REPORT

Building green organizations

A study on how companies are adopting ESG criteria in their organization

Roland Berger

Management summary

In today's corporate sphere, ESG considerations are not just about ensuring compliance and managing risks: they are also a powerful transformative force that is shaping the future of businesses worldwide. ESG concerns, once peripheral elements of corporate strategy, have catapulted to the forefront of executive agendas, driven by an evolving landscape of stakeholder expectations, investor demands, and societal shifts.

But what, precisely, are companies doing to fulfill their ESG obligations? How are they adapting structurally? What constitutes the norm in current organizational ESG practice? And how do ESG leaders set themselves apart?

Roland Berger spent six months surveying ESG impact and implementation across various industries internationally. This report details the findings, which shed light on the profound transformation that is currently underway. It traces how companies are approaching the topic of ESG not as a nice-to-have supplementary initiative, but as a central, strategic cornerstone. But it also highlights the need for board-level buy-in, systematic governance and organizational structures, and a culture of sustainability on every level.

Cover: Nicolas Jooris-Ancion/GettyImages

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Fast Facts

70%

of surveyed companies are legally required to comply with the EU's CSRD standards

23%

see this as the biggest challenge to corporate organizations in the next 3–5 years

Less than

8%

rate their own ESG performance as "excellent"

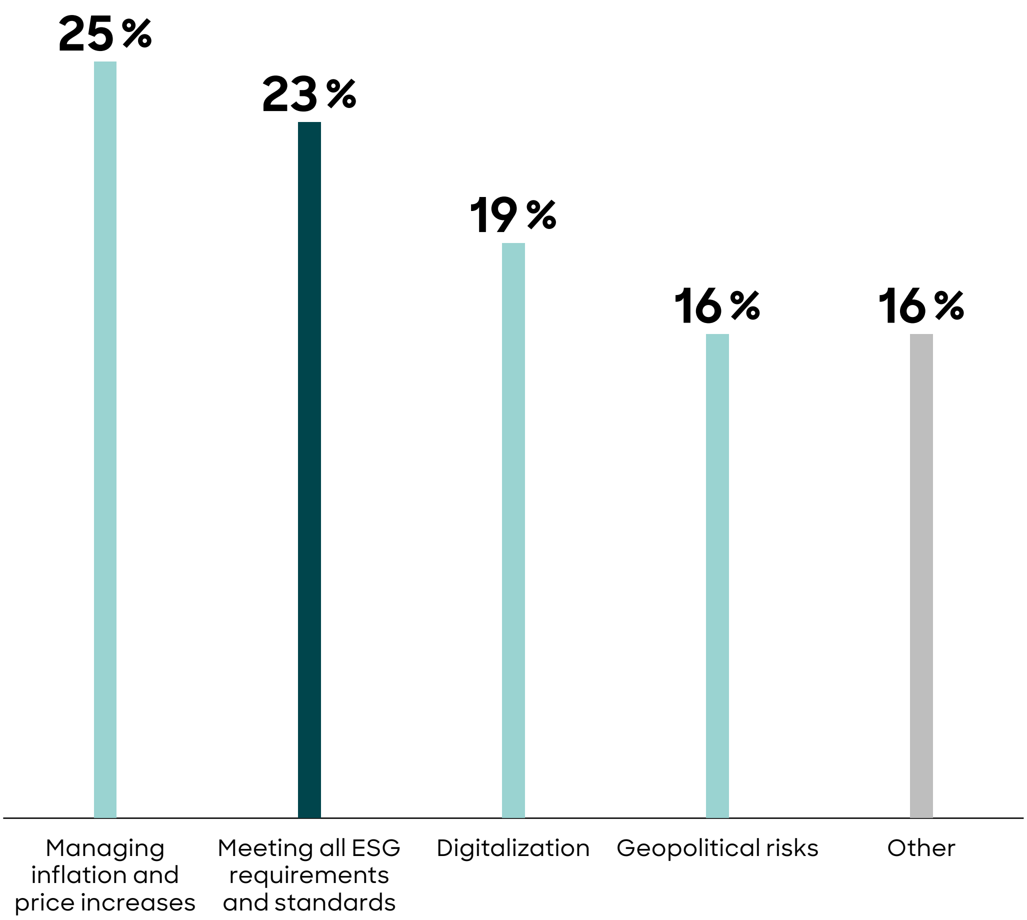
1 The rise of ESG

How ESG criteria went from bit part to lead role – and how companies are doing so far

In recent years, societal norms, customer demands, investor expectations, and market competition have all driven companies to step up their efforts to meet ESG criteria. Today, a large and constantly growing number of European companies are legally required to comply with the EU's Corporate Sustainability Reporting Directive (CSRD), a regulatory framework that enforces comprehensive sustainability reporting and practices. The adoption of this directive on January 5, 2023, marked a crucial shift in how businesses must systematically address and disclose their sustainability impacts.

The importance companies attach to this topic is evidenced in how they responded to the survey question shown below. ▶ A

A What are the biggest challenges facing your company in the next 3-5 years?



Source: Roland Berger

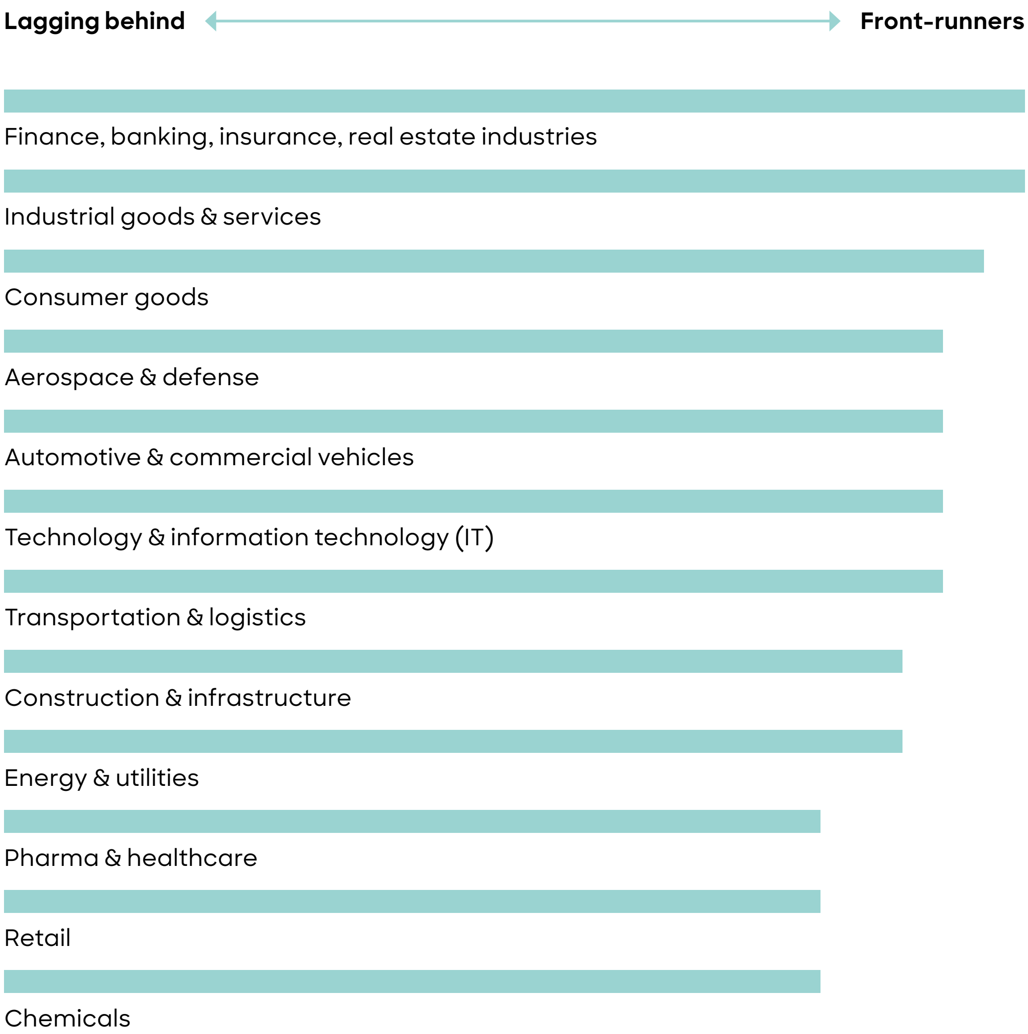
Methodology

Over the six-month period from fall 2023 through spring 2024, Roland Berger surveyed managers and employees at 158 international companies to determine how ESG requirements are being implemented. The study also analyzed the impact of ESG on different aspects of the companies' structure and operations. More than a quarter of the respondent companies have revenues of under EUR 500 million, about 30% generate revenues between EUR 500 million and EUR 5 billion, and nearly one-fifth post revenues of between EUR 5 billion and EUR 20 billion. Over a quarter exceed the EUR 20 billion revenue threshold.

The chart shows that meeting ESG requirements and standards is perceived as the second-biggest challenge to corporate organizations over the next three to five years. It is currently surpassed only by the pressing and immediate concerns of inflation and price increases. However, the possibility that inflation and price issues may be only a transient phenomenon further magnifies the significance attached to ESG, which is here to stay. It is therefore perhaps not surprising that almost one-quarter of respondent companies singled out meeting ESG standards and requirements as the one most critical challenge within the stated period.

Given the considerable interest companies claim to attach to ESG, it is interesting to study the sectoral breakdown below, showing what kinds of companies are making tangible progress. The finance and real estate industries, e.g., see themselves leading the way, while pharmaceuticals/healthcare, retail, and chemicals organizations still lag behind. ▶ B

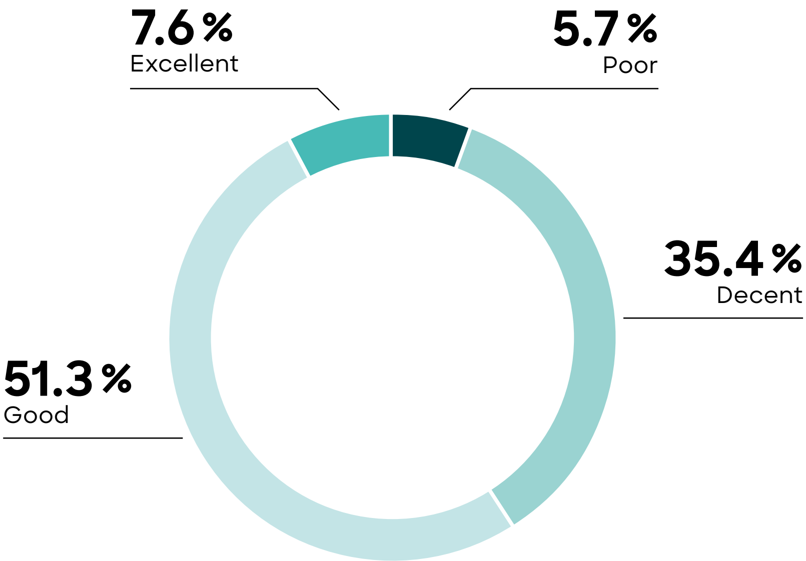
B How far has your company advanced in implementing the ESG requirements?



Source: Roland Berger

That said, more than 40% of companies across all sectors feel they are not yet performing well on the topic, and fewer than 8% think they are doing an excellent job of ESG compliance. ▶C

C How would you rate your company's current performance in mastering ESG requirements?



Source: Roland Berger

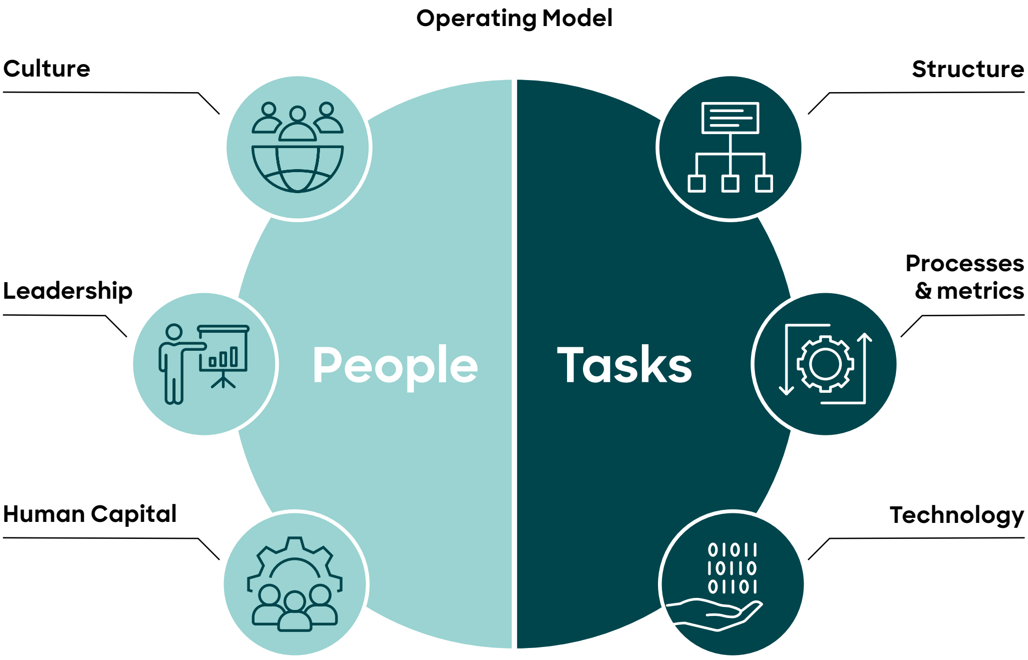
The survey findings show that organizational challenges still prevent many companies from excelling in the three ESG "dimensions." These challenges include the absence of clearly designated and dedicated responsibility for the topic, insufficient leadership engagement, and inadequate support from top management. In cases where no specific budget is earmarked for ESG activities, the challenges are compounded. Furthermore, failing to provide tailored ESG training programs means that employees are not empowered with the necessary skills and knowledge to get the job done.

2 Embedding ESG on all levels of the organization

The need for a structured, committed, enterprise-wide approach

This chapter drills down into how companies are seeking to permeate their entire organization with an ESG mindset and the corresponding practices. For this to be done systematically, every facet of a company must be actively engaged. Roland Berger identifies six key dimensions that are addressed individually below, but that together form a robust Operating Model Framework to ensure comprehensive integration. ▶ D

D The Roland Berger Operating Model Framework for enterprise-wide ESG engagement



Source: Roland Berger

Here is a snapshot of each of the dimensions and its study findings:

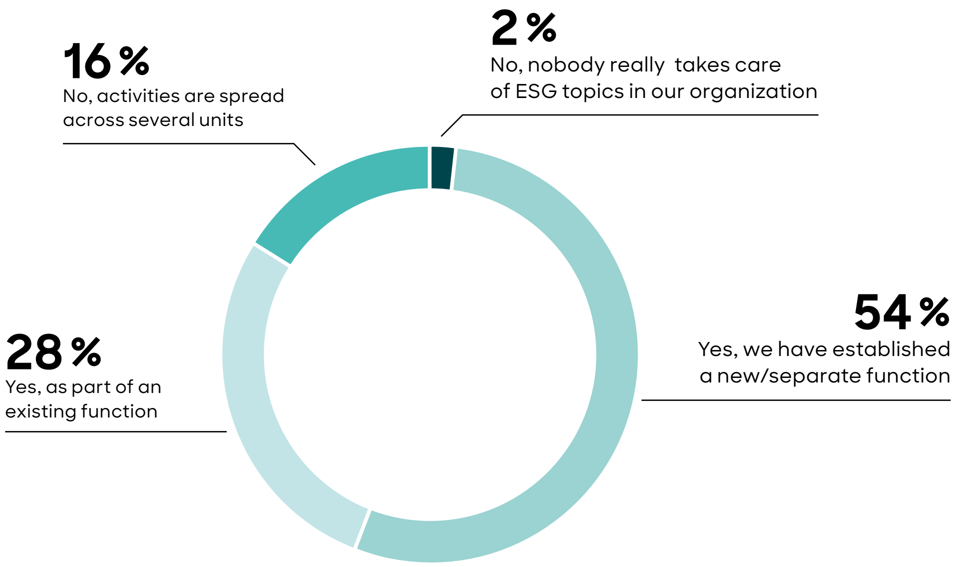
1. STRUCTURE

The structure dimension examines how the integration of ESG criteria is organized within the company.

More than half (54 %) of the respondent companies already have a dedicated company-wide unit in place to manage ESG matters. For a similar proportion (53 %, not shown in the chart), these units report directly to the board. In just over a quarter of all cases (28 %), a similar unit has been grafted onto an existing corporate function, while 16 % spread the management of their ESG activities across multiple organizational units. Of all those companies that have established dedicated ESG organizations, more than half cited "customer engagement" as their main reason for doing so. ▶ E

These figures point to a forceful move toward formal and centralized ESG management, which in turn demonstrates that high strategic priority is attached to the sustainability goals underpinning the ESG criteria. They also suggest that companies prioritize ESG not just out of legal obligation, but because they see tangible benefits in terms of customer relationships and market positioning.

E Do you have a dedicated corporate function that oversees ESG topics throughout your organization?

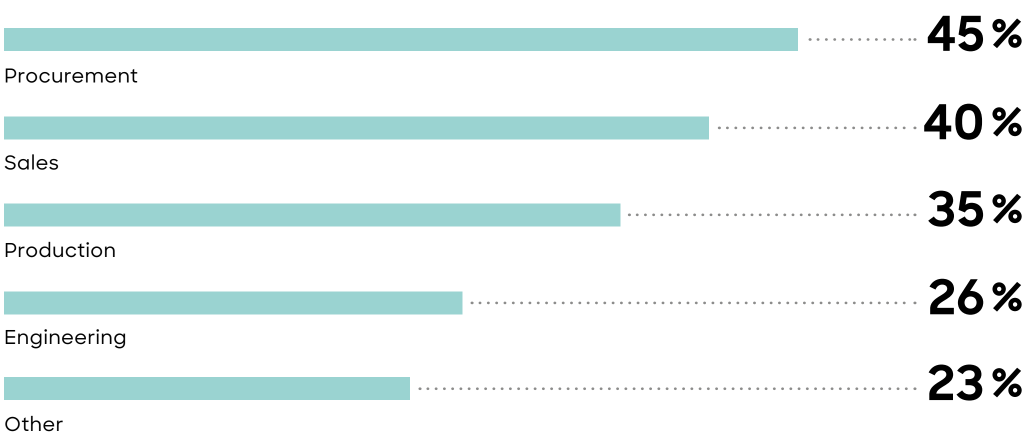


Source: Roland Berger

2. PROCESSES & METRICS

The processes & metrics dimension assesses the mechanisms that are (or should be) put in place to manage and measure ESG performance. Budget allocation is one important aspect of this discussion. And the fact that 72% of organizations have specific, dedicated ESG budgets signals that most companies recognize ESG's crucial role within corporate structures and are prepared to prioritize it accordingly.

F Do you devolve additional ESG responsibilities to operational functions? If so, to which ones?



Source: Roland Berger

More than three-quarters (76%) of the respondent organizations set group-wide ESG goals, 44% do so at the divisional level, and 22% do so at the individual level. The widespread adoption of group-wide goals testifies to a unified approach to sustainability at the corporate level. However, the far lower percentages for divisional and individual goals indicate that there may still be obstacles when cascading ESG priorities down through all levels of the organization.

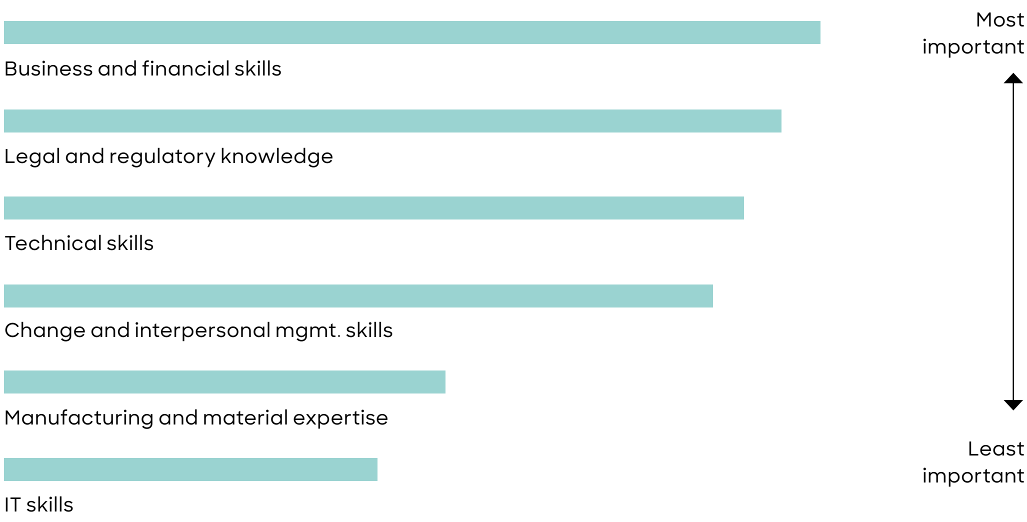
Additional functional ESG responsibilities are integrated in procurement at 45% and in sales at 40% of the respondent companies. This finding highlights the understanding that sustainability has a powerful and visible impact on supply chains and customer relationships. Lower figures for production and engineering operations imply that these functions still have barriers to overcome in applying ESG principles. ▶ F

3. TECHNOLOGY

The technology dimension analyzes how and to what extent technologies are deployed to support the implementation of ESG initiatives.

Here we find an equal split: while one-half of the respondents in our survey rate their ESG tech systems as effective, the other half consider the tech support they receive for ESG to be either average or below average. Calls for improvement have been voiced by both camps. It is also worth noting that, despite the widespread use of ESG reporting tools (80%), advanced technologies such as AI and machine learning are currently underused (13%). This suggests that the latter technologies could harbor significant, as yet unexploited potential to enhance ESG strategies.

G What do you see as the most important skills for employees working in ESG-related activities?



Source: Roland Berger

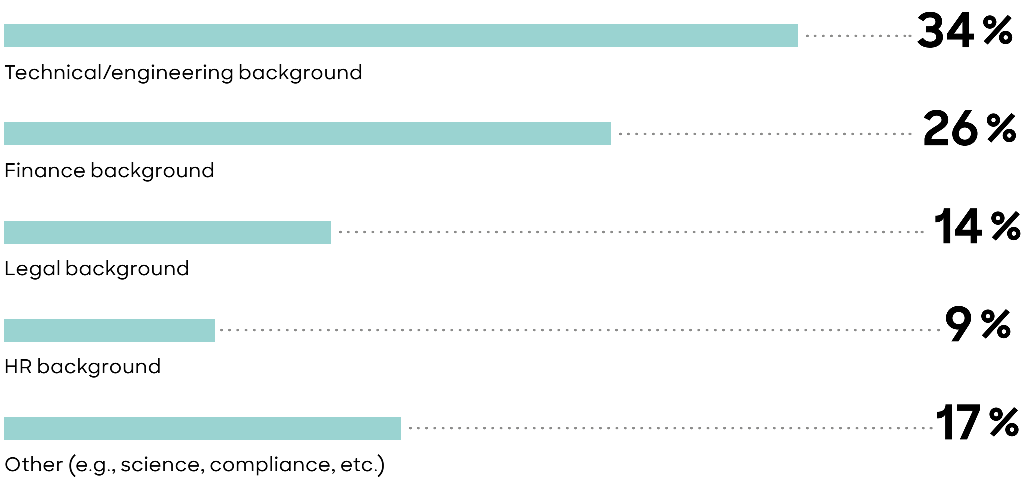
4. HUMAN CAPITAL

The human capital dimension evaluates the ESG-related skills and knowledge that are available throughout an organization.

Business and financial skills are the capabilities that companies value the most in relation to ESG activities, followed by legal and regulatory knowledge and technical skills such as the ability to calculate emissions. Less emphasis tends to be placed on manufacturing and IT skills. This striking focus on strategic and compliance skills indicates that companies perhaps adopt a broad-based approach to ESG, prioritizing areas that directly impact sustainability and governance rather than operational specifics. ▶ G

Finance is the most common background (34 %) for today's ESG managers. Technical and engineering expertise is also well represented (26 %), while legal expertise (14 %) and HR skills (9 %) play only a minor role. This breakdown underscores the importance of financial considerations to sustainability efforts. ▶ H

H From what background do your ESG managers come?



Source: Roland Berger

5. LEADERSHIP

The leadership dimension gauges the commitment and direction provided by management in all matters pertaining to ESG.

At respondent companies, a good 13 % have board roles devoted exclusively to ESG, while nearly 35 % add ESG activities to board members' existing mandates. At 24 % of companies, heads of department assume ESG leadership assignments.

The fact that nearly half (48 %) of the organizations surveyed have ESG matters anchored at board level testifies to a strong commitment to ESG issues at the very highest levels of corporate governance.

> **"When you get people to report to the CEO, you are telling them that what they do is of central importance to your organization."**
>
> **Andreas Stocker, Senior Partner**

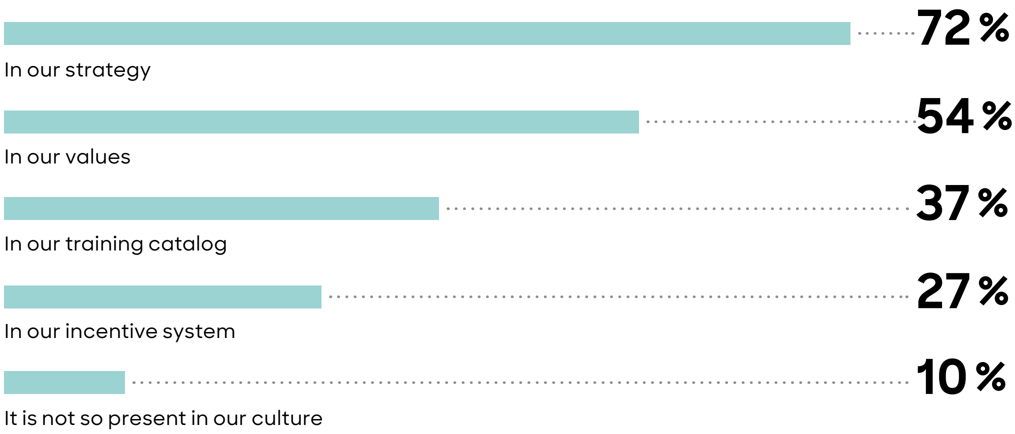
That said, ESG managers report directly to the CEO in almost 50 % of cases, while far fewer report to CFOs (7.6 %) or COOs (8.2 %). In the perception of top management, ESG evidently plays a core role in shaping business strategy.

6. CULTURE

The culture dimension explores the extent to which ESG values are ingrained in the corporate ethos.

More than two-thirds of companies (72 %) incorporate ESG in their strategies, and more than half (54 %) ensure alignment between these topics and their corporate values. However, there appears to be a partial mismatch in "walking the talk": only 37 % of respondents actually provide relevant training programs, while even fewer (27 %) tie ESG performance into their financial incentive systems. What is perhaps encouraging is that 78 % of the surveyed

How do ESG themes manifest themselves within your corporate culture?



Source: Roland Berger

organizations agree that culture and change management are key to the success of ESG ventures, suggesting that the latter figures will likely improve going forward.

3

Why are the best-in-class players so good?

Valuable insights into best practices – and best mindsets

The pursuit of excellence in ESG practice is increasingly setting forward-thinking companies apart from the rest. We took a close look at those companies who, by their own judgment, are clearly outperforming their competitors on ESG issues. We analyzed exactly what these "ESG leaders" are doing differently and why. Our analysis led us to identify five overarching strategic principles that these companies live out and, linked to these, five practical things that they do, or do better.

FIVE STRATEGIC PRINCIPLES UNDERPINNING BEST-IN-CLASS ESG LEADERS

Companies that outperform their rivals in embracing and responding to ESG requirements see the following principles not just as optional guidelines, but as the backbone of successful enterprise-wide ESG integration:

1. ACCOUNTABILITY

Personal responsibility is baked into their ESG strategy, and those entrusted with this task have the authority to enforce it across the organization.

2. STRATEGIC ALIGNMENT

Leading ESG proponents synchronize their sustainability efforts with business strategies to ensure cohesion and a clear, undivided focus.

3. VALUE CREATION

Organizations view sustainability not as a chore to be tolerated, but as an opportunity for additional business, margin improvement, and premium market positioning.

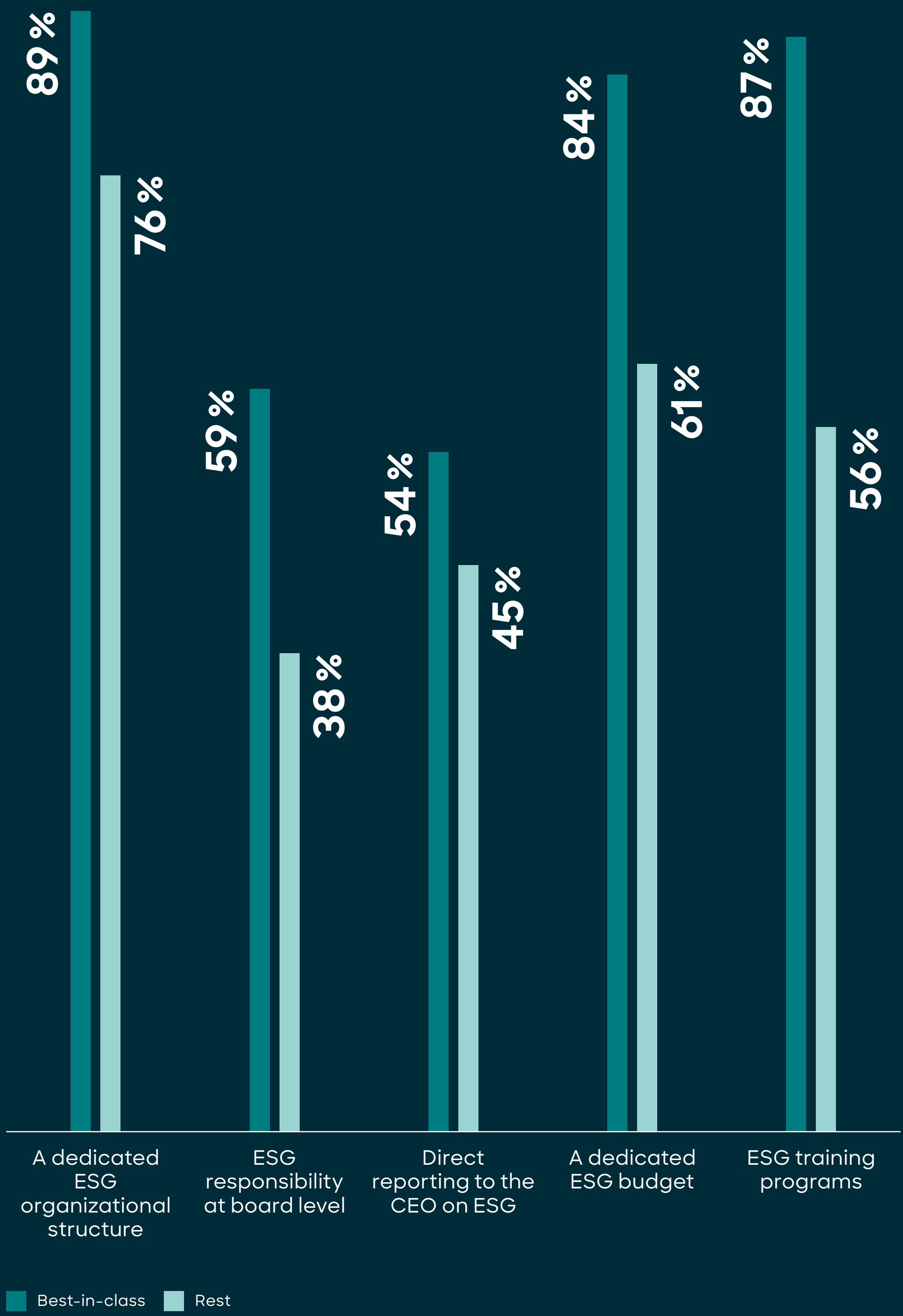
4. INNOVATION AND IMPETUS

ESG managers work closely with business units to stimulate fresh thinking and both initiate and drive forward-thinking sustainability projects.

5. BROAD-BASED SUPPORT

ESG leaders establish dedicated committees and earmark corporate resources to bolster their efforts, ensuring that sustainability is deeply embedded and widely endorsed throughout the company.

J What concrete behaviors set ESG leaders apart from other organizations?



Source: Roland Berger

To sum up: these companies have taken the leap from reactive compliance to the proactive valorization of sustainability, which has thus become a cornerstone of their corporate identity and a crucial ingredient in their operational excellence.

Born of this commitment to the causes enshrined in the ESG criteria, these best-in-class companies also act in five key ways that distinguish them from their competitors: ▶ J

1. ORGANIZATIONAL STRUCTURE

Companies that take the lead in ESG are significantly more inclined (89%) to have an organizational structure devoted specifically to ESG matters, compared with 76% of their counterparts. This structure may take the form of a new or separate function, or it may be grafted onto an existing function. Either way, this approach points to a proactive policy of embedding ESG in the organization's DNA as a hallmark of high performers.

2. TOP MANAGEMENT COMMITMENT

The leading companies are more likely (59%) to assign ESG responsibilities at board level, either by having a board member specially for ESG topics or by adding ESG responsibilities to an existing board member's mandate. Again, this practice highlights the strategic priority these companies give to ESG issues at the highest level of governance, in contrast to 38% of their peers.

3. REPORTING LINES

The survey indicates a preference (54%) for ESG managers in leading companies to report directly to the CEO. This policy underscores the importance of ESG to strategic business considerations and is less common (45%) among the wider group.

"The board has to be 'on board,' obviously. But ESG also has to filter down through the entire corporate culture, and you can't just prescribe culture change from the top down."

Andreas Stocker, Senior Partner

4. BUDGET ALLOCATION

A dedicated budget for ESG activities is more prevalent among ESG leaders (84%), emphasizing their commitment to allocating adequate resources to ESG initiatives, in comparison with 61% of other companies.

5. ESG TRAINING

Lastly, a significant majority of companies (87%) excel at training their staff on ESG-related issues. In so doing, they demonstrate a dedication to raising awareness and understanding of ESG issues across the organization – a commitment that drops to just 56% among the rest.

4

Key takeaways from the Roland Berger survey

From compliance to a culture of commitment – and commercial gain

It is impossible to overstate the importance of ESG principles in today's corporate landscape. And this importance will only increase going forward. Our comprehensive survey sheds light on the vital strategies that set best-in-class companies apart, underscoring the need for dedicated structures, informed leadership, advanced technology, and a culture that embraces and lives out the principles of ESG.

These insights reflect companies' current state of ESG readiness. But they can also serve as a roadmap for organizations aspiring to elevate their ESG positioning. We would invite all readers of this survey to engage with us in in-depth dialogue, to explore these findings further, and to flesh out tailored strategies that can propel your company, too, into the higher echelons of ESG excellence.

CASE STUDY

The greening of heavy industry – How a venerable steel producer became an ESG poster child

In the steel sector, one multinational corporation is undergoing a significant transformation, positioning itself as a benchmark for sustainability in heavy industry. Starting from a basic ESG compliance posture, the company has progressively embedded ESG considerations into its corporate strategy and operational decisions, gradually assuming a leadership role in climate change mitigation.

The company's "green reinvention" began with a strategic shift, recognizing the need to align ESG efforts with ambitious growth plans. To facilitate this, a group sustainability function was established, elevating ESG to a central role in corporate strategy. Forward-thinking initiatives were introduced to not only meet current standards, but also to anticipate future regulatory requirements.

While much progress has been made, the transformation is still ongoing. The company continues to invest heavily in green technologies, including carbon capture and green hydrogen, positioning itself as a key player in the steel industry's transition toward sustainability. This ongoing operational integration of ESG strategies has already yielded notable advancements, with more to come.

A robust governance framework supports the ESG transformation, with dedicated committees ensuring consistent implementation across all business units.This structure helps align sustainability objectives with daily operations at every level of the organization.

Crucially, the company has also capitalized on its ESG strategy through commercialization, aligning its green initiatives with market demand, particularly in regions with strict environmental regulations. By monetizing its "green advantage," the company has strengthened both its market positioning and financial performance, emerging as a leading producer of low-carbon steel.

Though the company has achieved significant milestones, its journey is far from complete. Transparent and comprehensive ESG reporting, coupled with a strong culture of accountability, continues to underpin the transformation. The company actively engages with stakeholders, including investors, who increasingly prioritize sustainability in their investment decisions.

Recommendations

For those organizations that recognize the need to act without delay, we would make the following three recommendations on which to base your ESG structures and activities going forward:

Understand that ESG is here to stay
Delaying ESG initiatives is not an option. Leading companies have recognized its importance and have been actively engaged with this topic for years. Proactively addressing ESG is crucial to align with industry leaders and to future-proof your organization.

Adopt a systematic approach and target holistic integration
ESG implementation requires a systematic approach that encompasses all dimensions of an operating model. It is not enough merely to adopt ESG initiatives sporadically: they must be integrated holistically across the entire operating model to ensure long-term success and sustainability.

Leverage best practices
Reinventing the wheel is unnecessary. Many organizations have already advanced significantly in their ESG journey. Learning from these best practices will help you streamline your ESG implementation, avoid common pitfalls, and accelerate your path to sustainability.

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