

What is ESG and why is it important?

ESG stands for *Environmental, Social, and Governance*. It is a concept to help organizations with their sustainable development, which not only offers added value for the organization itself but also for stakeholders such as employees, customers, suppliers and society as a whole. By using ESG criteria, organizations can show stakeholders the economic, societal and global impact of the organization.

ESG-proof remuneration policy

The business landscape in which organizations operate is rapidly changing. Climate change, the COVID pandemic and geopolitical developments have increased the sense of urgency around sustainability. The aspirations and expectations of younger generations of employees have also changed. Employees are keen to work for companies with sustainability strategies. They also want to be able to contribute to sustainability goals. An ESG-proof remuneration policy has become an indispensable tool in actively involving employees in realizing an organization's sustainability strategy.



How to ESG-proof your remuneration policy

Bonuses

By linking the ESG strategy to performance-related rewards, organizations can encourage supervisors/managers to be a driving force behind the creation of an ESG-aligned corporate culture. For example, it is becoming increasingly common for supervisors/managers to receive a variable bonus that is (partly) based on sustainability indicators, such as the extent to which an organization meets climate, diversity & inclusion goals and how it ensures the involvement of employees.

ESG goals can also be linked to the performance-related bonuses of other employees in order to actively encourage them to participate in the organization's sustainability policy.

Incentives

Non-financial indicators are also becoming increasingly important to investors. In attracting capital, organizations therefore need to take account of the fact that investors may raise questions about, for example, the organization's contribution to climate goals, diversity and inclusion, equal pay and the reduction of poverty.

Investors will look at whether the management of an organization is not only able to realize returns on investment but also a return in terms of ESG goals.

In order to be able to meet the expectations of investors, organizations can link their incentive policy to ESG goals.

In doing so, organizations may encounter the following issues:

- Which ESG goals should be linked to financial incentives?
- What percentage of the incentive should be linked to this?
- How should the non-financial KPIs be measured?

Employment conditions and sustainability

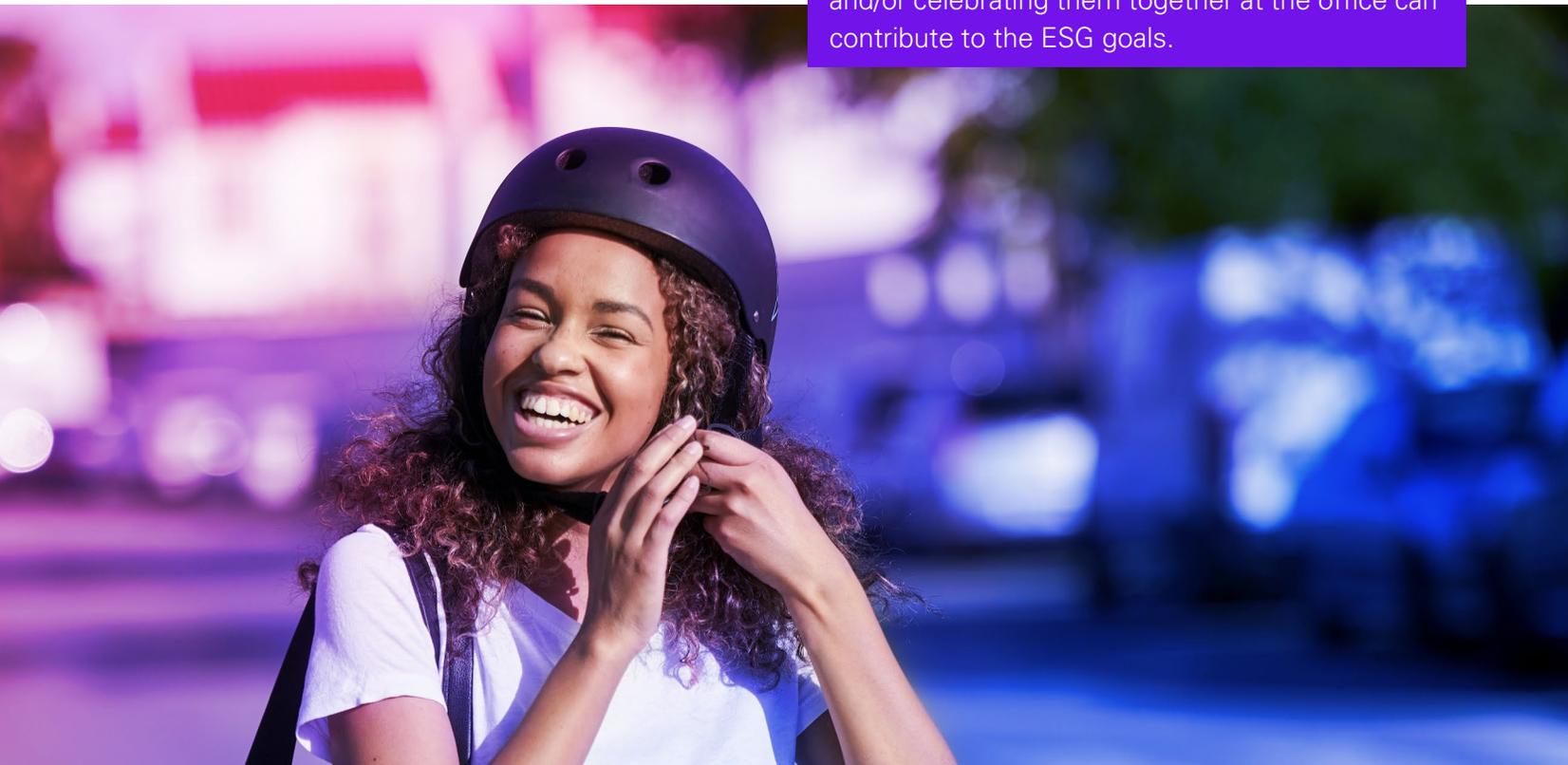
An organization's ESG strategy can also be linked to other employment conditions, for example, a company bicycle or offering employees a climate budget which they can then use to purchase solar panels, a heat pump, etc.

Other examples are opting for a green pension fund or offering employees the chance to spend a set number of hours doing volunteer work.

Diversity and inclusion

Diversity and inclusion can be promoted by creating an open workplace culture where employees feel safe. Paying attention to and recognizing each employee's individual contribution to the organization is crucial.

Flexible working hours, facilitating a work-life balance and introducing wellness programs with fitness options and (mental health) coaching can all help to achieve this. Also being more flexible with regard to days off for religious holidays and/or celebrating them together at the office can contribute to the ESG goals.



National and global mobility

More and more organizations are setting specific CO2 targets regarding their carbon footprint. Transportation accounts for a significant percentage of an organization's CO2 emissions. In the Netherlands, the work-related mobility of persons also accounts for a large percentage of an organization's CO2 emissions, with commuting to work accounting for almost half of those emissions.

Domestic travel

Having a well-designed mobility policy at national level is crucial to achieving CO2 targets. As of July 1, 2024 companies in the Netherlands will be obliged to provide annual data on the work-related mobility of persons. This obligation follows from the Climate Agreement and will apply to all employers with 100 or more employees.

International travel

International business travel also has an impact on an organization's total CO2 emissions. By reviewing whether travel is really necessary and/or by stimulating more sustainable forms of travel such as trains, organizations can help reduce the CO2 emissions.



Flexibilization 2.0

The fact that employees currently work according to a hybrid work model or work entirely from home means less commuting. This manner of working can also contribute to an organization's diversity and inclusion policy, because it makes the labor market more accessible for people for whom going to the office each day is not an option.

Of course, the legal and tax implications of working from home and/or working remotely (i.e. working from anywhere) must always be taken into account when introducing such policies.

EU regulations on sustainable remuneration policy

Equal pay & pay transparency

In 2023 the EU Parliament approved a directive on pay transparency. This directive is aimed at closing the gender pay gap by creating greater pay transparency and ensuring employees have better access to legal remedies in case of pay discrimination.

The directive has to be transposed into national law by mid-2026 at the latest. In anticipation of this legislation, We recommend employers to take action now and identify whether there is a gender pay gap within the company and, if so, how the gap can be closed before they are obliged to report on it.

How can we help?

Whatever your ambitions with regard to sustainability, there are numerous ways in which our Tax & Legal professionals can help you to create and implement a sustainable remuneration policy. Whether it's making employment conditions greener, designing and implementing a working-from-anywhere policy, or helping to implement EU regulations, we would be pleased to assist you in shaping and implementing a new remuneration policy with a strong ESG purpose that is compliant with EU reporting obligations.

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