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An organizational set-up fit for ESG transformation

The need for a Chief Sustainability Officer with impact

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EXECUTIVE SUMMARY

The role of the Chief Sustainability Officer (CSO) is evolving rapidly in response to the increasing importance of environmental, social, and governance (ESG) issues within organizations and in society at large. Last year, a global Strategy& study found that Chief Sustainability Officer appointments were growing fast: more CSOs were hired in 2021 than in the previous five years combined.

To deepen our understanding of the role and responsibilities of the CSO today, we looked more closely at listed companies in Germany, Austria, and Switzerland. The study of CSOs in 40 DAX, 20 ATX, and 20 SMI listed companies allowed us to identify five CSO archetypes, based on their position within the organization. While some CSOs are members of the C-suite and report directly to the CEO, others hold less visible positions, one or more levels below the C-suite. Some lead standalone sustainability departments, others are subordinated under core business functions such as operations. They all differ in their level of influence and their ability to drive ESG transformation across the business. This plurality of archetypes is not unusual for a relatively new function and mirrors the broad remit of ESG, which allows for different starting points to improve performance across environmental, social, and governance-related factors.

Regarding Germany, the main findings in this study include:

German companies are serious about ESG	90 percent of companies (36 out of 40 in the DAX) have a dedicated CSO role, more than half of which directly report to the CEO. 70 percent of current CSOs have been hired or promoted to their role within the past three years, indicating both the commitment to accelerate ESG transformation and the resilience of the role in a challenging economic climate.
However, more should be done to accelerate ESG transformation	At present, DAX CSOs are evenly split between C-level appointments and more junior positions without direct access to top management. This matters because the ability of CSOs to embed sustainability within the business rests on having a place at the top table and being able to articulate strategies with other members of the executive team.
A (small) majority of CSOs are female and know their company well	58 percent of CSOs in the DAX are female. This rises to 72 percent for CSOs below the C-suite. A majority of CSOs have been internally promoted, suggesting that companies are appointing people who are familiar with the processes, governance, and operations of their firms, and who have the necessary relationships to get all parts of the business on board with ESG transformation.

The most common organizational set-up among DAX companies is a standalone sustainability function

40 percent of the DAX companies were found to have a "CSO light" who leads a standalone sustainability function. In Germany, we no longer found ESG skeptics who subordinate sustainability under a support function such as Communications or Public Relations.

Regarding Austria and Switzerland, the main findings are:

Generally, ATX and SMI companies show similar characteristics as the DAX companies, with some differences

Similar to Germany, we found that all listed Swiss and Austrian companies have a CSO, while more should be done to elevate the position. It is noteworthy that the share of "CSOs with impact" in Austria is lower than in Germany (35 percent), but higher in Switzerland (60 percent). Further, in both countries, the share of female CSOs is lower than in Germany: 30 percent in Austria, 35 percent in Switzerland.

Overall, our analysis of the CSO role in leading German, Swiss, and Austrian companies indicates that sustainability is gaining recognition in business governance despite unfavorable economic and geopolitical conditions. At the same time, we believe companies should be paying even more attention to where the CSO sits within the organizational structure, as this is often a crucial enabler of a successful ESG transformation that goes beyond regulatory compliance. While it is true that ESG challenges vary between companies and sectors, in almost all cases, a "CSO with impact" – who reports directly to the CEO and holds a top-level position in the firm – will have more authority to articulate a shared vision of a company's ESG goals and more influence to achieve them.

INTRODUCTION

Chief Sustainability Officers have gained prominence in recent years. Last year, we surveyed 1,640 companies in 62 countries to understand the role and responsibilities of the CSO. We found that companies were moving quickly to establish dedicated roles – more CSOs were hired in 2021 than in the previous five years (2016-20) combined – but a majority of them lacked clout, being two or more ranks below C-suite level. This means that in a majority of organizations there is a gap between the high expectations for the role and the ability of CSOs to drive transformational change.

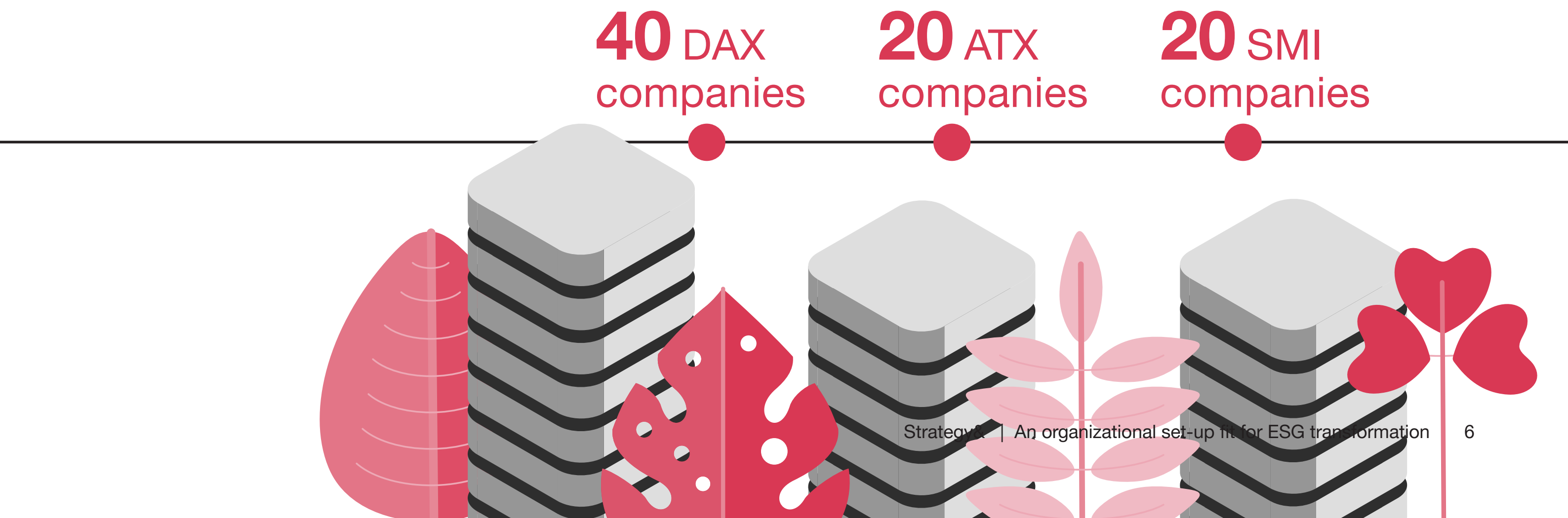
But the role and responsibilities of the CSO are still taking shape. So this year, to further understand the different positions and mandates, we took a closer look at the current CSOs of the largest publicly listed companies in Germany, Austria, and Switzerland.

We found a significant variation among them, from where they sit in the structure of the organization to their reporting lines and level of seniority. These factors are crucial in determining the potential of the CSO to drive the ESG transformation and place sustainability at the heart of business strategy, investments, and day-to-day operations[1]. Overall, the study allowed us to identify five CSO archetypes based on their position in the organizational set-up, each of which is associated with different opportunities and challenges.

A CSO in the right position to affect change suggests the company has high ESG ambitions, while a CSO with less influence suggests that the company's ESG goals do not extend beyond regulatory requirements, at least not in a centrally coordinated fashion. Conversely, if a company is committed to be an ESG frontrunner and subscribes to fostering sustainability throughout its business model, the mandate of the CSO should match this.

Below, we first summarize our key survey findings for the 40 DAX companies. We then discuss the five CSO archetypes we were able to identify. In the final section, we present the data for the 20 ATX and 20 SMI companies we looked at, applying the same questions and framework.

1 We use 'sustainability' and 'ESG' interchangeably, understanding the latter as a framework for sustainability matters. We are aware of the debate on the relative importance of E, S, and G matters to sustainability, a discussion of which would go beyond the scope of this study.

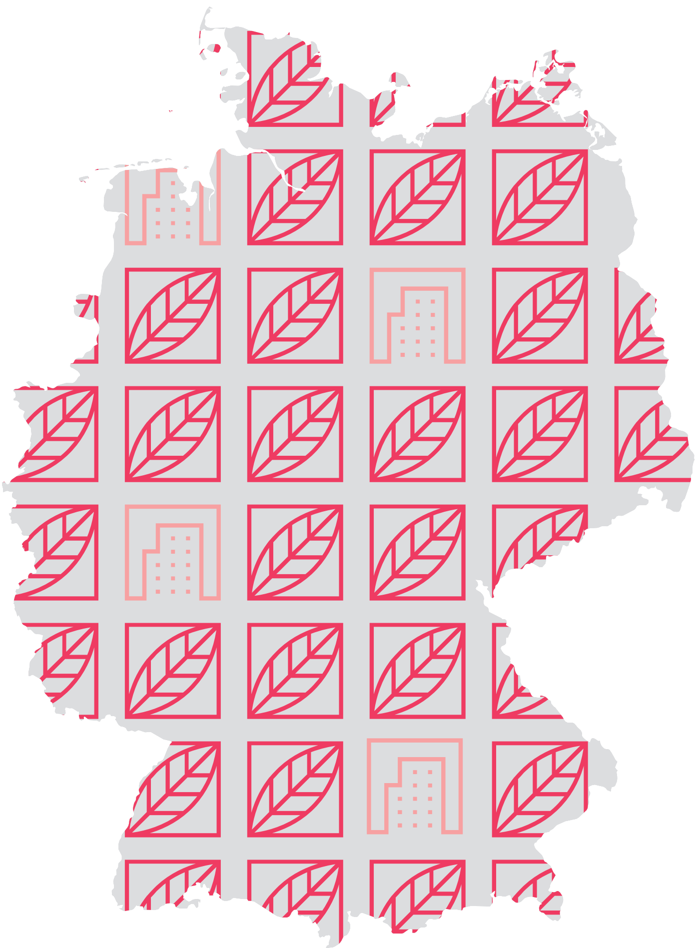


FINDING 1

German companies are serious about ESG

36 out of the 40 companies in the DAX (90 percent) have a dedicated CSO role, more than half of which have a direct reporting line to the CEO. Seventy percent of these current CSOs have been hired or promoted to their current position within the past three years. An explanation for this dynamic could be that the CSO role is changing comparatively quickly as people responsible for sustainability are elevated to more senior positions or new CSO positions are created. Either way, the new appointments suggest that businesses are committed to accelerating ESG transformation despite an adverse economic climate.

A key driver for this trend may also be the far-reaching European sustainability regulations (e.g. the Corporate Sustainability Reporting Directive and EU Taxonomy), which increasingly create a level playing field with respect to transparency concerning impacts, policies, action plans, and investments. The comprehensive qualitative and quantitative data that large companies will be required to present from the start of next year will create new industry benchmarks for customers and investors. This will also increase pressure on companies that are not yet covered by this regulation to begin improving their sustainability KPIs (such as greenhouse gas emissions, waste management, and workforce diversity).



36 out of 40 companies in the DAX (90 percent) have a dedicated CSO role

Companies with a dedicated CSO role

Companies without a dedicated CSO role

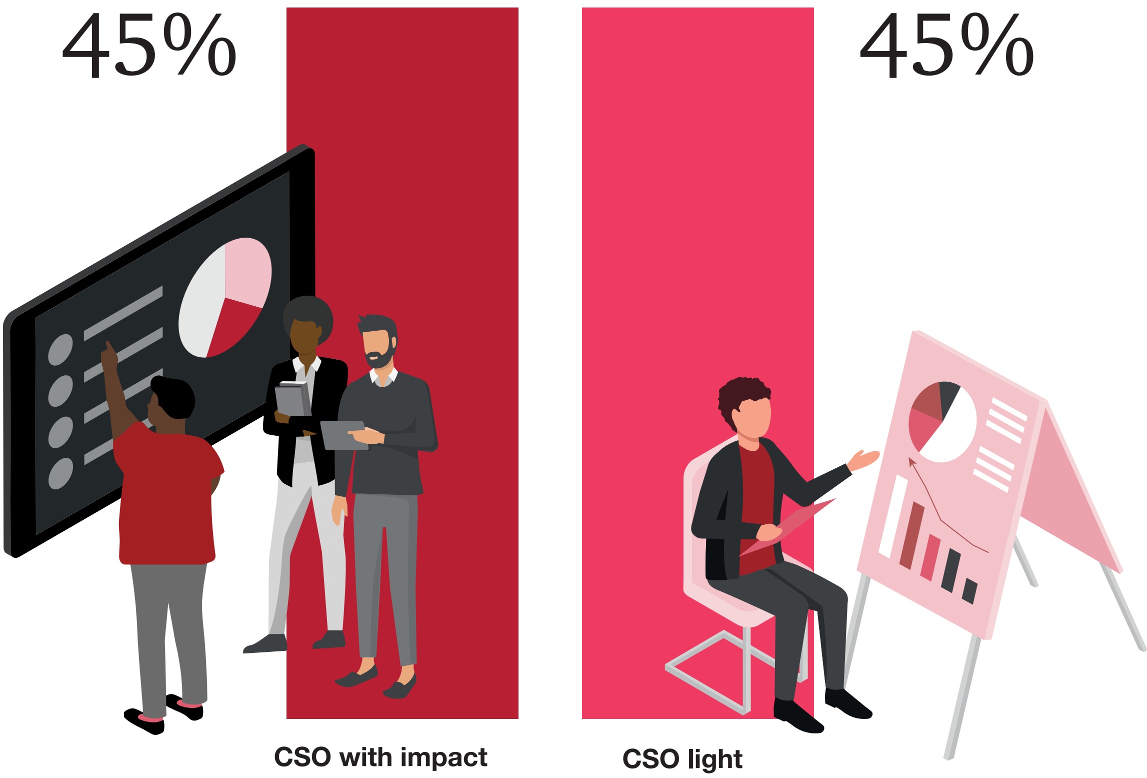
FINDING 2

CSOs are evenly split between "CSOs with impact" and "CSO lights"

CSOs vary in terms of seniority and functional role, but they broadly fit into two categories:

45 percent of DAX companies have a "CSOs with impact,". These CSOs are either the CEO themselves, or members of the C-suite reporting directly to the CEO and holding a senior position in the firm. An equal number of CSOs are classified as "CSO light" – meaning they tend to hold a more junior position with a more limited mandate (not necessarily reporting directly to the CEO).

EXHIBIT 1
CSO with impact vs. CSO light



Note: 10% not one dedicated CSO or no data available
Source: Strategy& analysis

Looking at ESG governance, almost all DAX companies (97.5 percent) have a dedicated sustainability board or council, a special governance body dedicated to sustainability that is separate from the management board and supervisory board. The composition of the sustainability board depends on a company's structure and industry, but is typically made up of members of the C-suite and/or top managers of business units and functions. The board typically meets on a regular basis (a few times a year) to set ESG priorities, monitor performance, allocate resources, and oversee ESG strategy implementation and risk management within the company to ensure transparency and accountability. Typically, the CSO is a key member of the sustainability board[2]. In future, companies should make a greater effort to integrate their CSOs into their sustainability boards so they can be part of all relevant discussions and decisions.

2 The majority of CSOs was found to be part of the sustainability board; information on this matter was not always publicly available.

EXHIBIT 2
Sustainability board

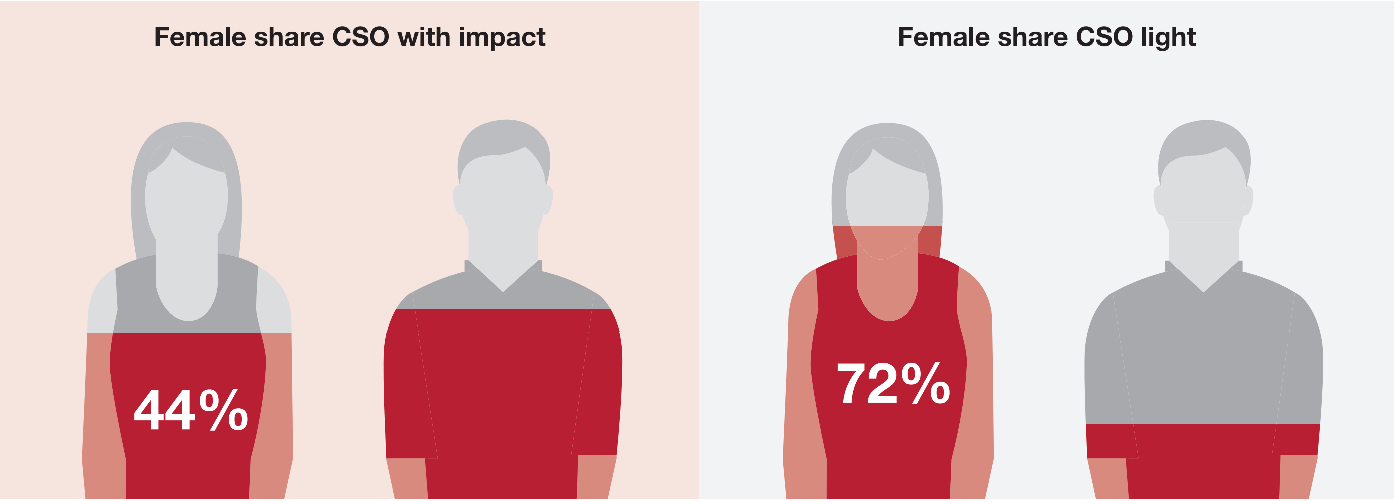
Source: Strategy& analysis

FINDING 3

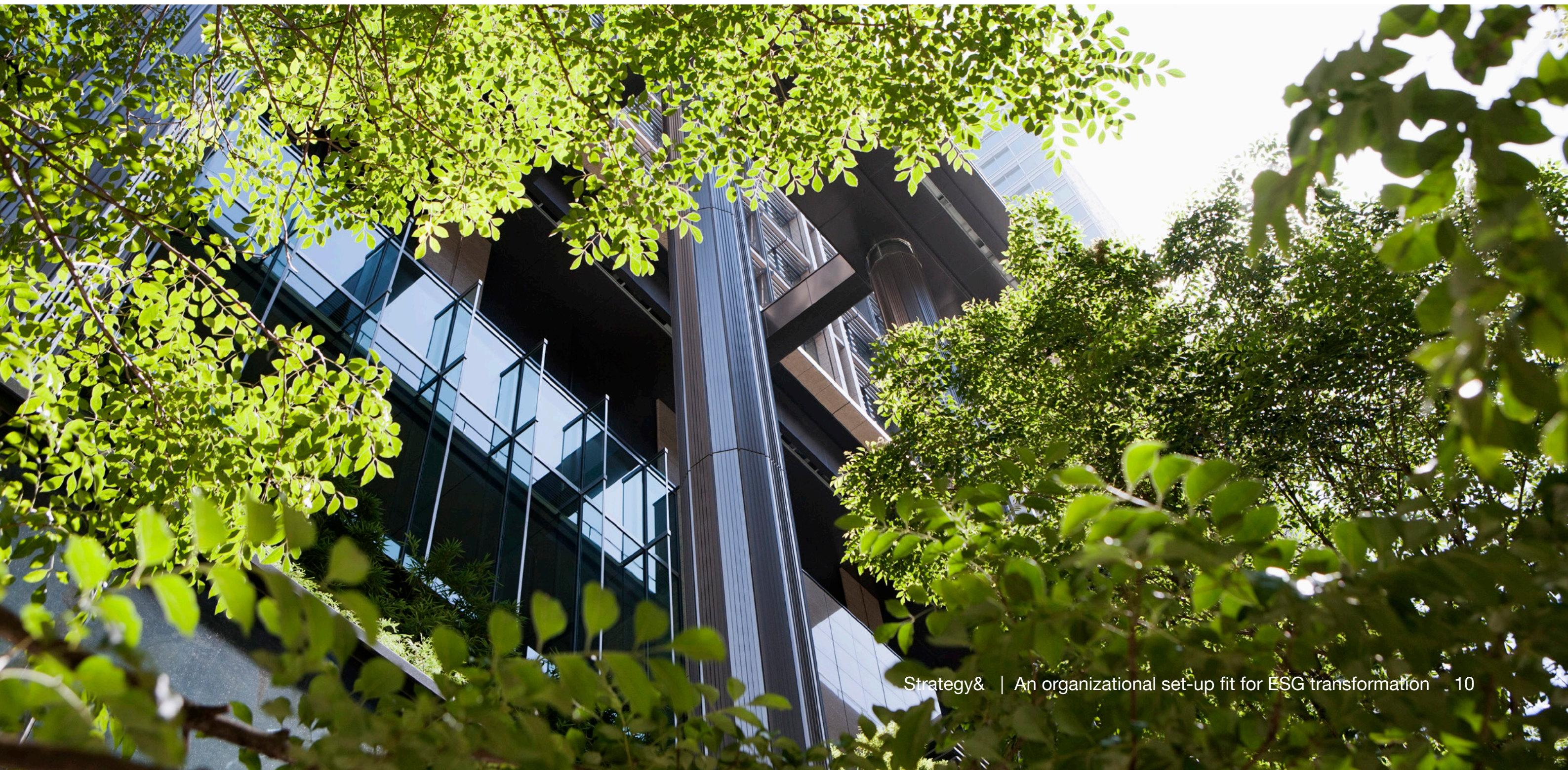
A (small) majority of CSOs are female and appointed from within company ranks

58 percent of CSOs in the DAX are female. This percentage rises to 72 percent for those in less senior positions. However, for CSOs in the C-suite, only 44 percent are female.

EXHIBIT 3
Share of female CSOs



Note: 10% not one dedicated CSO role, or no data available
Source: Strategy& analysis



67 percent of CSOs are "home grown" and have been promoted internally, while only 33 percent come from outside the organization. Companies appear to be signaling that they prefer candidates who know the company well, can navigate between different business units and departments, and most important of all, have the necessary relationships to build internal coalitions for change.

EXHIBIT 4
Internally promoted vs. externally hired

67%
of CSOs are internally promoted

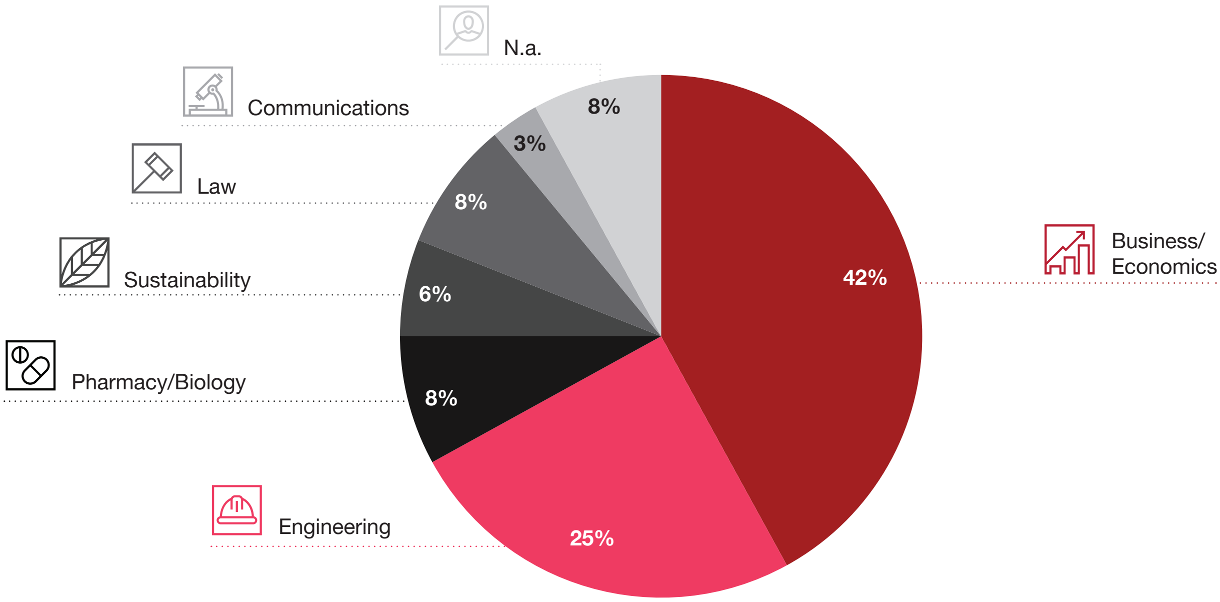
33%
of CSOs are externally hired

Source: Strategy& analysis

> "The ESG transformation is now visible in the economy, as the prevalence of CSOs underlines. Of course, the creation of the role is only a first step: CSOs need to be given the right position, mandate, and resources to drive the integration of sustainability in the corporate strategy and all business functions."
>
> **Peter Gassmann, Global Strategy& Leader, Co-Lead of Strategy& Europe ESG Platform**

CSOs come from a variety of educational backgrounds. The majority have a degree in business and/or economics and around 25 percent are engineers. Only a very small percentage studied natural sciences or sustainability.

EXHIBIT 5
CSO educational background



Source: Strategy& analysis

The data suggests that companies place great store in a CSO's knowledge of the organization's operations, processes, governance structure, and ways of working, while technical, sustainability-related expertise is sometimes brought in through internal or external advisors.

FINDING 4

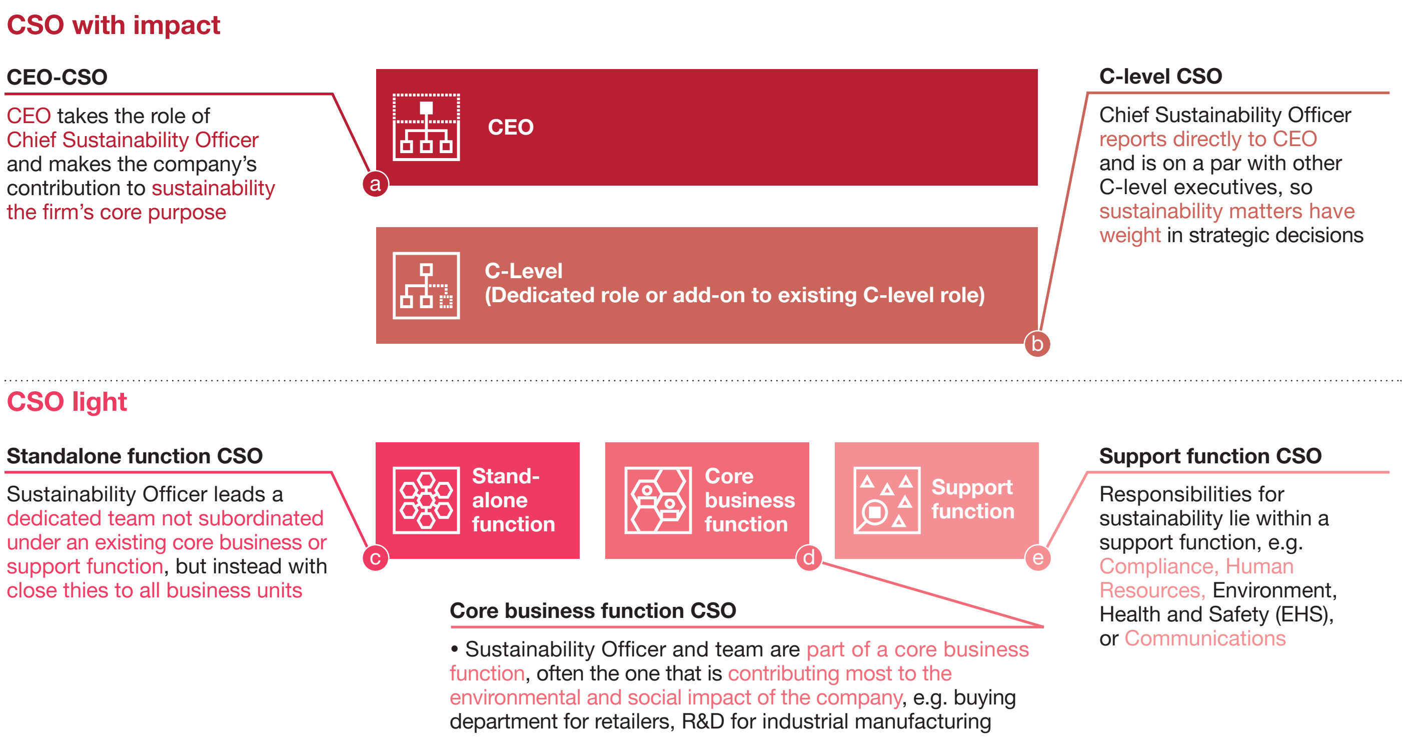
The five archetypes

The finding that some of the DAX CSOs operate on the C-level and have a direct reporting line to the CEO while others do not led us to split them into two distinct categories: “CSO with impact” and “CSO light.” The former tend to have the required seniority and mandate to drive a holistic ESG transformation, while the latter tend to have less influence to shape the pace and depth of large-scale transformative sustainability initiatives.

In this year’s study, we looked more closely at CSOs’ reporting lines and where they sit in the organizational structure. As a result, we were able to further refine the distinction between the “CSO with impact” and the “CSO light.” We found two types of “CSO with impact” and three types of “CSO light.” The following framework summarizes these five CSO archetypes:

EXHIBIT 6

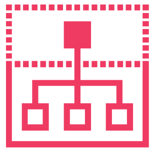
CSO archetypes – Where in the organization is the CSO role located?



Source: Strategy& analysis

First, within the category of "CSO with impact," there are two archetypes of CSO: the "CEO-CSO" and the "C-level CSO."

a. CEO-CSO

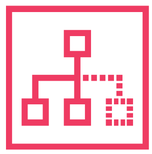


When CEOs take on direct responsibility for ESG, it should be the case that they want to direct a profound transformation of the business, putting sustainability at the core of the company's purpose and managing for long-term, sustainable performance. They take an idealistic view on the sustainability of their business. These CEOs believe only they can orchestrate the necessary change and navigate conflicting stakeholder demands from customers, investors, employees, and other interest groups, including NGOs.

Despite the great potential of this idealistic model, companies should not adopt it frivolously. If the CEO's additional CSO role is just a label and the CEO continues with business as usual, the company will be open to charges of greenwashing. To avoid this, CEO-CSOs should be prepared to back up their new sustainable business models with transformational investments; they should manage for financial as well as non-financial KPIs; and they should have clear and ambitious ESG targets linked to their remuneration in a meaningful way. As few companies are in a place to pursue sustainability in such an idealistic way, a dedicated CSO role may be more suitable for most companies.

Five out of the 40 companies that make up the DAX (12.5 percent) have CEOs who also take the role as ESG lead.

b. C-level CSO



In this case, the CSO has a dedicated role reporting directly to the CEO. He or she is a member of the top management team, on a par with other C-suite roles such as the COO or CFO. As such, they can bring strategies for sustainable transformation to the management board and ensure sustainability performance is considered alongside other corporate goals. A variant of this position is an existing member of the C-suite who takes on the role of CSO in addition to their other responsibilities. While combining two C-suite positions may sometimes make sense, the "add-on" CSO role may be seen as merely a label if it doesn't come with changes to tasks and actions.

In the DAX, eight out of 40 companies (20 percent) have a dedicated C-level CSO, while a further five companies (12.5 percent) have senior executives who combined ESG with another role, such as that of COO or Chief Strategy Officer.

Companies with this CSO archetype tend to be "ESG strategists," with a clear ESG vision and ambitious goals[3]. This CSO typically has a mandate to design and lead mid-term ESG transformation projects that deliver a clear return on investment, while also shaping the discussion on how to overhaul core business models to meet future sustainability regulation, risks, and commitments. They can forge close relationships with other members of the C-suite and thus collaboratively manage steady ESG integration into all business and support functions. Here, a close working relationship with the CFO is especially important. In fact, a recent PwC study[4] argues that a CFO's responsibilities are changing with the increased ESG demands on companies. CFOs possess the necessary capabilities for evaluating climate and other ESG risks, integrating ESG factors into reporting and data management, and explaining non-financial indicators to shareholders and the investment community.

3 For a discussion of different ESG Ambition Levels companies may take, please see https://www.pwc.com/gx/en/issues/esg/ceo-esg-dilemma.html.
4 Source: https://www.pwc.com/gx/en/issues/esg/how-cfos-further-value-creation-leading-sustainability.html.

In sum, the C-level CSO has great potential to effect real change. However, the choice of organizational structure and CSO responsibilities depends on the company-specific situation – especially on its ESG ambition, maturity, capabilities, and culture. On the one hand, smaller companies may not be in a position to adopt this model yet. On the other hand, as companies progress in terms of ESG maturity, one can expect some strategic tasks of the C-level CSO to be taken over by the CEO – for example, when ESG and financial value are fully integrated at the heart of the company's purpose. It is also desirable that, over time, other corporate functions assume more and more operational responsibility for continuously advancing ESG performance.

Next, we identified three different archetypes of CSO within the category of "CSO light":

C. Standalone function CSO

This is the most common type of CSO among the DAX. They head a standalone sustainability department but either lack seniority or the direct reporting line to the CEO (or both) to be considered a "CSO with impact." Sixteen out of Germany's 40 top listed companies (40 percent) currently have this kind of CSO and ESG organization, seven of whom report directly to the CEO.

The influence of this type of "CSO light" might be more limited. While they typically lead a team of experts spanning the breadth of E, S, and G topics, they rely on the cooperation of counterparts in business units and support functions to implement ESG strategy and collect ESG data. Thus, they often put a great deal of time and effort into educating business units about ESG and winning their buy-in for the implementation of sustainability plans and projects. The mandate of this type of CSO varies from company to company, but often goes beyond compliance to include developing the ESG strategy for consideration of management boards, creating steering KPIs, and managing ESG reporting.

Elevating the CSO to the same level of seniority as the other members of the C-suite (and establishing a direct reporting line to the CEO would make the work of the CSO and their team more effective. If the company wants to move from a pragmatic ESG approach to a more strategic one, the CSO should be given the necessary impact to direct change throughout the business.

d. Core business function CSO

A second type of “CSO light” is the CSO who is located within a core business function, usually the business function that contributes most to the company’s ESG footprint. For a retailing company, for instance, this would be the purchasing department and for a car manufacturer, the operations department. This CSO’s focus is on transforming the company’s business activities to minimize environmental or social harm. In a manufacturing plant, for example, the CSO will work to reduce resource consumption, including energy and water, promote recycling, and cut waste. In the purchasing department, the role might involve introducing ESG criteria in purchasing decisions, working with suppliers to reduce their carbon footprint, and ensuring that human rights are upheld across the value chain.

The advantage of embedding a CSO in a core business unit is that this is where the ability to make a quick, tangible impact is the greatest. This model therefore reflects a pragmatic approach to ESG. The respective CSO is able to co-develop solutions together with expert teams on the ground, increasing their chances of success. The risk, of course, is that the CSO loses sight of the big picture. They may over-focus on one problem – for example, reducing toxic waste at a chemicals plant – to the detriment of other important considerations. Furthermore, this type of CSO will typically not have the authority or internal network to be able to enlist the support of other corporate functions, such as IT or risk management, which are also necessary to a holistic ESG transformation.

In the DAX, only five percent of companies have a CSO who is located within a core business function.

> “Many companies are still focusing on meeting regulatory demands. But in light of the scope and scale of the upcoming laws and the urgent need to mitigate climate change, the focus should be on leveraging regulation beyond compliance.”
>
> **Peter Gassmann, Global Strategy& Leader,
> Co-Lead of Strategy& Europe ESG Platform**

e. Support function CSO

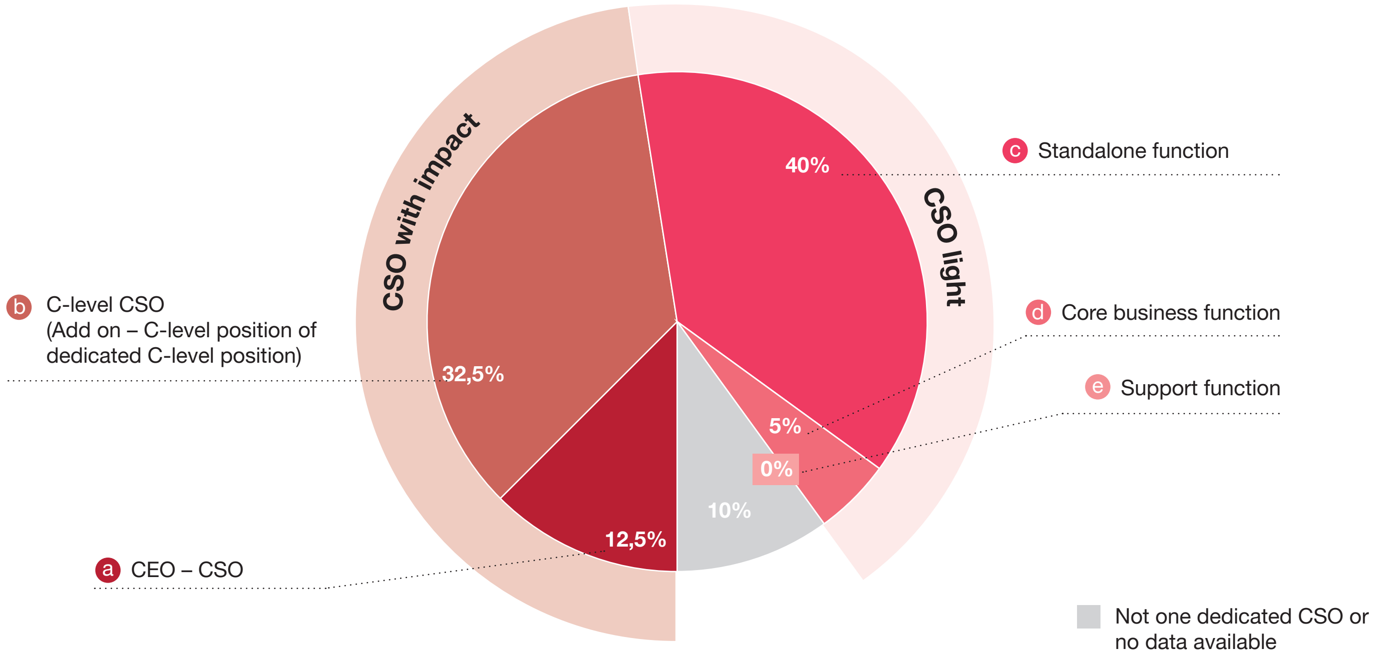
This CSO is subordinated within a support function such as finance, compliance, HR, or marketing and communications. They typically have the most limited mandate, as they are far removed from those who have the greatest influence on the company's environmental footprint and social impact. Their ability to introduce cultural or operational change within the organization is very restricted.

Companies that have this kind of CSO tend to be beginners in ESG. Either that or they are ESG skeptics. Their main priorities are to minimize legal, safety, and reputational risks, meet regulatory obligations, or to convey that they care about ESG.

No DAX companies are at this stage any longer. However, this model did exist in the past in large companies and is still common among small and medium-sized businesses. For some companies, this kind of CSO may be a feasible option for a limited period of time if the sustainability team has grown within a support function and is now an acknowledged initiator of change. However, due to its limitations, this type of CSO and ESG organization is likely to be a temporary solution, as the evolution of the role in DAX companies attests.

EXHIBIT 7

Distribution of CSO archetypes



Source: Strategy& analysis

FINDING 5

Analysis of CSOs in Austrian and Swiss listed companies

We analyzed the top listed companies in Austria (ATX) and Switzerland (SMI) in the same way as the DAX companies. All have a CSO role, however the share of "CSOs with impact" is lower in Austria than in Germany (35 percent), while it is higher in Switzerland (60 percent). A second difference between the countries concerns the prevalence of archetypes. While the most common CSO archetype among DAX companies is the CSO heading a standalone sustainability function (40 percent), the most common type in Austria is the Support Function CSO (25 percent) – an organizational set-up we no longer find in the DAX or SMI companies. A high share of C-level CSOs (55 percent) in SMI companies is noteworthy.

Thus, the need to reinforce the mandate of the CSO appears to be greater in Austria, where most ATX CSOs are "CSO lights" working in support functions. By contrast, SMI companies seem to be leading in terms of establishing CSO roles that promise holistic sustainability transformation. To point to a third major difference, the CSO role turns out to be mainly in male hands among ATX (30 percent female CSOs) and SMI (35 percent female CSOs) companies, while among the DAX companies, a (narrow) majority of CSOs are female (58 percent).

CSOs in ATX companies

1. Similar to Germany, Austria's ATX companies acknowledge the importance of ESG

100%
of ATX companies have some kind of CSO role
(90% in Germany)

55%
of CSOs report to the CEO
(64% in Germany)

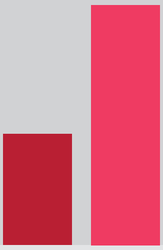
75%
of CSOs have been hired within the past three years
(69% in Germany)

70%
of ATX companies have a sustainability board

30%
do not have a sustainability board or no information available

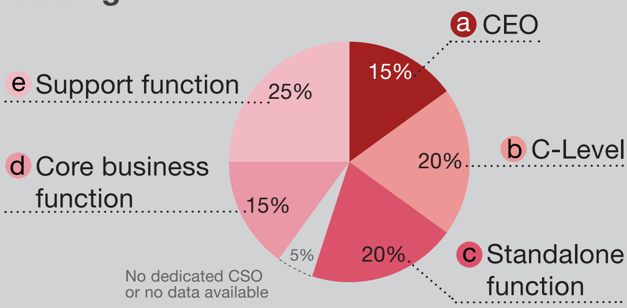
2. The majority of ATX companies still have a "CSO light"

35%
CSO with impact



65%
CSO light

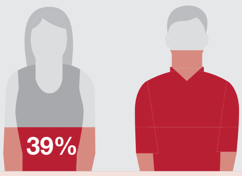
CSO with impact vs. CSO light



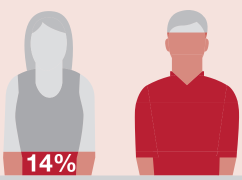
Distribution of CSO archetypes

3. A majority of ATX CSOs are male, have been internally appointed, and have diverse academic backgrounds

Share of female CSOs: 30%



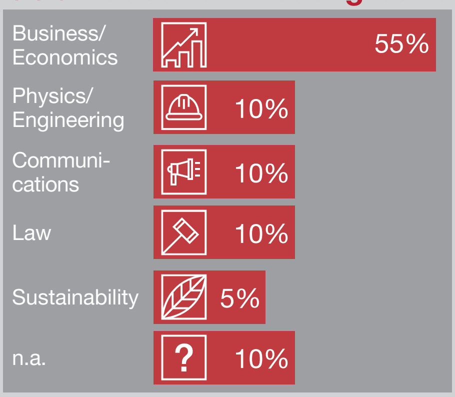
CSO light
Only 39% of ATX CSO lights are female
(72% in Germany)



CSO with impact
This number decreases to only 14% for "CSOs with impact"
(44% in Germany)

70%
of CSOs have been appointed internally (vs. externally hired)
(67% in Germany)

CSO educational background



CSOs in SMI companies

1. Switzerland's SMI companies acknowledge the importance of ESG

100%
of SMI companies have some kind of CSO role
(90% in Germany)

60%
of CSOs report to the CEO
(64% in Germany)

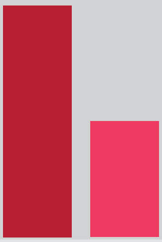
75%
of CSOs have been hired within the past three years
(69% in Germany)

75%
of SMI companies have a sustainability board

25%
do not have a sustainability board or no information available

2. The majority of SMI companies have a "CSO with impact"

60%
CSO with impact

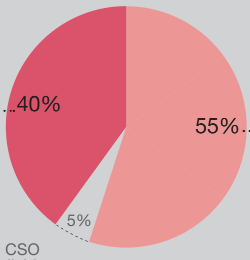


35%
CSO light

5%: No information available

CSO with impact vs. CSO light

b Standalone function 40%



55% .... a C-Level

5%

No dedicated CSO or no data available

Distribution of CSO archetypes

3. Similar to Austria, a majority of SMI CSOs are male, have been internally appointed and have diverse academic backgrounds

Share of female CSOs: 35%

14%

CSO light

Only 14% of SMI companies CSO lights are female
(72% in Germany)

50%

CSO with impact

Interestingly, this number increases to 50% for "CSOs with impact"
(44% in Germany)

85%
of CSOs have been appointed internally (vs. externally hired)
(67% in Germany)

CSO educational background

Business/ Economics	40%
Natural Sciences	25%
Engineering	15%
Political Sciences	10%
Sustainability	5%
Law	5%

Conclusion

Companies are under mounting pressure – from regulators, investors, clients, and employees – to abandon “business as usual” in favor of long-term sustainable business models. The imperative now is to address those demands with the full focus of a qualified and ambitious executive leader – the Chief Sustainability Officer.

Our deep dive into the top listed companies in Germany, Austria, and Switzerland shows that around half of them – those with a “CSO with impact” – have understood the rising importance of ESG regarding their long-term financial future and value creation. Generally, however, more must be done to develop the role and its relevance within organizations. This is particularly true for those companies with a “CSO light” with limited influence on the firm’s ESG transformation.

Where the CSO sits in the organizational structure is critical to success. Ideally, the CSO will lead a dedicated sustainability function, tasked with taking a holistic approach to ESG and covering all the significant environmental and social impacts of a company’s operations and processes. They will have the authority to develop a full ESG strategy that is embedded in both short and long-term planning and aligns ESG goals with financial objectives. In short, the CSO’s role is to ensure that ESG becomes integral to financial value.

The CSO will also have the mandate to overhaul business operations where needed and should leverage ESG regulations beyond compliance to create value. Legally required measures can be implemented with rigor and stringency such that the operational benefits and new strategic opportunities significantly outweigh the efforts of compliance. For example, implementing the processes needed to gather data for sustainability reporting may be leveraged to enhance internal steering and operationalization of the ESG strategy.

Even though the findings suggest that, overall, most DAX (and SMI) companies are taking ESG seriously, there is no room for complacency. First, there is still a relatively high share of "CSO lights" without the influence to undertake large-scale ESG transformation (Germany: 45 percent, Austria: 65 percent, Switzerland: 35 percent). Second, PwC's Net Zero Economy Index[5] shows that Europe as a whole is falling behind on its emissions-reduction targets. Germany's carbon intensity, for example, increased by 1.7 percent in 2021. In comparison, a global annual reduction target of 15.2 percent year-on-year is needed to limit global warming to 1.5°C, as recommended in the Paris Agreement.

It is likely that CSOs will continue to exhibit wide variation in status and responsibilities as the role continues to mature. We are unlikely to see a "one-size-fits-all" CSO and ESG governance for a while, given that ESG ambitions and capabilities vary so widely between companies of different sizes and industries, as do the ESG challenges they face. The CSO-Archetype Framework we developed and applied to the DAX, ATX, and SMI companies in this study may help business leaders of large as well as small and medium-sized companies to address the question of how to effectively integrate sustainability in the organizational structure, given their individual circumstances and position on the ESG journey.

Methodology

The data in this study was gathered in March and April 2023 through outside-in desk research of the largest publicly listed companies in Germany (40 DAX companies), Austria (20 ATX companies), and Switzerland (20 SMI companies). For each company, the person with overarching responsibility for sustainability was identified ("Chief Sustainability Officer") and the following information collected, if available: name, gender, job title, year hired/promoted to the current position, educational and professional background. Additionally, information on the company's general sustainability governance including job levels and titles, hierarchies, reporting lines, net-zero strategy, and sustainability boards or committees was gathered.

We used this information to categorize the CSOs into the two categories "CSO with impact" and "CSO light," whereby the company-specific job title of the CSO, e.g. Head of Sustainability or Sustainable Lead, was not the sole criterion. Further, we applied definitions of the five CSO archetypes, to the extent the available information allowed (otherwise: n.a.).

The sources used for the data analysis were openly available sources including corporate homepages, sustainability reports, non-financial reports, and annual business reports. Furthermore, information from paid databases such as XING and LinkedIn was used for the analysis.

5 https://www.pwc.co.uk/services/sustainability-climate-change/insights/net-zero-economy-index.html

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