

strategy&

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Sustainable Target Operating Model

How to integrate sustainability into business strategies

June 2022

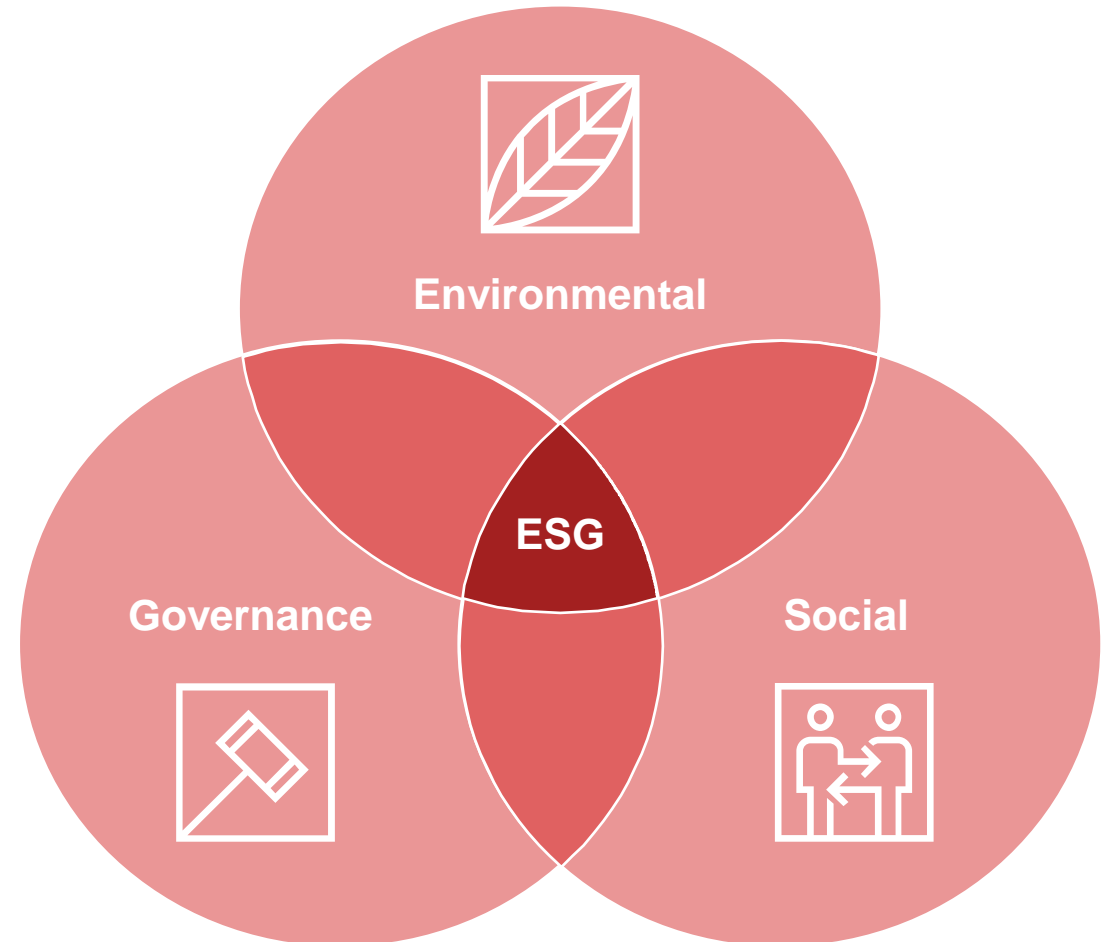


ESG covers environmental, e.g. climate change; social, e.g. human capital; and governance, e.g. corporate behavior, issues

What is ESG?

ESG stands for Environmental, Social, and Governance.

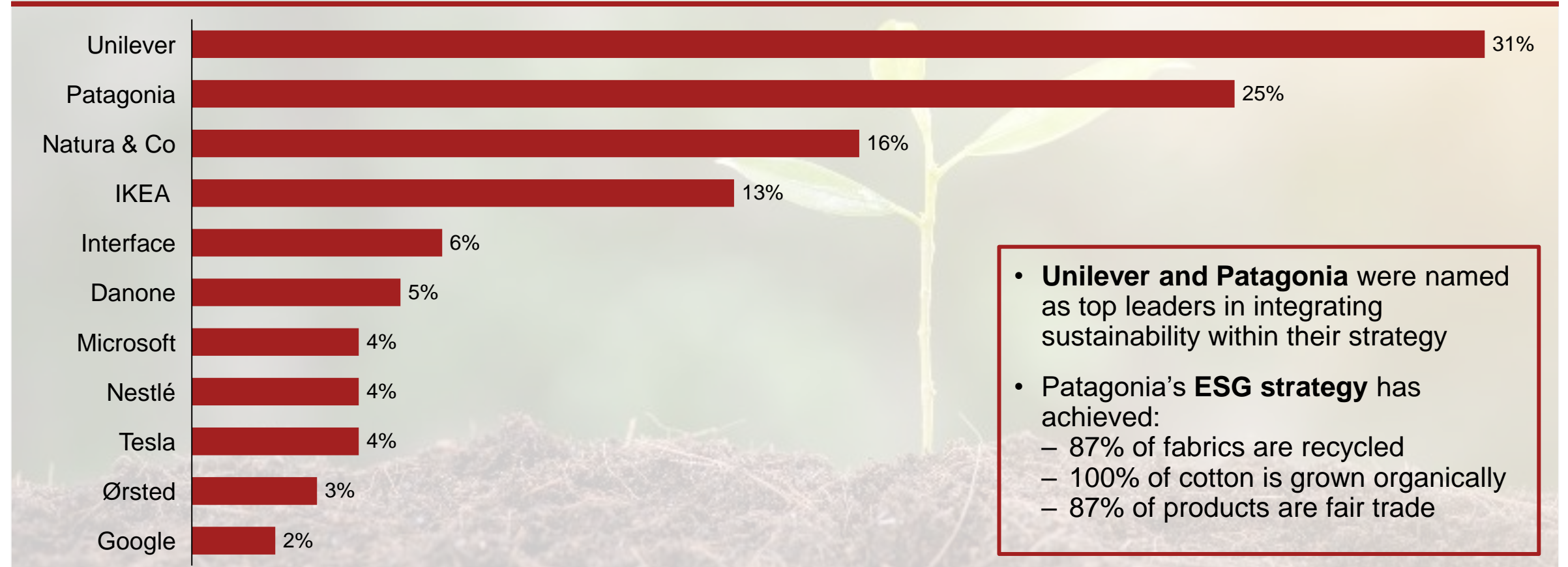
It refers to a breadth of non-financial factors (many of which can have demonstrable financial impact) that companies are increasingly incorporating into their decision making.



If you don't know where to start, have a look how leading sustainability players integrate ESG into the business strategy

Survey of leaders in sustainability

What companies do you think are leaders in integrating sustainability into their business strategy?

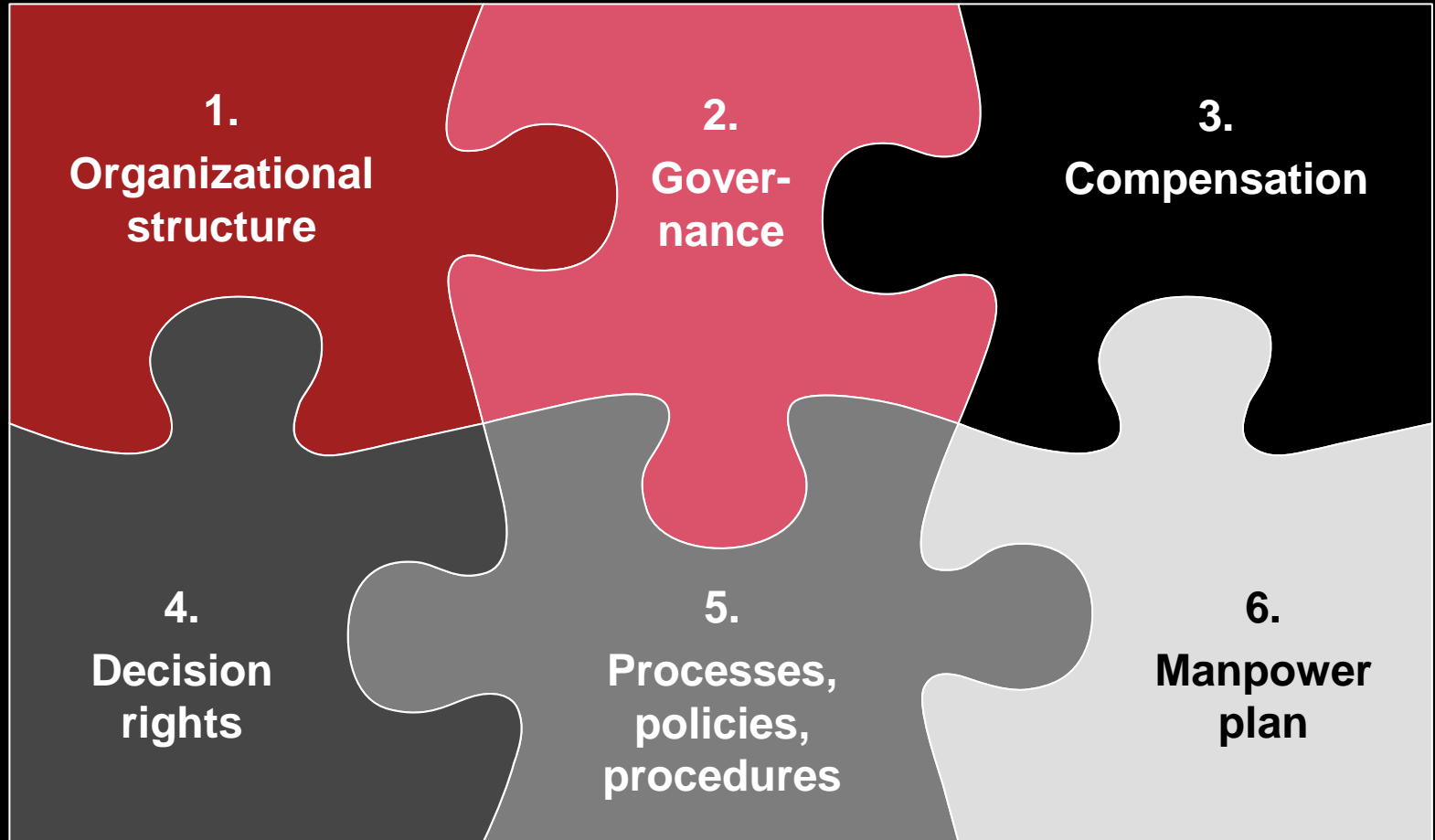


“

We cannot choose between [economic] growth and sustainability – we must have both”

Paul Polman
(Former) FMCG CEO

These companies with a successful ESG strategy define their operating model along six building blocks

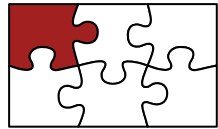


Details on following pages

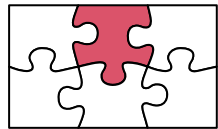
Several key questions need to be asked among the ESG building blocks – potential trade-offs need to be considered

Building blocks of operating model

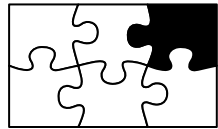
ESG building blocks



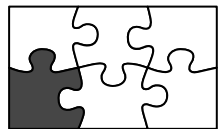
1. **Organizational structure**



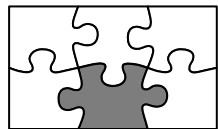
2. **Governance**



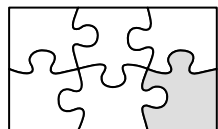
3. **Compensation**



4. **Decision rights**



5. **Processes, policies, procedures**



6. **Manpower plan**

Key questions (selection)

- On which **organizational level** is the **expertise located**?
- How does the **board** need to evolve for the ESG strategy?
- Which internal targets and external **targets** are defined?
- How is ESG **integrated** in the existing functions?
- Is the ESG strategy aligned with the **company culture**?
- How can **talent** be attracted, developed and retained?

Trade-offs (selection)

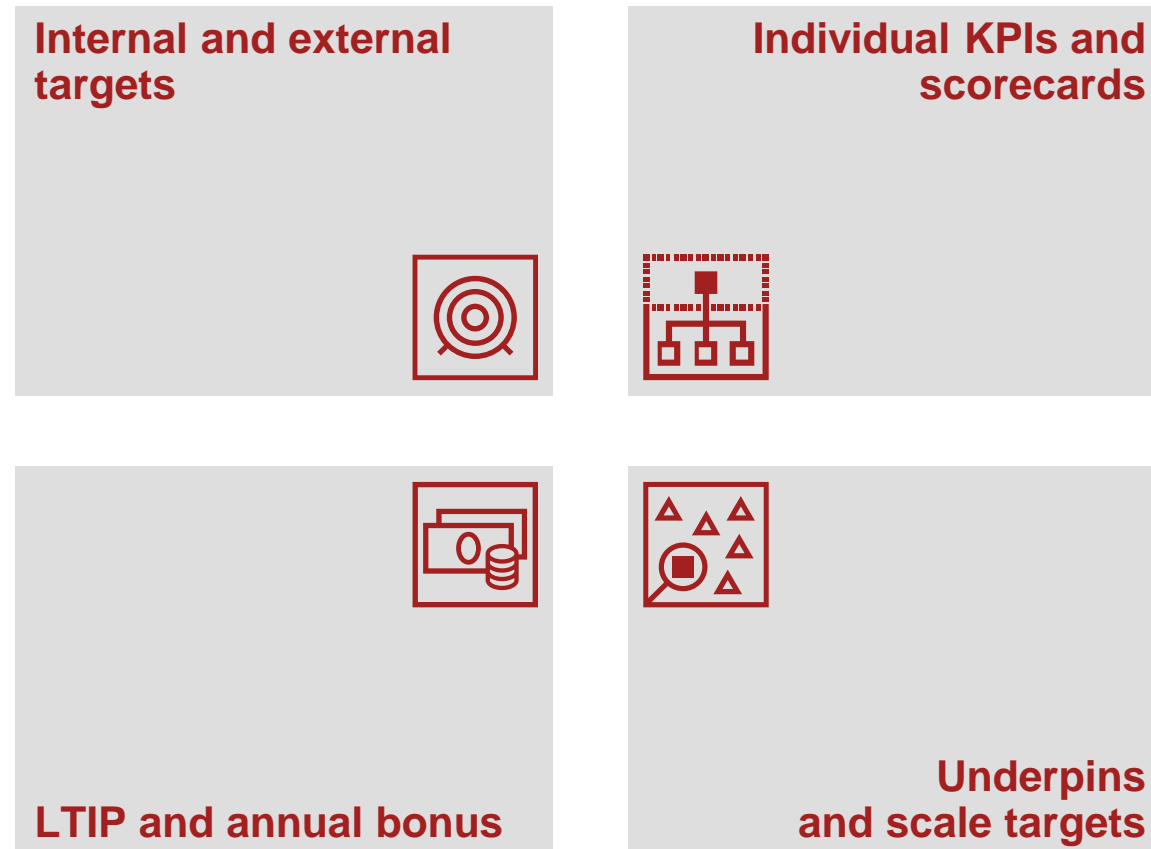
- Decentral integration might lower the **decision-making**
- **Reactive** ESG approach might be focused too short-term
- **Financial targets** may not be maximized given ESG goals
- **Transparency** might be hindered in decentral teaming
- **Complex ESG process** might hinder meaningful agenda
- Unclear ESG commitment might lead to **loss in talent**



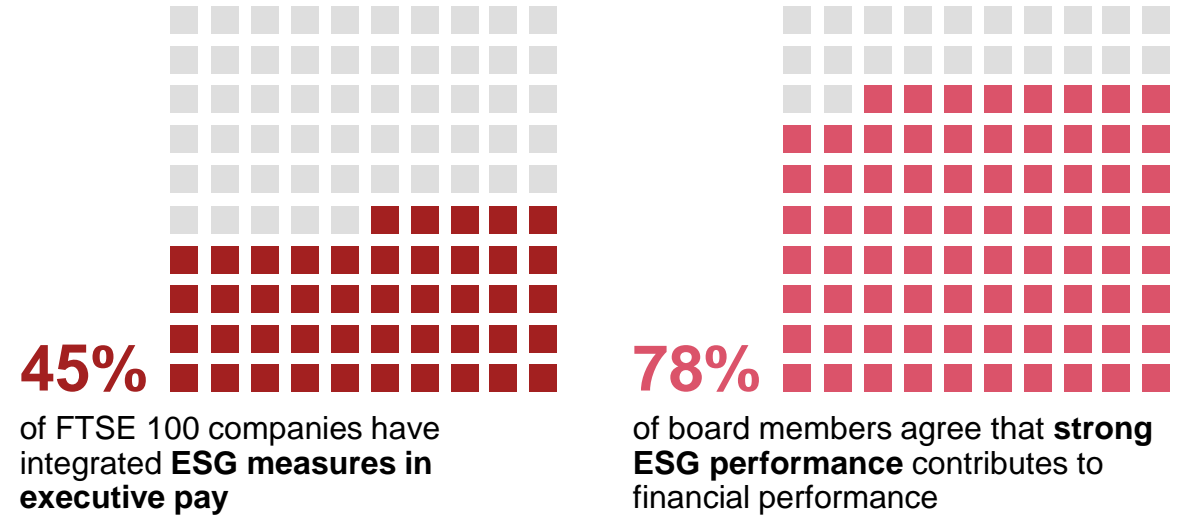
Including ESG measures in executives pay is a key measure to close the say-do gap and enable sustainable business conduct

ESG and executive compensation

Key design dimensions for ESG-adjusted executive pay



Market evidence and practical examples



- Player 1** Adjusted **bonus pay-outs** by up to 10% based on performance with respect to **“Apple values”**
- Player 2** Increased **weighting of long-term targets** around **reducing net carbon footprint** from 10% to 20%
- Player 3** Encapsulated **sustainability priorities scorecard** with **25% of the LTIP** in its sustainable living plan



Depending on the ambition level, ESG may be integrated in functions/ committees or driven by the Executive Board/ CEO

Clear governance set-up incl. decision rights



Integration in functions and committees



Description:

ESG is located in the EB-2 level within functions and additional committees



Key advantage:

Progress of the ESG initiative driven from an operative level allowing bilateral exchange to meet the regulatory minimum with a limited effort



Key disadvantage:

Integration on the operative level lowers the decision-making power and credible commitment to drive the ESG agenda

Integration in the Executive Board



Description:

ESG is typically covered by a Chief Sustainability Officer (CSO)



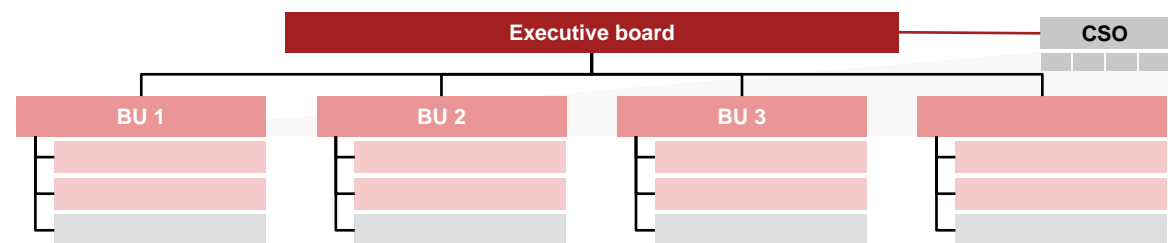
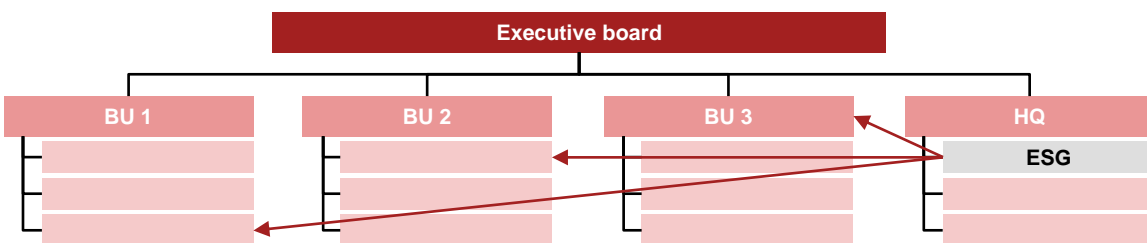
Key advantage:

High decision-making power and credibility for fully implementing the ESG agenda within the organization



Key disadvantage:

Greater set-up efforts and costs involved at the beginning to establish the governance



Integrating ESG in the Executive Board ensures having the required power to credibly commit to implement ESG in the organization

There are massive differences when comparing the level of ESG activities of leading FMCG players and retailers

ESG organization benchmarking

		Organizational integration	Degree of centralization	Employee engagement	External partnerships	Degree of KPI ambition level	Comments
FMCG focus	Player 1	High	High	High	High	High	<ul style="list-style-type: none"> At player 1 there is the Corporate Responsibility Committee, the Chief Sustainability Officer and a Divisional Sustainability Team
	Player 2	Medium	High	Medium	High	High	<ul style="list-style-type: none"> Player 2 has its dedicated Sustainability Committee which is appointed by the board of directors
	Player 3	Low	Low	Medium	Low	Medium	<ul style="list-style-type: none"> Player 3 covers sustainability with the Governance and Public Responsibility Committee
Retailer focus	Player 4	Low	Medium	High	High	High	<ul style="list-style-type: none"> Player 4 Group tackles sustainability at the CEO level, integrates it in business processes and has an independent Sustainability Advisory Board
	Player 5	Low	Low	Medium	High	Medium	<ul style="list-style-type: none"> Player 5 already set up a sustainability working team in 2009, it is organized very decentralized and follows the GRI index (global reporting initiative) for its sustainability KPIs
	Player 6	Medium	Medium	High	High	High	

● Low
 ● Medium
 ● High

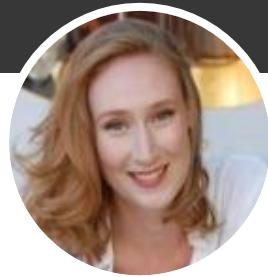
Reach out to our team if we can support you with the integration of ESG into your business strategy



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