Huhtamäki Oyj
5. Kesko Oyj
6. Kojamo Oyj
7. KONE Oyj
8. Metso Outotec Oyj
9. Metsä Board Oyj
10. Neste Oyj
11. Nokia Oyj
12. Nokia Renkaat Oyj
13. Qt Group Oyj
14. Sampo Oyj
15. Stora Enso Oyj
16. TietoEVRY Oyj
17. UPM-Kymmene Oyj
18. Valmet Oyj
19. Wärtsilä Oyj
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