

# Guideline for the German Sustainability Code

Guidance for SMEs



German Council for  
SUSTAINABLE  
Development

| BertelsmannStiftung

Sustainability means prosperity for all – but not at the expense of other countries, other people and future generations, nor to the detriment of the natural environment. In short: today, not at the expense of tomorrow; here, not at the expense of elsewhere.

Sustainable management thus means looking to the future while balancing social, environmental and economic goals.

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# FOREWORD

## Small and medium-sized enterprises form the backbone of a sustainable economy



### **The German Sustainability Code sets standards for transparency**

By issuing this guide, the Council for Sustainable Development (RNE) and the Bertelsmann Foundation wish to encourage small and medium-sized enterprises (SMEs)\* in particular to apply the German Sustainability Code (GSC). We want to support them to the best of our ability. The Sustainability Code is not only a reporting tool that is tailored to you, but it also provides you with guidance relating to sustainability management. With its 20 criteria for sustainable management, drawn up in dialogue with stakeholders in 2011 and revised in 2014, the GSC helps businesses to see clearly what is meant by the term “sustainability”, to maintain their focus on the essentials and, at the same time, to attend to their responsibility towards the environment and society in a more effective and more ambitious fashion.



For many SMEs, sustainability is part of their everyday life: many organize their activities in a socially and environmentally responsible manner in the long term – and have often already been doing so for decades or generations. The financial markets, climate change, ever scarcer resources, demographic trends, endangered natural spaces or rapid digitization are posing new challenges for these companies.

In this situation, the RNE supports efforts to achieve sustainable management in SMEs by means of its GSC: by using the GSC, companies can start or underpin their reporting and manage sustainability better. They draw significant benefits from this: for example, efficiency measures reduce energy costs; occupational health care boosts employee motivation; rules against corruption mitigate risks to the firm’s reputation. The GSC also offers enterprises the chance to portray their commitment to sustainable development and their related good achievements in a better and more publicly perceptible way. This makes them better able to compete for the best employees or position themselves vis-à-vis customers and their partners in banks and savings banks. And don’t forget that reporting on sustainability also signals to employees that this issue really does have high priority within the company. It can thus help to increase awareness of sustainability and so influence corporate culture.

By using the GSC, therefore, SMEs can show clearly how they assume responsibility for society, because in the GSC, sustainable management is stripped down to its essential characteristics and so divested from arbitrariness, which means that the reporting does not get mired in details. The critical thing is not whether each measure is described meticulously but that the company can determine and explain its individual priorities.

With the aid of the GSC, outsiders can also assess more easily what the sustainable development of a company consists of and where it stands in comparison to others – that is to say how far sustainable management has been integrated into the management of

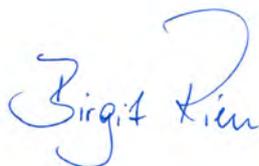
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\* The official term “small and medium-sized enterprises” includes both micro-enterprises, such as workshops or start-ups with fewer than ten employees, and medium-sized companies, whether owner-managed, family enterprises or corporations.

the company. Members of the political sphere and civil society, including customers, current and future employees as well as investors are interested in such issues. To date, when it came to reporting on sustainable management, it was large companies and corporations that constituted the focus of the debate. Increasingly, however, SMEs are having their say, because the events along the entire value chain are increasingly attracting the attention of society, and SMEs are thus ever more often questioned about them. The European Parliament thus decided in the middle of April 2014 that public interest entities with 500 employees or more should, in the future, be required to report on their sustainability performance. This affects about 6,000 companies in Europe.

The GSC offers SMEs in particular a very specific array of benefits. We are making this guide available so that such enterprises may be able to benefit from them more easily, robustly and with a reasonable amount of effort. It was drawn up in close cooperation with companies and stakeholder groups. We warmly thank all participants for giving us their time, expertise and ideas!

SMEs form the backbone of the German economy. They should and can also form the backbone of a sustainable economy.



Birgit Riess  
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Secretary General of the Council  
for Sustainable Development  
of the Federal Government

# ABOUT THIS GUIDE

## Helpful companion

This guide helps companies to start applying the German Sustainability Code (GSC). In it, we explain precisely what the GSC is and what its individual criteria are all about. We thus help you to get started with the day-to-day practice of sustainable management and to continuously improve it. By doing so, we also want to appeal to companies that are still in the early stages of sustainable management or who have, to date, been tackling the issue of sustainability in many different ways and now want to organize their activities more systematically. The guide builds on the GSC and is, therefore, not a comprehensive management manual for all issues relating to the strategy, organization and implementation of sustainable management. If you are in the process of drawing up a declaration of conformity with the GSC and meeting its requirements for transparency, then this guide is a helpful companion you can refer to time and again.

## Step by step to your goal

Especially with regard to SMEs, there are many companies for which sustainability is part of their everyday working life, but who have not yet documented their achievements. Does this apply to your business? Then you should make a start – and you will soon come to recognize your strengths and weaknesses. Everything mentioned in GSC may not already be an accepted part of your

business practices. Don't worry! Answer the questions as best you can. Not all companies meet all the requirements in equal measure. In such instances, explain why you cannot report on a criterion or why you can – or only wish to – report in part on the matter.

One topic may not have cropped up in your company; with another, you might not have progressed far enough to say something tangible about it. Some criteria may not (yet) affect your business. The German Sustainability Code is the condensed knowledge of years of experience with sustainable management and best practice reporting. It thus focuses its attention on the essentials.

Here, what is important is not perfection, but the fact that you describe your approach, your efforts, your difficulties, i.e. your company's individual process.

## Structure and core

The GSC is divided into four sections:

- **STRATEGY**  
(materiality, vision and objectives)
- **PROCESS MANAGEMENT**  
(rules and structures)
- **ENVIRONMENT**  
(ecological aspects of sustainability)
- **SOCIETY**  
(social aspects of sustainability)

Section 1 is especially important for beginners: this is where you show that the key issues and challenges and the opportunities and risks that your organization faces in terms of sustainability are on your radar screen. You also describe how you weight them, how you deal with them, and what goals your business sets to make its work more sustainable – along the entire value chain, if possible. This section forms the core of the GSC. Fill it in very thoroughly to help you lay the foundation for all other questions; you will then have achieved the decisive factor for GSC compliance.

## Conflicting objectives

Anyone who engages with the issue of sustainability in depth quickly realizes that some objectives or projects may conflict with each other in daily business practice. If you have, for example, announced that your purchasing department always buys products as cheaply as possible, then you will not always be able, at the same time, to also purchase products that have been made in the most environmentally friendly and socially responsible way. As a rule, doing so is more expensive. But do not shy away from such conflicts, neither in your company nor when you fill in the GSC. They belong to the essence of sustainability and can and should also be reflected in the GSC. The path to sustainability is also a struggle for the best way to achieve the objectives in each case. It requires decisions to be made.

# FREQUENTLY ASKED QUESTIONS

## Examples of how others do it

For each criterion, we have given two examples that are intended to show you the range of possible answers. Here, it is not a matter of “good” or “bad”. Rather, we show you how other SMEs have completed the GSC – depending on their level of development – and the very minimum your company should report to meet GSC requirements. What also becomes clear is that some have raised the bar even higher. This can and is supposed to inspire others to act similarly.

## Why should a company report on its achievements relating to sustainability at all?

Companies bear shared responsibility for sustainable development and they should publicly document how they satisfy this responsibility. The capital market, above all, is increasingly using this information to assess the opportunities and risks of investments or granting someone a loan. But reporting also has a great impact on the company itself: reporting means not just collecting information but also examining and analyzing it carefully. This reveals vulnerabilities as well as untapped opportunities. The company can detect whether it adheres to all laws and regulations (compliance). Another important effect is that the workforce is made aware of the issue of sustainability and is motivated to contribute towards it. Furthermore, companies demonstrate how they work together with government and society towards a form of development that is sustainable overall. Everyone is a partner in this task. The sustainability policy and the National Sustainable Development Strategy provide a sounding board for corporate contributions towards sustainability.

There are already a number of reporting standards such as the OECD Guidelines, ISO 26000, the Global Reporting Initiative (GRI) and the Global Compact of the United Nations (UN Global Compact).

## Why should a business apply the German Sustainability Code (GSC)?

These and other initiatives have furnished international reporting and management standards. The GSC builds on them, enhances their impact and can, in turn, be built on. It pares the sometimes complex requirements down to the essentials. The GSC is a tool for all businesses and organizations for which the Council for Sustainable Development (RNE) of the Federal Government answers. It makes visible the extent to which sustainability is anchored and practised in German companies more clearly and more practically than before. Companies can use it to clearly position themselves. In addition, the GSC – as an initial step – can help SMEs in particular to prepare a report that is in accordance with the above-mentioned principles. Conversely, the GSC is capable of being linked to these standards. It is the right, easy and sustainable way to – without duplicating any work – submit a report that is consistent with the declaration of conformity by simply referring to existing reports. The enterprise thus satisfies the requirements of GSC in full.

### How do the GSC and the UN Global Compact relate to each other?

Companies participating in the UN Global Compact can also use the declaration of conformity as a communication on progress (COP). In order to meet the minimum requirements of the Global Compact, the declaration of conformity should also contain a statement made by the management board relating to continuing the company's commitment to the Global Compact and to the further efforts to implement and promote the ten principles. More information about the German Global Compact network can be found here: [www.globalcompact.de](http://www.globalcompact.de).

### Our company has already published a sustainability report. So why do we need a declaration of conformity with the GSC?

Sustainability reports usually have, unfortunately, fewer readers than you would wish for. The information contained in them is often not presented in a way that is appropriate for potential users. Moreover, they are not very comparable and often focus too little on the essentials. That is why the RNE has distilled a selection of performance indicators in dialogue with representatives of the capital market and of companies from common reporting standards and has described criteria that clearly and concisely represent the key information on a company's sustainability performance.

### Our company has no established reporting system – do I still have to report on the performance indicators?

The performance indicators are a component of the GSC and are, just like the criteria, reported on according to the principle of "comply or explain". The reason is that it is not possible to assess sustainability performance comprehensively by means of either the narrative part of the criteria or the measurable quantities alone. The two elements thus complement each other. If you do not collect the data relating to the indicators, explain briefly at these points why you don't. What we find important is that you make a start. Some declarations of conformity are more credible if they show that not all requirements are met and they describe how the corporate culture of sustainability is actually practised. Where does your company stand as regards sustainability? Just starting? Then describe this snapshot of the start. Right in the middle? Or are you already setting ambitious goals for the future? The process and the approaches relating to the management of sustainability are different for every single company. We are curious to discover what the situation looks like in your firm.

### Who is interested in the GSC?

The priority target groups that can use the declarations of conformity with the GSC are:

- the firm's own management in order to manage sustainability within the company as well as to analyze and manage opportunities and risks;
- the firm's own and future employees who wish to work for a company that shows overall responsibility;
- customers and suppliers that set great store by sustainability in the value chain;
- policy makers who wish to get an idea of sustainable management;
- and the actors on the financial market to be better able to assess the opportunities and risks of investments and loans.

Large businesses can benefit from the GSC in order to give their partners in the supply chain an easy tool that meets customers' demands for sustainability. Potential users undoubtedly include non-governmental organizations and the scientific community. In proportion to how the GSC is used by the business sector and the number of declarations of conformity rises, so the interest of the target groups will grow.

### Why is comparability important?

Society's interest in how companies carry out business responsibly is increasing. But the way the information has been processed so far makes it hard for the user to see how a company operates in comparison to others – if at all. In the maze of often extensive sustainability reports, the essential facts are usually difficult to discern. This is a problem not only for investors. By having all companies answer the same 20 criteria, readers can quickly and easily see at a glance differences in the quality of the information provided. This makes the reporting process more transparent and credible. The more companies participate in the GSC, the more likely it is to succeed in kindling competition to find the best sustainability solutions.

### What is the GSC's role in the context of the new EU reporting requirements relating to the disclosure of non-financial information?

In the amendment proposed by the EU Commission on the disclosure of non-financial information, the GSC is mentioned as a suitable reporting standard for those companies that are affected by the Directive. These comprise public interest entities, i.e. companies, banks and insurance companies with 500 employees or more (as of July 2014).

### How long does it take on average to fill in the GSC?

That depends entirely on how deeply sustainability has already been anchored in the company and to what extent the necessary data and facts have already been processed and are available. On average, it takes a company about five working days to draw up and vote on a declaration of conformity. The shortest period of time is one day, the longest 50 days; the maximum value for large companies of 20 days is a lot shorter than for small and medium-sized enterprises. But even expending a lot of time on the GSC is worth it if the process makes it clear to the company what strategy it is pursuing with regard to sustainability, the goals it wishes to set itself and what measures it chooses to fulfil them.

### What costs can we roughly count on?

Application of the GSC is free of charge. The internal costs incurred by the company depend on the time required to acquire the data.

### How can the GSC benefit my company?

Figures count, but when it comes to sustainable management, what is primarily crucial is ethical behaviour and a view to the future. The benefit lies, among other things, in taking the actions of individual people seriously and of not hiding one's own responsibility behind a pile of data. In the process, the GSC provides support in maintaining credibility and access to markets but also in continually pushing forward innovation and new ways of thinking in companies, while maintaining proven principles. With your declaration relating to the GSC, you demonstrate that you can also report on your supply chain beyond your immediate corporate boundaries. As a supplier, you can use the GSC to portray your sustainability achievements and thus score points when establishing relationships with new suppliers. You can, however, also use the DNK to more fully assess the economic performance of your business, which you traditionally substantiate with a financial report and many financial ratios. Show that your company is positioned in such a way that, in the long term, it can realize the opportunities and be aware of the risks that are inherent in sustainability issues. Consumers, members of the political sphere and financial service providers ask about these things. The GSC helps to give these stakeholders answers.

### What assistance is available online?

On the GSC website, you can access help for inputting data into the database under <http://www.deutscher-nachhaltigkeitskodex.de/de/hintergruende/downloads-and-links.html>. This section explains the steps you have to undertake to make a declaration of conformity – from registration to online status. The central questions of this guide are also found in the database. The website also contains the English, French and Greek versions of the Sustainability Code. Should you have any further questions, please contact the office of the Council for Sustainable Development, either by sending an e-mail to [dialog-dnk@nachhaltigkeitsrat.de](mailto:dialog-dnk@nachhaltigkeitsrat.de) or by calling +49 (0)30 338424-127.

### Does the declaration of conformity have to be updated at regular intervals?

There is no regular interval for submitting a declaration of conformity; however, we recommend updating the declaration of conformity at least every two years. Larger time intervals make it difficult to compare the corporate data over time and with other companies. Comparability and transparency are, however, essential for the effectiveness of the GSC.

### Can the declaration of conformity be published elsewhere other than on the GSC website?

The declaration of conformity can be retrieved from the GSC database in the form of a PDF file. You can refer to this PDF file or your company profile on your company website. In addition, you can also upload the declaration of conformity on the Global Reporting Initiative (GRI) page in order to reach international audiences. There, your declaration of conformity relating to the Sustainability Code can be presented as a non-GRI report, and in your own national language, too. To see the database, go to <http://database.globalreporting.org>.

### Does anybody check to see whether the statements are true and the answers are satisfactory?

The office of the Council for Sustainable Development reviews the declaration of conformity to determine whether it conforms to the formal requirements of the GSC. It does not check the contents. The company is free to decide whether it wishes to have a substantive examination performed by an independent third party (e.g. by an auditor or a non-governmental organization). The declaration of conformity is, however, accessible to all interested parties in a free database. Questionable information should, therefore, be avoided because it can harm the company's reputation.

### Do we get a certificate for submitting a declaration of conformity?

The GSC is a standard for transparency, which is applied voluntarily and in the context of corporate self-regulation; it is not an instrument of certification. There is, therefore, no certificate and/or seal. Companies that publish their declaration of conformity online get a GSC signet in German and English to support the measures they use to communicate their commitment.

### Is it possible to update parts of the declaration of conformity?

It is possible to amend the declaration of conformity at a later date. However, we recommend that this is done only if there is an urgent need to do so, e.g. if there are key performance indicators that were not available when the declaration of conformity was issued.

# THE 20 CRITERIA OF THE GERMAN SUSTAINABILITY CODE (GSC)

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# STRATEGY

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The criteria of this section form the basis of the German Sustainability Code (GSC). The issue at heart here is the basis of sustainable business. Are you familiar with the challenges, opportunities and risks that are associated with your core activities in terms of sustainability and which your business should face up to? Do you have a plan for how you wish to handle them in the medium and long term? Has your company set clear goals – derived from them – to address social and environmental challenges in a proactive way? And are you already keeping an eye on your entire value chain – from the extraction of raw materials to disposal? By reporting in detail on the following four criteria, you will be laying the foundation for satisfying the GSC. And you will be preparing the ground so you will be able to handle all further topics well, too.

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The company discloses how it analyzes the opportunities and risks of its major activities in the context of sustainable development. The company explains what concrete measures it is undertaking to operate in compliance with the essential and recognized sector-specific, national and international standards.

### WHAT DOES THIS MEAN?

The statement 'major activities' (see also the box on 'Materiality') always refers to the company's core business, i.e. that part of the business activities where the company chiefly provides its services. The core elements of the business strategy can be presented in a materiality matrix (cf. Appendix, page 65). A business must decide for itself what in particular constitutes its 'major activities'.

**Direct your focus on what really matters**

The firm thus has the chance to focus on what is really important instead of completing large, exhaustive, but often also quite meaningless lists of data. What is, above all, important for sustainability are the impacts of the company's activities on society. This includes all environmental and social issues, such as natural resources, staff or the community.

### Materiality

Materiality: The principle of materiality derives from Anglo-American accounting standards. They state that all circumstances that are 'material' must be disclosed in the annual financial statements, because, owing to their scale, they have an impact on the result for the year. In this context, the principle of materiality is applied to the activities of companies with regard to their social and environmental impacts. What is, therefore, essential is any exemplified process that improves one's insight into the real impact of the business activities on people and the environment.

When it comes to 'materiality', the expectations of stakeholder groups, such as municipalities, customers, consumer or environmental organizations or even neighbours are important (for a more detailed description, see Criterion 9). Examining the issue in depth helps to counter a blinkered attitude within the company and exposes, at the same time, opportunities as well as potential risks that could damage the firm's good reputation.

### International standards for sustainable management and reporting as well as instruments

The most important international standards defining the principles of sustainability are:

- Core Labour Standards of the International Labour Organization (ILO, see also Criterion 14, page 50)
- Guidelines for Multinational Enterprises issued by the Organization for Economic Cooperation and Development (OECD)
- Ten Principles of the Global Compact of the United Nations (UN Global Compact)
- UN Guiding Principles on Business and Human Rights
- Management guidance on the social responsibility of organizations from the International Organization for Standardization (ISO 26000)
- Sustainability Reporting Guidelines from the Global Reporting Initiative (GRI) and the European Federation of Financial Analysts (European Federation of Financial Analysts Societies, EFFAS)

(See Appendix for more details)

### **Every industry has its own particular focus**

A furniture manufacturer, for example, is primarily concerned with the procurement and processing of materials as well as with the design and sale of the furniture made: where do the materials, especially wood, come from; where have they been processed and designed; can they be repaired and recycled or not?

For a food manufacturer, the essential issues are the cultivation, purchasing, processing and marketing of its products. Beside the raw materials, priority is given to the firm's own recipes, the impact of the products on health, but also the product declarations. For an insurance company, on the other hand, the areas of sales and customer service as well as the question of how the contributions are invested are the focus of attention. What is material for a bank is the purpose for which it loans money and how it invests its customers' deposits. With the mostly energy-intensive chemical companies, however, the energy supply, the energy sources as well as issues of labour and product safety will be essential.

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For all companies, regardless of industry, what also applies is that the recruitment, employment and further development of employees are some of the key activities that need to be performed in order to maintain a successful business. Since it is becoming ever harder to find qualified young people due to demographic trends, young people can often pick and choose their employer today. They regard companies that take sustainability into consideration or are a good employer as increasingly attractive. The company reports on the sustainability issues of fair remuneration and equal opportunities, health, lifelong learning and the work-life balance in the 'Society' section in Criteria 14 to 16.



## WHAT YOU SHOULD REPORT

- > What activities are material to your business with regard to sustainability.
- > How you link these activities with regard to social and environmental issues to opportunities and risks.
- > The social environment in which your business operates and the most pressing challenges in terms of sustainability that arise from it. For an example of a materiality matrix, see page 65 in the Appendix.

## WHAT OTHERS WRITE

Here, for example, is what the **Bundesdruckerei** Group reports in brief: "In order to identify major sustainability issues, the company carried out a materiality analysis for sustainability management with representatives from all departments in 2013. Because of this materiality analysis, the Bundesdruckerei company identified three key issues (resource efficiency, demographic trends among customers and employees, and the optimization of the supply chain in accordance with environmental and social criteria) that will, in the future, attract greater attention." (GSC Declaration of Conformity 2012)

Another example is given by the office furniture manufacturer **Sedus Stoll** in its GRI report: "Due to our product portfolio (office chairs as well as office, communication and contract furniture) and a traditionally environmentally conscious corporate management style, Sedus Stoll sees no key sustainability risks for its own business in the medium-term future. The focus on high quality, durable, eco-friendly products is as geared towards sustainability as our corporate culture is. Since the products are mostly manufactured in Germany (or in Europe at least), the internal working conditions also meet the highest standards. [...] It seems likely that, in future, more customers will pay attention to how their office furniture is designed and to environmental and social standards being adhered to in their production. For Sedus, this means more opportunities than risks." (GRI Report 2012)

The company discloses what aspects of sustainability have a significant impact on its business operations and how, in its strategy, it takes them into account and systematically addresses them.

**WHAT DOES THIS MEAN?**

Many companies are committed to sustainable development. Often, however, the various activities run in parallel and are not connected with each other; they thus do not give a complete picture of the direction in which the company wishes to go.

In Criterion 1, you described the major activities of your company and their relation to social and environmental issues. Now it's a matter of how you systematically encourage and carry out these essential activities that are aimed towards sustainable development.

A sustainability strategy is an overall picture of all activities with objectives and measurable standards – ideally harmonized with each other and with one line of attack. One vision might be to achieve a zero-waste company, and five central core objectives can also provide a picture of the future towards which a company can work hand in hand with its employees. In this context, the situation depends mainly on the medium and long-term goals and not only on measures for tomorrow that were decided on yesterday.

**No fear of strategy**

SMEs often do not point out clearly enough in which direction they are developing and what goals they are setting to achieve this. However, many have a generally discernible overall strategic framework, because every successful company follows a strategy – at least implicitly.

**Link up longer-term goals and visions to form an overall picture**

But, for SMEs, the term 'strategy' sometimes sounds rather fanciful. In most cases, the overall picture is of a variety of sub-strategies that arise from the real observation of the general conditions, the various markets and some gut instinct: How to reduce pollution? How does one successfully appeal to potential future employees? Which products will still be competitive in five years' time? What is the trend with regard to customer needs? Which markets do you want to penetrate, because you are losing market share elsewhere? That is why it often helps if you simply put all the challenges and the answers you want to give side by side and then link them up with each other. Naturally, a sustainability strategy can also be 'all of a piece': for example, if a company



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is clearly positioning itself against the backdrop of future demands and questions its past actions and readjusts matters.

### Business models and markets in transition

This might be the case if new regulations or radical innovations and new inventions challenge the existing business model. Electric mobility is one such transformation issue as is the trend towards digitization.

Sustainability is changing the markets and demanding that the business model be reviewed

But changed customer needs could also transform typical markets. The changes on the procurement and labour market are largely unnoticed, but quite perceptible. Here too, companies must find an answer, that is to say, for example, develop strategies for dealing with a limited pool of new young talent and ageing workforces.



## WHAT YOU SHOULD REPORT

- > Whether you have a strategy for the sustainability performance of your business.
- > What the main elements of this strategy are.
- > What opportunities this strategy gives rise to for you.

You might already be able to demonstrate measures in the following sections, but they are individual actions and not derived from a strategy. This is also quite common! In that case, you can explain here why you don't have a strategy.

## WHAT OTHERS WRITE

The **Sparkasse Hannover** describes its strategy by reference to three central questions: "What is to be strictly avoided? What should be improved? What should clearly be encouraged? With regard to every question, underlying criteria guide the decision-making process in relation to sustainability. Thus a list of exclusion criteria has been defined, which is used to assess the 'sustainability' of the important decision-making factors. The criteria relate to the securities business, our products (including the financing of energy efficiency measures, renewable energy, construction loans), banking operations, personnel as well as corporate citizenship." (GSC Declaration of Conformity 2012)

**Neumarkter Lammsbräu** submitted a differentiated report: "Only by taking responsibility for everything we do is it at all possible for a medium-sized company like Neumarkter Lammsbräu to remain

independent at all – in the financial, political and operational respect. Active responsibility and entrepreneurial freedom thus go hand in hand. In turn, this attitude manifests itself in the products we manufacture: delicious, wholesome and quality organic foods that are produced in harmony with nature and that benefit people and give them a sense of well-being. We are aware that, with this strategy, we find ourselves in a niche. This niche is essential to ensure that we can survive in an environment of merciless repression and a seemingly limitless growth market. On the other hand, we are also seeing more and more people becoming interested in our foods and deliberately choosing the 'in-built sustainability benefits' of our organic beverages when deciding what to buy." (Sustainability Report 2012)

The company discloses what qualitative and /or quantitative as well as temporally defined sustainability goals are set and operationalized, and how their level of achievement is monitored.

**WHAT DOES THAT MEAN?**

A good strategy, as you described in Criterion 2, needs challenging goals and clear communication: what does the company want to achieve in which area and by when? Here, it is a matter of the objectives relating to the 'material activities' mentioned in Criterion 1. For example, the objectives to improve the environmental efficiency of products, reduction targets for greenhouse gases, the use of resources and waste reduction in production; but also goals for the training and development of employees, the reduction in the number of accidents etc.

Goals should be clear, measurable and verifiable

Quantitative targets mean those that are defined by a number, for example, the reduction of energy consumption by 20%. A qualitative objective is, for example, an improved work-life balance. Measures to achieve such goals should be identified and how they will be achieved specified. For the above example this can be, among other things, the setting-up of a day-care centre or a parent-child office. For both quantitative and qualitative targets, a time must be specified by when they are to be achieved. Only then can one speak of clear objectives whose attainment is measurable and verifiable. (To check how well the objectives are achieved, see also Criterion 7.)

**Strategic analysis:  
Specify focal areas and link goals to them**

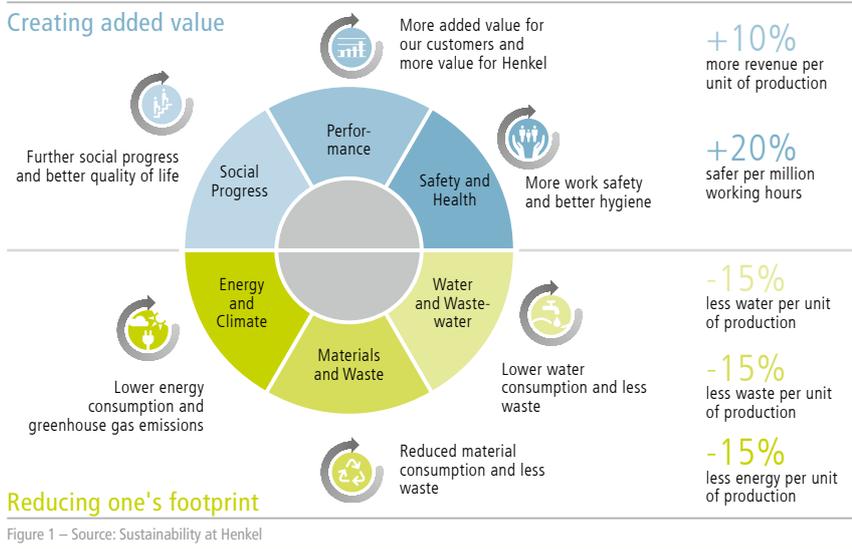


Figure 1 – Source: Sustainability at Henkel

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## WHAT YOU SHOULD REPORT

- > Whether you pursue long-term goals for your material activities with regard to sustainability and if so, which ones.
- > How you rate and prioritize the objectives and monitor their achievement.
- > How you classify these objectives in the context of the social challenges that your company is confronted with.

## WHAT OTHERS WRITE

The **Steinbeis** company reports succinctly: "STP discloses clearly defined sustainability targets and the degree to which they have been fulfilled in its annual environmental report. As a co-founder and active member of the Initiative for Sustainable Use of Paper, STP aggressively advocates the acceptance and use of environmentally friendly recycled paper as well as the economical use of resources of all kinds." (Environmental Report 2012, GSC Declaration of Conformity 2012)

The ecological office equipment supplier **Memo** specifies one target for each of the central spheres of action of employee orientation, sustainability management, product range selection, catalogue production, logistics, resource depletion and climate protection and backs them up with two or three measures, which all have deadlines. With regard to goal prioritization and evaluation, the firm writes the following under the heading of sustainability management: "At the beginning of the year, the sustainability management team carried out a management review and drew up a system evaluation report. This will be presented to the Board together with the environmental performance and the material results of the audits. Based on the key data and the results of the management review, environmental performance and audit, the Board evaluates the achievement of objectives and the functionality of the management system,

identifies the key sustainability issues and draws up the management programme of Memo AG with new goals and measures. The system evaluation report, the environmental performance, objectives and measures are made available to all staff members and are jointly discussed." (Sustainability Report 2013/14)

The company states what significance aspects of sustainability have for added value and how deep into the value-added chain the sustainability criteria are verified.

**WHAT DOES THAT MEAN?**

Analyzing what is essential for the company in terms of sustainability, developing a strategy on that basis and formulating goals – these were the contents of the first three criteria. Now it is time to show whether and how you include the entire value chain in the process.

What is meant by the ‘depth’ of a value chain? Depending on the area of business, the value chain varies in length or is branched: in the textile industry, for example, there are many steps between cotton growing, spinning, weaving, design and sewing right through to retail and the disposal of old clothes (see Figure 2). Especially here, the immense ecological (especially when growing crops such as cotton) and social challenges (working

conditions in sewing factories) have become more publicly known. In part, similarly challenging conditions can be found in the IT and electronics sectors.

**The value chain extends from raw material procurement to disposal and recycling**

With the word ‘depth’ you thus describe the stages of your value chain: raw material procurement, prefabrication, refining, distribution, logistics as well as the life cycle of your products that goes even beyond these stages: the use of the products by the customers as well as recycling and disposal. Specify up to what level you have information on.

Since the value chain does not stop at the boundaries of the company’s premises but also embraces the different suppliers and their suppliers, businesses in all sectors should take a much closer look at their supply chain. Many companies often do not know how their raw materials or intermediate products are produced. The first step here is to recognize and shoulder one’s joint responsibility as a company. This will reduce the risks to your business. For example, preliminary products that are faulty or contain pollutants could cause you to have to recall a product. If it becomes known that products were made by children or under unsocial working conditions, your reputation will be damaged. These and other social and environmental risks can be counteracted if you know more about your own supply and value chain.

**Value chain of Fenix Outdoor**

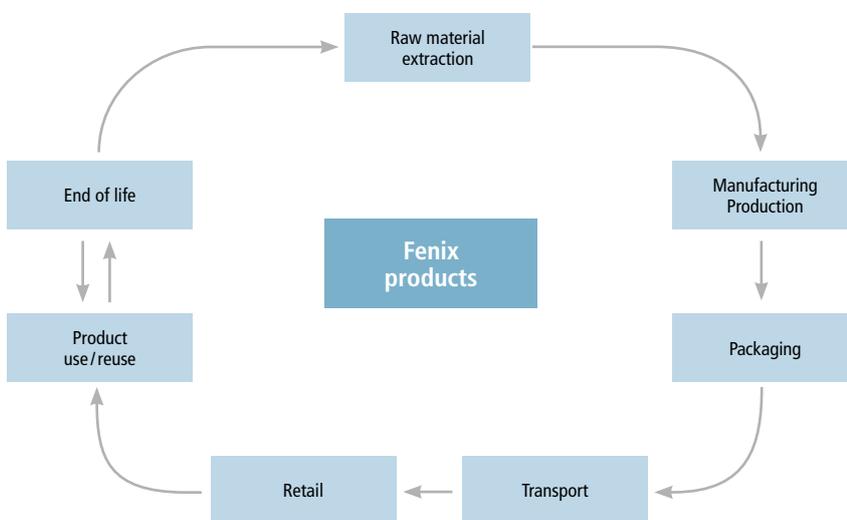


Figure 2 – Source: CSR Report 2013

**Looking beyond the end of one’s nose**

Manufacturing companies have to question the social and environmental quality of their primary products of their own company and those of their suppliers. And when it comes to the use phase, one has to ask oneself whether the products are user-friendly. What environmental or health topics crop up in the use phase? Can the products be returned and recycled? Can ‘end of life’ even be a new value chain phase for the company?

However, the fact is that, with many SMEs, value creation takes place predominantly within the company, and purchased components and products are often manufactured in Germany. This is especially true for service providers. But even in such cases,

### Value chain and supply chain

The value chain refers to the sequence of business activities in which value is created: it starts with the cultivation (e.g. agriculture) or the quarrying of a commodity (e.g. mining) and extends over the (further) processing in the production stages of suppliers and the company itself through to distribution and disposal. The term 'supply chain' refers to the part of the value chain which is upstream of the processes within the company, i.e. the area of the procurement of raw materials and intermediate products, as well as production in foreign companies.

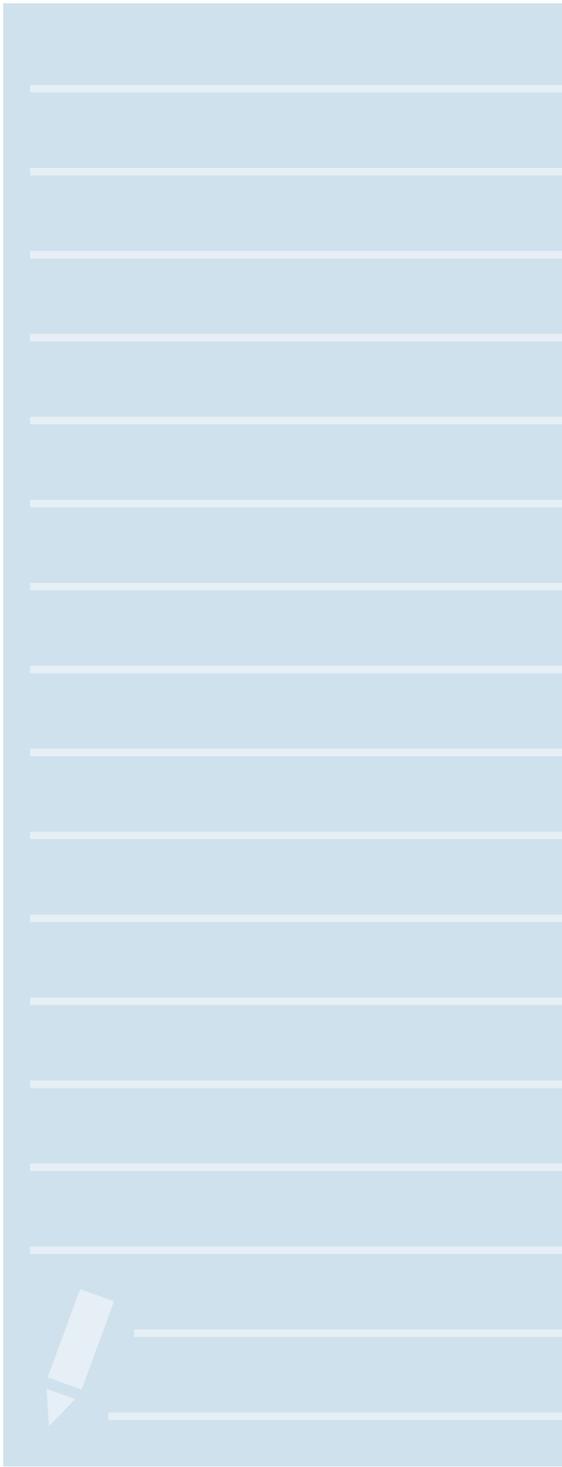
services might be outsourced, such as customer services in call centres, transport requirements to logistics companies that, to carry out their services, might in turn commission third-party companies.

#### Even service providers have a value chain

Service providers should think about their value chain and about where and how they can plan for sustainability. An advertising agency, for example, can advise its clients to use environmentally friendly materials as far as possible; a real estate company has the greatest leverage when it insists on building sustainable new buildings and renovating its housing stock in an environmentally friendly way.

#### How far does a company's influence extend?

But to what extent can companies also influence their value chain? That all depends on what position they have in the market. The larger the share of revenue that a company has with a supplier, the more likely the latter is to respond to its wishes. A further question is how many different suppliers the company has. In any case, however, those that make up the largest share of supply should be questioned with regard to the social and environmental risks of their products.





## WHAT YOU SHOULD REPORT

- > What your supply chain looks like.
- > To what extent you are familiar with the relevant social and environmental problems that occur at each stage.
- > How you address these problems.
- > Whether and how you communicate with your suppliers and business partners about them.

## WHAT OTHERS WRITE

The **Kreiswohnbau Hildesheim** writes: "The most important part of our supply chain consists of local service providers, in particular craft enterprises. In order to be a reliable partner for them and to be able to buy good and reliable work, we have framework agreements with the majority of our contractors regarding the provision of services and compensation." (GSC Declaration of Conformity 2012)

The mail order company **Hess Natur** writes in detail about its supply chain: "Many specialists for the processing of special fibres are found mainly in the countries where they are grown. Hess Natur thus procures from China chiefly fibres that are typical for the country such as silk, hemp and fine natural fibres such as cashmere. Both the production and processing of these fibres is today largely carried out in China, so they are rarely available in other producing countries. Competence centres for the processing of cotton are today located in, for example, Turkey; for the manufacture

of jersey material and nightwear in the Baltic states. At the same time, clothing manufacturers, especially in Germany, are closing their doors. Technical know-how is being lost. A further shift to production abroad is inevitable, therefore, with the great variety of products of Hess Natur. If Hess Natur decides to shift production to non-European countries, then Hess Natur will scrutinize the working conditions in the factories, select new suppliers very carefully and will get involved in funded projects." (Sustainability Report 2012)



# PROCESS MANAGEMENT

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The following six criteria describe how your firm efficiently and systematically manages sustainability. This ranges from questions such as who is responsible and whether there are rules and processes that guide the work to whether key data exist which make any progress and developments visible. Are there incentives – material or non-material ones– that motivate the executives and employees to steadfastly pursue sustainability targets? Does your company also attend to the opinion of groups outside your enterprise who have identifiable interests in its development? And does your business keep in mind the demands of sustainability when it improves products or services?

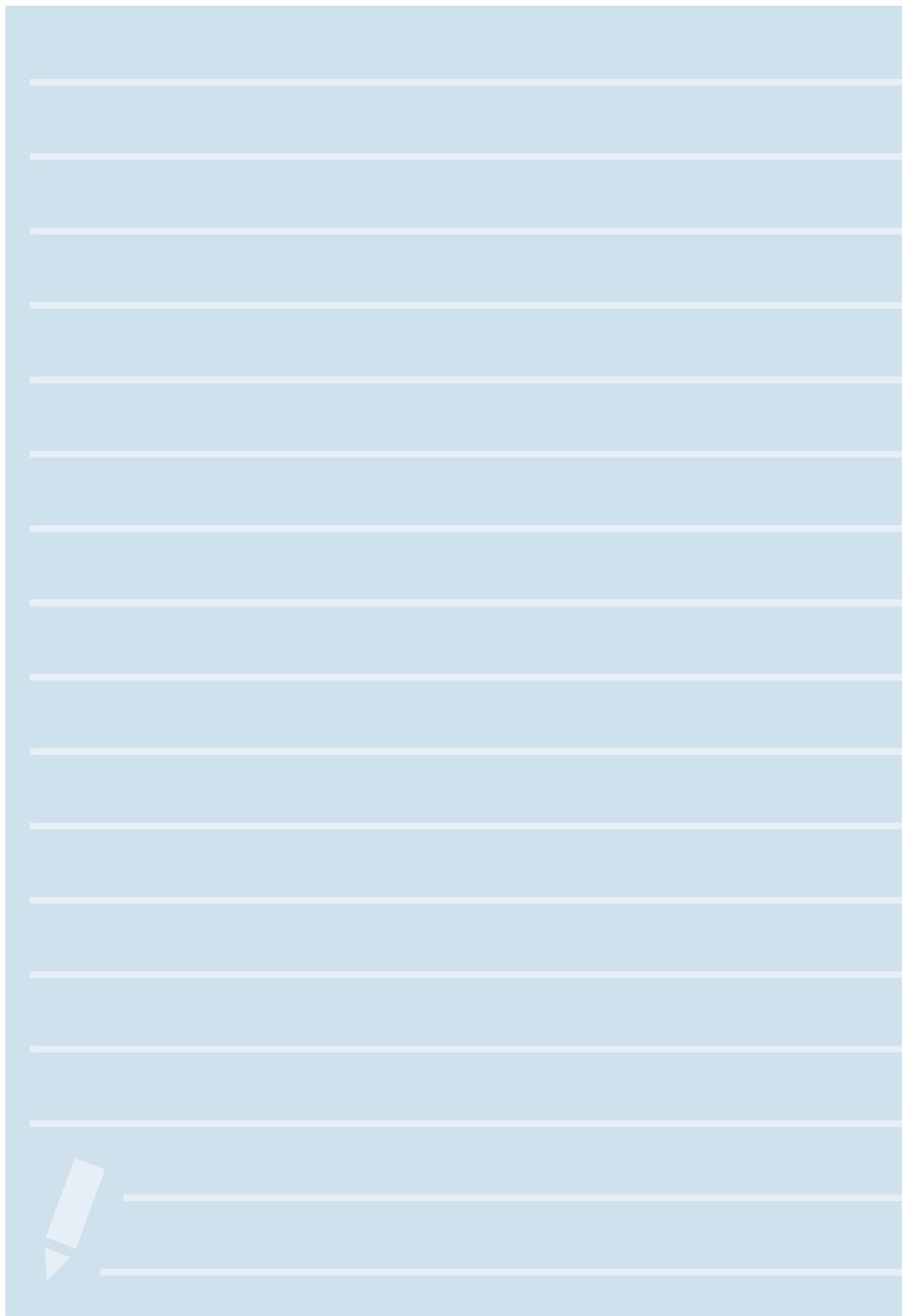
Accountability in the corporate management with regard to sustainability is disclosed.

#### What does that mean?

Sustainability is part of a firm's core business and thus a management matter. Only when the management really does stand behind the sustainability strategy and supports it and, possibly, also defends it if something does not work right away, can its implementation succeed. That is why the management or board should appoint a person responsible for the topic and ensure that sustainability is taken into consideration when strategic business decisions have to be made.

#### Responsibility for sustainability may be regulated in different ways

This person can then set up a body responsible for it or charge someone with performing the tasks in everyday business life. Many companies, for example, have an appointed agent for sustainability or CSR (corporate social responsibility). He or she supports the management or the board in further developing the sustainability strategy, submits regular status reports, proposes projects and activities and coordinates overall implementation. How do you handle things in your business?





### What you should report

- > Who has ultimate responsibility for sustainability in your company.
- > How this responsibility is operationalized in your company (e.g. with a department, with a designated executive or a control team).

### WHAT OTHERS WRITE

The report can be general as with the **Berliner Stadtreinigung**: "Responsibility for the issue sustainability lies with the board." (GSC Declaration of Conformity 2012)

It is more far-reaching if responsibility is tied to a person, as at **Vaude**, a producer of mountain sports equipment: "Responsibility for sustainability lies with the managing director, Antje von Dewitz. She shapes the company's vision, values, drivers as well as its long-term goals and defines the normative framework. As a member of the Executive Board and Head of Sustainability, Jan Lorch assumes responsibility at a strategic level. The interdisciplinary Sustainability Team is located at the operative level and consists of experts in the areas of strategy, environmental management, CSR and production, sourcing, quality management, pollutants, reporting, and controlling. The Sustainability Team is

responsible for all employees and business partners with regard to the topic of sustainability and decides on priorities and coordinates projects in discussions held every 14 days. Depending on the current topic, other specialists from relevant departments are also admitted into the team." (GSC Declaration of Conformity 2011)

The company discloses how the sustainability strategy is implemented in the operational business by way of rules and processes.

### WHAT DOES THAT MEAN?

To achieve the objectives of the sustainability strategy, business processes need to be reviewed and management processes changed if need be. This has implications for all areas of the company in general. A new vision can be an important step, likewise new purchasing guidelines, a code of conduct for all employees, or guidelines for research and development that aim at ensuring that environmental aspects are taken into account.

**Rules and processes are required to ensure that sustainability becomes more of a matter of course**

Above all, however, it is a matter of how these rules are implemented within the company, i.e. how they are practised in everyday life. 'Implemented' means that sustainability aspects are integrated into the business processes by means of the specified rules in such a way that they become a natural part of the firm's business activities in the medium to long term. This can be best illustrated with reference to the impact that the rules and processes have on the various fields of work of the firm.

### **Setting rules and living up to them**

To anchor new procurement guidelines, executives and employees should also be made aware of what it means to take into account the quality of material and social and ecological criteria besides the price. In production, it can be a matter of introducing new processes and procedures that reduce raw material and energy consumption. For service providers, it may be the introduction of a new customer service that contributes to reducing CO<sub>2</sub> emissions. And the Human Resources department should, for example, look at diversity (in terms of gender, nationality and ethnic origin) and have clear rules about it. This can also be good for the culture and creativity in the business. So overall the following applies: if a company wishes to implement its strategy successfully, not only must the managers and employees 'play the game', but in most cases the suppliers and the customers, too. And that can only be done if they are also involved in the implementation of sustainability in the company – which can range from simple information to joint working groups.



## WHAT YOU SHOULD REPORT

- > What the rules and processes you use to help you control your sustainability strategy look like.
- > How this control is exemplified in relevant areas of your company.

## WHAT OTHERS WRITE

The **Hamburger Hafen und Logistik AG** reported the following: "The implementation of the sustainability strategy is ensured in all areas through area-specific rules and processes: in the purchasing department, for example, through the purchasing guidelines; in production, for example, by quality agreements with the customers or certifications; in human resources through various committees on relevant issues that culminate in, for example, employer/works council agreements; in the area of finance, for example, by the inclusion of CO<sub>2</sub> costs in the investment appraisal. The areas of research and development are strongly devoted to increasing energy efficiency in order to support the group-wide CO<sub>2</sub> reduction target." (GSC Declaration of Conformity 2011)

The frozen food manufacturer **FROSTA** describes its management processes and rules concisely: "Basically, all procedures and processes are governed by our QM system. All FROSTA factories have ISO 9001, BRC (British Retail Consortium) and IFS (International Food Standard) certification. Our Development Policy and the Purchasing Policy refer in particular to our sustainability strategy and regulate in detail the requirements of the Reinheitsgebot. These rules are binding for the development of new FROSTA products and for the procurement of ingredients. The procedure for determining the PCFs (Product Carbon Footprint) is embedded in the development policy. Already during the development of new products, therefore, the effects of CO<sub>2</sub> can be recognized and taken into account." (GSC Declaration of Conformity 2011)

The company discloses how and what performance indicators on sustainability are integrated into its periodical internal planning and control and how the reliability, comparability and consistency of the data applied to internal controls and external communication are safeguarded through appropriate processes.

**WHAT DOES THAT MEAN?**

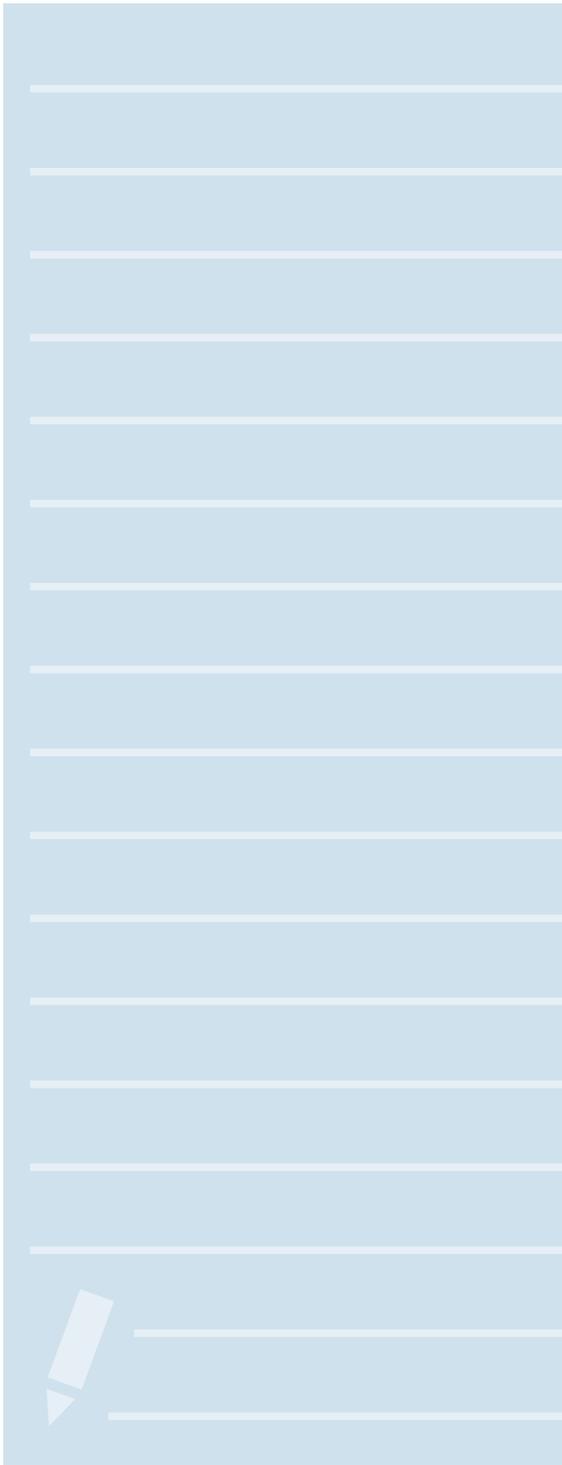
Most companies have defined key financial data which they use for controlling purposes: return on sales, sales per customer or profit by business segment. These give an exact picture of where the company stands with regard to the achievement of its financial goals. The same principle should be applied to sustainability: that means setting clear parameters for sustainability goals and measuring progress against performance indicators.

**Key data help the company to stay on course**

They could, for example, be the following: energy consumption per ton of produced product or paper consumption per employee, training hours per employee or the proportion of women in senior management. Such performance indicators point to progress or regress and help the company to 'stay on track'. They should be specified in particular with regard to the major activities that have been defined for the company (see Criterion 1).

**Consistency as a prerequisite for control**

To ensure that sustainability activities can really be controlled in an enterprise by means of performance indicators, it is recommended that they are all regularly captured on the same basis, so that they are comparable over time. Here, consistency means, for example, avoiding the practice of including the temporary employees in the head count in one year and omitting them at other times. Reliability consists, for example, in collecting data at all company locations according to the same tax base and also checking them for plausibility. Take, for example, employee acquisition: a location should not only report the permanent staff, while another also mentions temporary staff and trainees. With regard to plausibility: if energy consumption in one year halved, for example, while in previous years only decreases of a few percentage points were recorded each year, this must be justified internally.





## WHAT YOU SHOULD REPORT

- > The extent to which you have already determined performance indicators (generally starting with specific environmental parameters that describe consumption or emissions per employee or per ton of product; in this respect, the range of possible answers extends from a simple reference to regularly reported environmental data to control systems; if you submit repeated reports, be sure to select the same reference figures in each case, such as whether you calculate on a per employee (head count) or full-time equivalent basis, and adhere to the selected method.

## WHAT OTHERS WRITE

The **Kreiswohnbau Hildesheim** sums things up briefly: "To start sustainability reporting, we committed ourselves to annually disclosing the energy consumption and GHG emissions for all rental properties in our portfolio that relate to heating. Comparability of data is achieved through the breakdown of absolute and climate-neutral consumption as well as representation with respect to housing units and rental space. In addition, we provide current data, naturally compared to the previous year. The validity of our data is ensured by the use of recognized methods and the acquisition of information from reputable sources (Gemis, Federal Environment Agency, German Weather Service). The inclusion of other reporting indicators is discussed and decided on in a continuous process with the

employees of our company. Possible values include, among others, selected material consumption levels, fuels, job satisfaction, customer satisfaction." (GSC Declaration of Conformity 2012)

The **Berliner Verkehrsbetriebe** write this on the subject: "The updated sustainability management system of the Berliner Verkehrsbetriebe, with its three perspectives, has been strengthened in terms of its future control and monitoring of perspectives on the basis of indicators. What is drawn on here, for example, are passengers transported by the company (with regard to efficiency), the specific energy consumption as well as the attributable CO<sub>2</sub> emissions (with regard to the environment) and barrier-free accessibility in public transport or the even the satisfaction index from customer surveys (with regard to social welfare). From 2011 onwards, this orien-

tation was linked with the annual business process of economic planning. Consequently, the above indicators are significantly represented in the Balanced Scorecard established in the company and are, in parts, likewise a component of individual target agreements for the BVG management." (Sustainability Report 2012)

The company discloses how target agreements and remuneration schemes for executives and employees are also geared towards the achievement of sustainability goals and how they are aligned towards long-term value creation. It discloses the extent to which the achievement of these goals forms part of the evaluation of the top managerial level (board / managing directors) conducted by the monitoring body (supervisory board / advisory board).

### What does that mean?

In most companies today, there are remuneration and pay models which provide a bonus, at least for executives, but often also for all employees when corporate objectives relating, for example, to revenue, profit or market share are achieved. In this way, the company creates an incentive for consistently pursuing and not losing sight of goals. In order that sustainability is pursued with similar consistence, it is helpful, in this respect, to include social and environmental goals – as described in Criterion 3 as an example – in the target agreements. A company that achieves its sustainability goals often also recognizes that it can reduce costs, especially by taking efficiency measures.

**The objectives of sustainability sometimes conflict with other goals of the company**

The goals of sustainability, however, sometimes conflict with other corporate objectives. If a financial services provider, for example, wants to ensure that he does business only with responsible firms, this

can lead to conflicts with the sales and profit targets and specifically with colleagues who are in charge of concluding contracts.

Therefore, and because sustainability takes a while before it is firmly anchored in a company, incentive schemes for managers and employees – especially financial ones – are a powerful lever. Human resource managers or the executives can, for example, also be assessed by whether staff satisfaction increases or the accident rate decreases.

### Making sustainability self-perpetuating

Sustainability is a long-term issue and is, therefore, often not compatible with short-term profit expectations, but certainly is so with the long-term increase in the value of the company. The experience of the financial crisis has led to CEOs and managers now often being paid part of their contractual bonus only after the success of the company over three years can be proven. The reason for this is the Law on the Appropriateness of Management Board Compensation (VorstAG), which entered into force in 2009 and which provides "orientation on sustainable and long-term corporate success".

**Sustainability must become a practised part of corporate strategy**

Thus, the vision of public companies should be directed towards long-term corporate success. Some companies have taken the implementation of this rule as an opportunity to anchor qualitative criteria, such as increasing attractiveness as an employer, under the definition of 'sustainable and long-term success'. This is a promising way to make sustainability a practised part of the strategy.

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## WHAT YOU SHOULD REPORT

- > Whether you have a compensation system in which sustainability goals are integrated or can be integrated, and if not, whether such a thing is planned.
- > Whether and how the achievement of the goals is monitored by your boards.
- > How the leave of absence for social obligations (CSR purposes) or the chance to implement one's own ideas in the company are regulated (if other incentive or reward systems – including non-financial ones – exist).

## WHAT OTHERS WRITE

The **TÜV Rheinland** writes succinctly: "Sustainability is an integral part of our business model. Any further consideration of social and environmental aspects with regard to the variable salary components does not exist." (GSC Declaration of Conformity 2012)

The environmental services company **Interseroh** reports what incentives it already offers and what it is planning: "One key project within the framework of Interseroh's sustainability strategy is the linking of sustainability targets to the variable components of executives' pay. For this purpose, targets and measurements which then find their way into the setting of annual personal targets must be agreed. Given the close relationship of the business of Interseroh with sustainable development requirements, specifications such as

increasing recycling rates are already components of individual objectives. For employees, additional incentives for innovation are created with prizes. The annual remuneration of Executive Board members consists of a fixed component and a performance-related bonus. The bonus is determined by the Supervisory Board on the basis of existing agreements." (GSC Declaration of Conformity 2013)

The company discloses how the socially and economically relevant stakeholders are identified and integrated into the sustainability process. It is disclosed whether and how an ongoing dialogue takes place with them and how the results are integrated into the sustainability process.

### WHAT DOES THAT MEAN?

Several sectors of the economy are closely observed by stakeholders, i.e. social stakeholders, such as politicians, the media and, in particular, civil society organizations, e.g. environmental and development organizations, churches or trade unions (see Figure 3). And SMEs are well represented in many of these industries. This applies to the automotive and chemical industries, financial services and, above all, to the food industry.

#### Stakeholders can be helpful

Many major companies have already been confronted with campaigns against them. Most SMEs do not have to worry about such things. Defusing conflicts is, therefore, not usually the primary motive for coming into contact with stakeholders.

**In order to know the exact demands of society, one possibility is working in an appropriate way**

On the other hand, maintaining its reputation as a company that is anchored in the region and being considered as a good employer can, however, already be one

### Stakeholders of the company Ulrich Walter GmbH/Lebensbaum

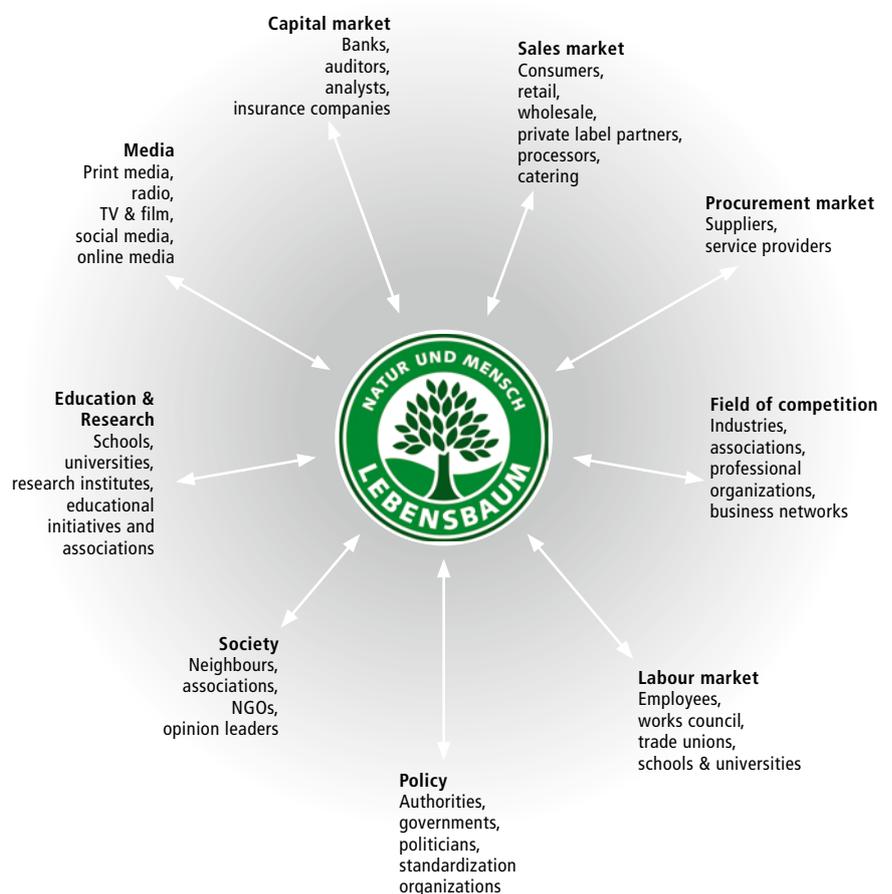


Figure 3 – Source: Annual Report 2013

reason for dealing with public opinion in a discriminating way. SMEs should, therefore, also have a clear idea about the growing demands on the part of customers, consumers, employees, junior staff, society at large and politics and should develop a more customized sustainability strategy based on these findings.

Often, the expertise of stakeholders can also be used to find solutions to unresolved issues. It may also be useful to link the goals of the sustainability strategy to the ideas of social stakeholders. The company should, therefore, tackle the issue of which demands – beyond the usual legal obligations – are made by politicians and civil society at large when it comes to sustainable development; for example, with the development of sustainable products, reduction targets for greenhouse gases or the firm’s commitment to social issues (e.g. apprenticeship training positions). One option is talking to key stakeholders.

It is advisable to check with whom dialogue is meaningful and necessary

Companies are often already in contact with most of their stakeholders, e.g. with staff or customers, suppliers, local authorities and neighbours. Sustainability issues can also be addressed here, possibly to obtain important information on the sustainability strategy, e.g. by asking additional questions in already established employee and customer surveys.

Since companies do not yet have many stakeholders 'on the radar', a systematic analysis of the question "Who has what interests in the company and what impact on the firm's success?" is recommended. Depending on the result, one should then examine with which groups a more intensive dialogue would be useful or even necessary.



## WHAT YOU SHOULD REPORT

- > How you identified the most important stakeholders for you.
- > Who these stakeholders are.
- > Whether and how you are in dialogue with these interest groups.

## WHAT OTHERS WRITE

The **Hamburger Hafen und Logistik** firm has this to say on the subject: "The HHLA is in regular dialogue with its stakeholders from different sectors. Stakeholders that have been identified are customers (e.g. shipping companies), customers of customers (e.g. forwarders), employees and their families, suppliers, the media, potential and existing shareholders, associations and institutions, academic institutions, policy-makers, people living near the terminals and the interested public. Communication with these stakeholders takes place via various targeted communication tools, including regular meetings with local residents about noise, events relating to the planned development of the company with customers and shareholders, or by means of guided tours of the HHLA terminals." (GSC Declaration of Conformity 2011)

**Munich Airport** explains the topic in detail: "A fair and trustful exchange of views takes place with passengers and visitors, airlines and employees. They are involved, for example, through regular surveys. The results of these interviews are, in part, included in the materiality matrix. What is of great importance for the successful development of the FMG Group is cooperation with its neighbours and partners in the immediate environment. Acting as a link between the airport and the region, the Regional Office maintains close contact with the communities, policy-makers and citizens of the region. Examples of FMG's dialogue-oriented public relations are its visitor service, open days and guided tours of the airport site. A dedicated social media team interacts with the public via Facebook, Twitter and YouTube. FMG expressly allows its employees to participate in the exchange of opinions in social media during working hours." (GSC Declaration of Conformity 2012)

The company discloses how innovations in products and services are enhanced through suitable processes which improve sustainability with respect to the company's utilization of resources and with regard to users. Likewise, a further statement is made with regard as to how the current and future impact of the key products and services in the value chain and in the product life cycle are assessed.

#### WHAT DOES THAT MEAN?

Companies need to be and remain innovative in order to assert themselves on the market. This applies even more when they are faced with fierce competition. Important incentives to do so may arise from the issues of sustainability, because sustainability in business and society demands innovation at various levels. In particular climate change, increasingly scarcer and thus more expensive natural resources along with an ageing society necessitate new environmental and social solutions. Resourceful SMEs, in particular, often have opportunities to shine on the market with new products and services and can thus future-proof their business. Sustainability can, therefore, be a strong driver for innovation.

#### Innovation – not just technology

Mostly, we initially think of technology when it comes to innovation. Sometimes, however, quite unspectacular changes can make a big difference. For example, the simple measure of consistently printing on

#### Product life cycle assessment

In the product life cycle assessment, also known as life cycle analysis, the environmental effects of products during their entire life cycle ('from the cradle to the grave', i.e. from raw material, processing and use to disposal) or at a certain time of processing ('from the cradle to the factory gate') are analyzed. The environmental impacts include all environmentally significant extractions from the environment (ores, crude oil etc.) and all emissions in the environment (waste, CO<sub>2</sub> etc.).

both sides of a sheet of paper saves money and reduces resource consumption. The innovation lies more at the level of staff behaviour. They should, without fail, be involved, so they can break new ground. Are they well informed? Are their ideas or opinions asked for? Do the executives lead by example?

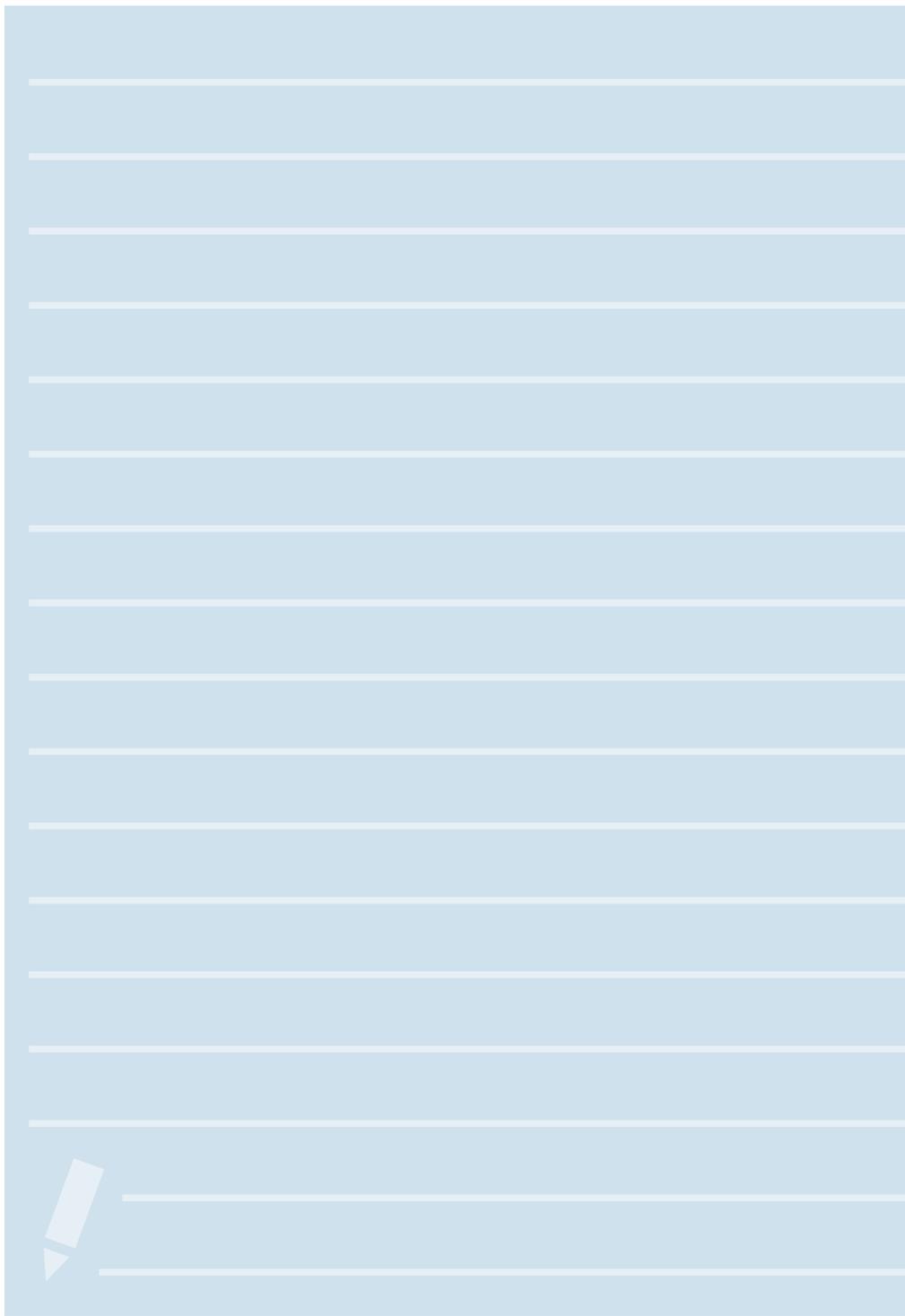
#### Strengthening innovation

Experience shows that companies that closely monitor social trends and are open to the expectations of society tend to innovate more and are more successful. Often, it is SMEs that lead the way here. They have already spawned many innovations that are central for sustainable development. This is true for many inno-

ventions in the field of renewable energy, heating and air conditioning systems and the procurement and processing of fair or organically produced raw materials. Innovations for sustainability need not only the external pressure of laws and customers' demands, but also internal conditions such as a forward-looking and experimental corporate management that encourages employees to express and implement their ideas – and that also forgives occasional mistakes. Appropriate measures to

strengthen innovation can range from simple methods of the company improvement system up to participation in research projects.

As described in Criteria 2 and 7, a company should have clear sustainability targets, combined with indicators that can measure progress in this area. Every firm should know how its products and services impact on society and, where appropriate, subject them to critical scrutiny. A manufacturing company should also be aware of the environmental impact of its products (LCA) and have a strategy to reduce it (see also Criteria 11 and 12).





## WHAT YOU SHOULD REPORT

- > Whether, and if yes, how you use sustainability as a driver for innovation.
- > How you organize things to ensure that you exploit your potential for innovation.
- > Which innovations you are currently working on and/or which you want to address.
- > Whether you are cooperating with anyone in this field (e.g. with universities).
- > Whether you know the social and environmental effects of your key products and services and how you determine them.

## WHAT OTHERS WRITE

The tour operator **Studiosus** describes its instruments as follows: "In 2009, the idea competitions were replaced by an idea management system in which employees may, in a structured process, submit suggestions via an e-mail form at any time. [...] Another instrument to stimulate innovation are the so-called future workshops. In these workshops, topics that are strategically important from the management's perspective, such as product improvement, are dealt with. The project teams are interdisciplinary, consisting of colleagues from different departments. This promotes the creative exchange of ideas and allows a versatile approach to the task to be taken." (Sustainability Report 2013)

In this context, **FROSTA** reported innovations relating to the sustainability of the products: "The most important innovation in recent years has been the shift of production towards the FROSTA purity requirement. This has also affected numerous processes which have improved the sustainability of resource use: one example is the fact that the purity requirement specifies that all ingredients undergo as little processing as possible. While we almost always used milk products in powder form, nowadays, we only use fresh dairy products, i.e. in liquid form. Doing so means that the energy-intensive drying process is avoided. The same goes for garlic and herbs, eggs and pasta: again, no dried ingredients are used. We also define sustainability as preserving the natural flavour of our food. Our approach of dispensing with additives and flavourings significantly improves sustainability for the user. Our SAP-based PCF calculation system allows us to calculate

the emissions of the product as early as the product development stage. This has helped us increase our proportion of vegetarian dishes, as meat was identified as a major source of high CO<sub>2</sub> levels. The consumer is given recommendations on how to prepare food in an energy-efficient way." (GSC Declaration of Conformity 2011)



# ENVIRONMENT

The questions in this section focus on the environmental aspects of sustainability. In your company, do you have a good overview of what natural resources you use and to what extent? Have you set goals to cut this consumption and how do you aim to achieve them? Can you balance your greenhouse gas emissions and have you formulated goals for their reduction targets? You can address the key issues in environmental protection with the following three criteria.

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The company discloses the extent to which natural resources are used for the company's business activities. Possible options here are materials, the input and output of water, soil, waste, energy, emissions, land and biodiversity as well as emissions for the life cycles of products and services.

### WHAT DOES THAT MEAN?

Every enterprise – whether it is a manufacturing or service company – uses natural resources for its products, but also for the company's activities as a whole. Which and to what extent varies greatly depending on the industry. Under Criterion 1, when describing your company's core activities, you have already mentioned the ecological impact of your company's operations.

This criterion is a matter of the environmental impact of your business

This topic should now be described in more specific detail. By using an input-output balance (see box), companies can detect and demonstrate which resources are used in its operations and to what extent and which emissions result therefrom. Service providers should look carefully where they have their 'sore spots', because energy

#### Input-output balance

The basic idea of environmental accounting is to present and evaluate the environmental impacts of economic activities. A distinction is made between the effects caused by the natural substances being removed and the effects caused by the products created. Furthermore, it also concerns the impact on nature such as urban sprawl and substances that enter the soil, water and air. Since, however, it is hard or impossible to measure which emissions are responsible for what environmental damage, one represents the input and output of a company during a period of time in the form of a balance sheet instead. The product life cycle goes even further (see Criterion 10).

consumption in offices is by no means negligible due to extensive technology and airconditioning equipment. A relatively new issue for all enterprises is biodiversity (for more information, see Appendix). Here, it is important to consider how the firm's activities impact on biodiversity. This may be the case in very different ways: for example, in the extraction or cultivation of raw materials or by the use of land – an issue that concerns, for example, the real estate or mineral oil industries in particular.



## WHAT YOU SHOULD REPORT

- > To what extent you use the natural resources that are key for you (see Criterion 1) and, ideally, provide data to back this up.
- > Whether you know what ecological impacts are caused by your firm's activity.
- > Whether you have an eye on the effects that arise throughout the product life cycle and where you exert your influence here.

## WHAT OTHERS WRITE

The environmental service company **Interseroh** offers a brief description: "The direct environmental impacts of Interseroh arise primarily in the context of the washing and sorting processes, but also in the administrative and service sites." (GSC Declaration of Conformity 2012)

The answer becomes more difficult and more extensive for manufacturing companies that, besides energy and water, use a variety of materials in their production processes. In this case, a representation of the main raw materials is sufficient.

The **Igefa Handelsgesellschaft** reports: "The key factors of igeфа in terms of natural resources include the consumption of

- fuel (diesel) in the context of sales and distribution via the sales force (approx. 450 cars nationwide) and delivery (approx. 400 lorries nationwide)
- power for carrying out the actual activities (IT processes, industrial vehicles etc.) and for the building (lighting, air conditioning etc.)
- heating for the building.

The factors mentioned here significantly affect the group's CO<sub>2</sub> footprint. Any resulting waste (paper / cardboard, stretch film, wood and hazardous waste) is collected separately and disposed of via certified disposal companies or is reprocessed (recycling)." (GSC Declaration of Conformity 2012)

The company discloses what qualitative and quantitative goals it has set itself with regard to its resource efficiency, its use of renewables, the increase in raw material productivity and the reduction in the usage of ecosystem services, and how these goals have been met or will be met in the future.

**WHAT DOES THAT MEAN?**

Clear, measurable and ambitious objectives are essential for a company’s sustainability strategy, as set out in Criterion 3. On the basis of the analysis described in Criterion 11, efficiency or savings targets should be defined for the most important resources.

**Agree challenging and, where possible, measurable goals**

The company can, for example, undertake to reduce its power consumption by 10% per year and to adopt the steps necessary to do so, e.g. efficiency measures in production. In the administration department, staff should be made aware of the issues so that they save energy. Switching production methods can also save natural resources and generate fewer rejects and less waste. This has an impact – on costs, too. One qualitative objective could be, for example, installing one’s own solar plant.

**Resource productivity and resource efficiency**

Raw material or resource productivity describes the ratio of natural resources used (input) to the amount of the final product. The fewer resources required per unit product, the greater the resource productivity. Resource efficiency is defined as the ratio of a particular benefit to the obligatory use of natural resources. In this case, the benefit may take the form of a product or service. The lower the input of natural resources needed or the greater the benefits of the product or service, the higher the resource efficiency. This can, for example, be achieved by using lighter materials, by savings in production, by design changes (miniaturization) or recycling but also by means of new business models (car sharing instead of buying).

**Goals help to bring the entire organization on board**

Climate protection, resource and land use, waste – these are issues that affect every company. However, it is important that every company defines its own ecological focus based on its own particular situation. To achieve its objectives, several departments of the company must normally work hand in hand. The clearer the specification of the objectives, the better the cooperation works.



## WHAT YOU SHOULD REPORT

- > What goals you have set for the environmental aspects of your business operations.
- > Whether and how you achieve these goals.

## WHAT OTHERS WRITE

The service provider **TÜV Rheinland** reported on this in brief: "Initial measures for resource savings have already been implemented. In 2011, therefore, we set the goal of lowering the specific fuel consumption of our company car fleet in Germany by 3% compared to the previous year. This goal was easily achieved in 2012, with a reduction of nearly 5%. In addition, all train journeys within Germany since 2011 have been carbon-neutral." (GSC Declaration of Conformity 2012)

The Berlin city cleaning company **Berliner Stadtreinigung** reports on both current and future objectives and measures: "In 2007, the BSR was the first state-owned company to enter into a climate protection agreement with the State of Berlin. The ambitious goal of saving 121,000 tons by 2010 has been exceeded and CO<sub>2</sub> emissions have actually been cut by 130,000 tons a year. The previously concluded follow-up agreement provides for an amount of annual savings of a further 113,500 tons of CO<sub>2</sub> by 2015. Significant measures are, among others, the adoption of a standardized recycling bin, the construction of a fermentation plant for organic waste and the use of biogas for the collection of waste as well as the reduction of landfill gas emissions and emissions from old waste deposits." (GSC Declaration of Conformity 2012)

The company discloses the GHG emissions in accordance with the Greenhouse Gas (GHG) Protocol or standards based on it and states the goals it has set itself to reduce emissions.

### WHAT DOES THAT MEAN?

Climate change is a major challenge, because it can not only cause problems for the global ecological fabric, but for the social order, too: natural disasters, soil erosion and desertification lead to food and water scarcity and armed conflict. The flooding of coastal areas by rising sea levels may leave millions of people without a livelihood and may result in increased streams of refugees – to name only the most important consequences of global warming.

**Climate change is at the top of the agenda: reduce greenhouse gases!**

Cutting greenhouse gas emissions is, therefore, one of the key sustainability objectives of our society, one to which companies should contribute. In order to be able to measure targets aimed at achieving this, the greenhouse gas emissions generated by the company must be recorded. The Greenhouse Gas Protocol (see box) has set the standard with respect to this. It was drafted by the World Resources Institute (WRI) and the World Business Council for Sustainable Development (WBCSD). Many companies already comply with it and almost all industry-specific standards are derived from it.

#### Greenhouse Gas Protocol

The calculation of greenhouse gas emissions is carried out in several stages.

The Greenhouse Gas Protocol (GHG) defines three areas of application (scopes):

- Scope 1 covers the direct CO<sub>2</sub> emissions of the production facilities, offices etc. of the company and, where appropriate, of their own power generation plants.
- Scope 2 refers to indirect CO<sub>2</sub> emissions resulting from energy producers, where the company purchases energy for the production or operation of its operation's buildings.
- Scope 3 includes all other CO<sub>2</sub> emissions caused along the value chain, e.g. suppliers, transport, during the use phase of the products or during disposal.

It is also a matter of the direct and indirect CO<sub>2</sub> emissions resulting from the firm's activities and in the life stages of the products. Precise knowledge of the CO<sub>2</sub> footprint has gained in importance since it enables climate effects to be described in more exact detail.

Further information: [www.ghgprotocol.org](http://www.ghgprotocol.org)

#### Knowing and minimizing consumption levels

It would be ideal if each company produced such a CO<sub>2</sub> balance (also known as CO<sub>2</sub> footprint or carbon footprint). Scope 1 in particular is relatively easy to accomplish. The GHG Protocol website provides comprehensive tools and support in order to be able to provide figures for the other areas of applications at a reasonable cost. Since there are other greenhouse gases besides CO<sub>2</sub>, such as methane, they are converted into CO<sub>2</sub> equivalents (CO<sub>2</sub> = 1) according to their global warming potential to make it easier to compare them.

What is initially crucial for a company is that it quantifies its energy consumption precisely and reduces it significantly – or to put it more specifically, the energy consumption covered by fossil fuels, because besides cutting consumption, a company can also switch its energy supply to renewable energy sources – at least in part. The next step is then determining the greenhouse gas emissions as described in the GHG Protocol.



## WHAT YOU SHOULD REPORT

- > What you know about your energy consumption.
- > Whether you have set reduction targets.
- > What you do to achieve them.
- > Whether you use renewable energy, and if so, to what extent; if not, whether you plan to do so.
- > Which reference figures you use for the calculations.

## WHAT OTHERS WRITE

The **Gesellschaft für Internationale Zusammenarbeit** (GIZ) describes primarily its goals here: "Our goal is to become a climate-neutral company, initially in Germany, by 2015. In principle, the following applies: first, we wish to reduce our energy consumption, then replace fossil fuels with renewable energies and, finally, compensate for unavoidable emissions.

In 2011, the GIZ signed the charter '100 Companies for Climate Protection' promoted by the federal state of Hesse and committed itself to applying an action plan for climate protection. Since 2012, we have also been taking part in the *Wirtschaft pro Klima* climate protection initiative. Unavoidable emissions will be compensated for by a climate offset project in Thailand that has already been registered under the Clean Development Mechanism Gold Standard." (GSC Declaration of Conformity 2012)

The mail-order retailer of ecological office supplies **Memo** explicitly addresses the Greenhouse Gas Protocol: "The compilation

of our own carbon footprint is a prerequisite for identifying areas where there is room for improvement and the opportunity to implement appropriate measures to avoid greenhouse gas emissions. When formulating our carbon footprint, we get our bearings from the guidelines of the Greenhouse Gas Protocol and ISO 14064 and have two categories: one for Scope 1 and Scope 2 emissions and one for Scope 3 emissions. The proportion of Scope 1 and 2 emissions to the total emissions of our carbon footprint is 16.5% in 2012. Scope 3 emissions of our carbon footprint include the manufacture and shipping of our product catalogues and mailshots, the shipment of our goods as well as business trips by train and aeroplane. The consumption data are based on information from our business partners that we verify with renowned partner companies and then convert into emissions. The proportion of Scope 3 emissions of our carbon footprint is 83.5% in 2012." (GSC Declaration of Conformity 2013)



# SOCIETY

The seven criteria of this section deal with the social issues of sustainability that are relevant to your business – starting with the questions about whether your firm respects basic employment rights; how it deals with the issues of equal opportunities, health and the work-life balance; and how it helps to make and keep the workforce employable in the face of demographic changes. Aspects that are also significant are human rights in the supply chain, the role of your company in the region, and whether and how it tries to influence political decisions. Finally, you are asked to explain what you are doing to counter the risk of bribery.

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The company reports on how it complies with the employment rights of both nationally and internationally recognized standards and how it promotes employee involvement in sustainability management.

### WHAT DOES THAT MEAN?

In Germany, many workers' rights are defined by law and collective agreements. The main relevant standards are the German Constitution and labour law. Major issues include fair pay, protection against unfair dismissal, transparent disciplinary and dismissal practices as well as ensuring that the agreements on working time, holidays and maternity leave are adhered to. In addition, participation rights or those relating to education and training are regulated. Respecting these rules is a matter of course for the overwhelming majority of companies domiciled in Germany and thus part of the strategic competitive advantage over competitors. Currently, what is under critical discussion is, above all, the fact that companies are using more and more temporary workers, how they are paid and what rights they have.

#### **Be fair, everywhere**

What is also important are the core labour standards of the International Labour Organization (ILO, see box), in particular for companies that have foreign suppliers or for those that produce in countries where violations of workers' rights regularly occur.

#### **ILO core labour standards**

With globalization, there have been calls to define and protect humane working conditions and workers' rights around the world. In 1998, therefore, 185 states undertook to adhere to the eight core labour standards, which were set out in a declaration of the International Labour Organization (ILO). These social standards are protection from forced labour, freedom of association, the right to collective bargaining, equal remuneration, the abolition of forced labour, protection against discrimination in employment and occupation, minimum age and the banning of child labour. They do not include safeguards that are common policy in Europe, such as maximum working hours, maternity leave etc.

#### **Keep an eye on sites abroad and suppliers**

Companies with suppliers or business partners in countries with weak legal protection of workers should, therefore, inform you whether they comply with international standards on labour rights, for example by signing an appropriate Code of Conduct. What is even better is when the company – if it can afford to do so – has its compliance with the Code checked by external audits or – in the best case – gets an on-site idea of the situation.

In addition, it would be interesting to know how the company protects the interests of the employees beyond the legal requirements, regulations and accepted German standards, if need be: Do they

participate, for example, in the financial success of the company? Is there a works council? And if so, how does the management work together with it? Which options does the company grant employees to participate and shape their workplace, e.g. by means of employee surveys?



## WHAT YOU SHOULD REPORT

- > How you respect the rights of your employees.
- > What you do, even beyond the legal requirements, to integrate employees and allow them to have a say.
- > How you implement the German standards abroad (if relevant).
- > What measures you use to insist that your suppliers from countries with weak protection provisions comply with basic labour rights (if relevant).
- > Which international rules you follow (if your company is international).

## WHAT OTHERS WRITE

**Howoge Wohnbaugesellschaft** reports briefly: "HOWOGE is bound by collective bargaining agreements and is guided by agreements made between the works committee and the management. The works council represents the interests of workers. Applying the Berlin tender and procurement law ensures that the core labour standards of the International Labour Organization (ILO) are observed (Section 8)." (GSC Declaration of Conformity 2011)

As a research institute with nearly 500 employees, **Fraunhofer UMSICHT** writes: "All employees are subject to the collective bargaining agreement of the public service or equivalent contracts (auxiliary staff). Employees can contribute through the employee suggestion system. Workers' rights are further strengthened by our works council, the Scientific and Technical Council and the Commissioner for Equal Opportunity. Employees were directly involved in the strategy process at Fraunhofer UMSICHT and are directly informed about and involved in changes via the management, in institute meetings and through our staff magazine." (GSC Declaration of Conformity 2011)

The company discloses in what way it has implemented national and international processes and what goals it has to promote equal opportunities and diversity, occupational health and safety, the integration of migrants and people with disabilities, fair pay as well as a work-life balance.

**WHAT DOES THAT MEAN?**

This is, among other things, a matter of whether, in the company, people with less education or unskilled workers also have a chance of a job, along with migrants and disabled people, i.e. whether the firm complies with the provisions of the General Equal Treatment Act (AGG, see box). The question of remuneration is then of interest: are employees paid by collective bargaining agreements, or are there agreements that pay above the general pay scale or other non-tariff benefits? What is also important is whether men and women receive the same pay for the same work and whether the company is doing anything to ensure a better work-life balance for its staff. And last but not least: does the company protect the health of its employees and can they take part in activities to further their education?

All these aspects apply both to the locations in Germany as well as to the sites abroad. Especially in countries with weak legal protection of workers' rights, companies must ensure that their local executives there also take care of the issues mentioned above, even if they do not play a central role in their culture or are assessed differently. The core labour standards of the International Labour Organization (ILO) should be adhered to at the very least (see Criterion 14).

**General Equal Treatment Act**

The General Equal Treatment Act (Allgemeines Gleichbehandlungsgesetz – AGG), also called the anti-discrimination law, was adopted in the German Bundestag in 2006. It is intended to “prevent and eliminate discrimination on grounds of racial or ethnic origin, sex, religion or belief, disability, age or sexual orientation”. The AGG applies to all social and legal areas and grants the persons protected by it legal claims against employers and individuals.

**Effect on the company's success**

It would be interesting to know what the company is doing to ensure that the rules are natural standard practice, that is to say that they are enshrined in the hearts and minds of employees.

**Integrate rules on equal opportunities, health, etc. in the processes**

In this context, 'implemented' thus means that the rules are integrated into the processes in such a way that they – at least in the medium term – become a natural part of corporate policy. All this also helps the company: satisfied, motivated employees and a workforce that also does better work due to greater cultural diversity have a direct impact on a company's success.



## WHAT YOU SHOULD REPORT

- > Whether you pay all your employees appropriately.
- > What you do to avoid discrimination of any kind.
- > Whether there are programmes in your company that promote health and education as well as the work-life balance of your employees.

## WHAT OTHERS WRITE

**Fraunhofer UMSICHT** reports the following: "In late 2011, Fraunhofer signed the Diversity Charter. We support equal opportunity measures and engage in active diversity management: all employees are treated and valued without prejudice – regardless of gender, nationality, ethnic origin, religion or belief, disability, age, sexual orientation and identity. Since 2012, the topic of diversity has been represented at Fraunhofer by the newly created position of a diversity officer to ensure professional concept development and implementation. The still low proportion of female scientists is expected to increase annually by 0.5%. With this purpose in mind, the aim is to fill every fourth position with a woman. Accompanying measures are the Fraunhofer mentoring and doctoral programme." (GSC Declaration of Conformity 2011)

The **Berliner Verkehrsbetriebe (BVG)** also describes concrete measures in its Sustainability Report 2012: "In connection with the work-life balance, the company takes a firm stance, which is reflected, for example, in the option of flexible working

hours. Since 2009, the BVG has been certified according to the 'audit berufundfamilie' ('audit job and family'). The issue of promoting the work-life balance is viewed as a strategic management tool that unites corporate and employee interests. Exploring existing scopes and specifically using them to reconcile professional and family objectives takes priority. The strategic objectives specified upon its initial certification in 2009 are maintained in order to underline the BVG's image as an attractive employer. More than two-thirds of the agreed measures had already been implemented successfully by the time of the initial certification. These include:

- Occupational maternity leave (four weeks' additional leave of absence)
- Parent meetings (semi-annual meetings for parents and children)
- Carer meetings (semi-annual meetings for workers with relatives who need care)
- Family portal (Intranet page on the topic of compatibility)." (Sustainability Report 2012)

The company discloses what goals it has set and what measures it has taken to promote the employability of all employees, i.e. the ability of all employees to participate in the working and professional world, and to adapt it to demographic change.

**WHAT DOES THAT MEAN?**

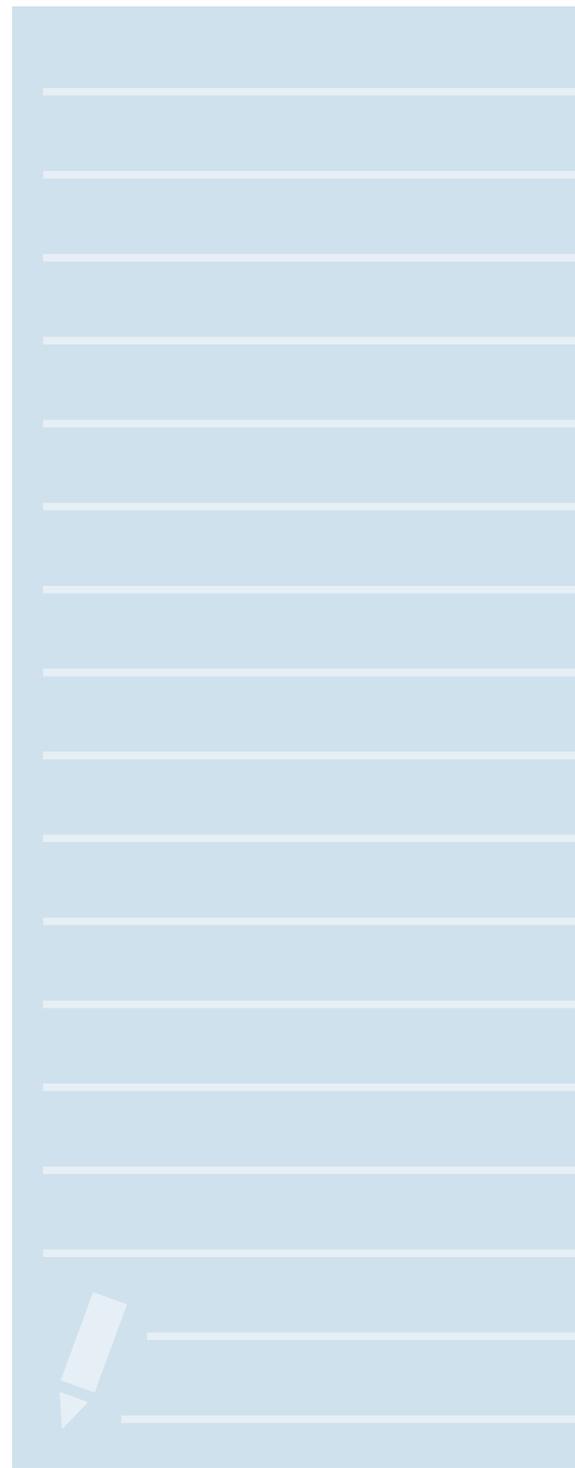
The structure of the population is changing rapidly in Germany: there are fewer of us and we are becoming older and older, as is the case in most industrialized nations. With this so-called demographic change, the age structure in many companies is also changing, that is to say that the proportion of older workers is rising. This is what companies need to adjust to. The term 'employability' is also understood as the ability of people to participate in working and professional life.

**Having demographic change under control and focus**

One prerequisite for this is that their technical and social skills match those that are demanded in the world of work. A further condition is that they are also physically able to work.

**Finding and holding on to good skilled workers**

However, the subject has another component: SMEs in particular, which represent three quarters of jobs and 80% of apprenticeships, are suffering from the fact that it is becoming increasingly difficult to find suitable skilled workers. Since – due to demographic changes – there are fewer young and well-qualified professionals in the labour force, this effect will be even more strongly felt in the future. Companies therefore need to increasingly take the issue of training and advanced training into account. And they must make sure that their older and more experienced workers in particular are able to contribute their services in the company in the best possible way. Means to do so include age-appropriate jobs, but also measures to promote health. Of interest here are also considerations as to how the different technical and social skills of young and older workers can be interlinked with each other. Mixed teams may help to ensure that the skills of both sides complement each other well.





## WHAT YOU SHOULD REPORT

- > Whether you are keeping an eye on demographic change.
- > What you are doing to ensure your employees can contribute their services in the enterprise in the best possible way in the long term (e.g. programmes relating to health management or age-appropriate job design).

## WHAT OTHERS WRITE

**Piepenbrock**, which operates in the facility management sector, describes its approach as follows: "By forming multidisciplinary teams, expert knowledge, skills, capabilities as well as tips and tricks are passed on from the experienced staff to younger colleagues and newcomers to the industry. In this respect, the Osnabruck-based family firm attaches great importance to the formation of teams that are balanced according to age and gender and the average length of employment in the industry. The company selects employees by skill, not by age, origin or gender. We assemble our teams according to the individual skills of the employees. Continuous training measures keep the level of performance – even in older employees – at a high level." (GSC Declaration of Conformity 2011)

**Munich Airport** also describes responding measures: "In order to promote health, packages of measures have been defined and implemented to ensure a high level of work safety and to establish good health in the long term. [...] In the context of occupational health management, a variety of activities around the themes of corporate integration management and prevention is offered. Company-facilitated sports activities also contribute to the long-term preservation of employability. [...] The health and safety committee of Munich Airport meets quarterly, and current health issues are discussed in the monthly health circles. Munich Airport has created full-time jobs for employees who can no longer perform their previous work in Munich Airport to the same level of performance for health reasons. This is used, for example, in the Group's own recycling centres, in the post room and with the in-house craftsmen." (GSC Declaration of Conformity 2012).

The company discloses what measures it takes for the supply chain with the aim of ensuring that human rights are respected globally and that forced and child labour as well as all forms of exploitation are prevented.

**WHAT DOES THAT MEAN?**

Actually, governments should ensure that fundamental human rights are respected, but with the economy going global and thus companies becoming more significant, international companies can and have to do a lot to ensure the observance of human rights. However, even SMEs who work exclusively with German suppliers should ensure that they also respect the human rights that are enshrined in the Basic Law and the Convention on Human Rights of the United Nations.

Companies can do a lot to make sure that human rights are respected

These include, among other things, the protection of life and physical integrity, the right to security, work and free choice of employment, appropriate working conditions, the right to equal pay for equal work, and protection against discrimination, for example in employment on grounds of gender, religion or origin.

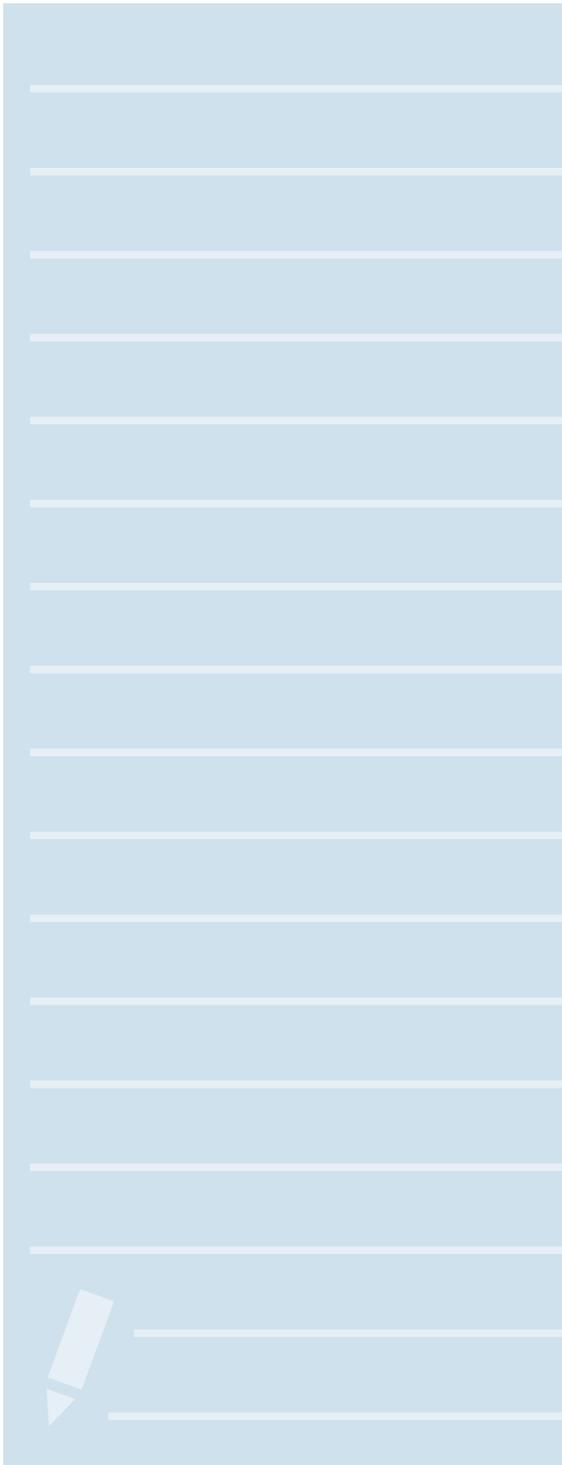
**Avoiding problems in the supply chain**

Companies that have suppliers and/or partners in countries outside the OECD are always at risk that they disregard basic human rights – especially in countries with weak legal protection. This is then usually blamed on the company that is responsible for the final product. A company that thus

buys from international sources (procurement) or has its products manufactured abroad should make absolutely sure that its business partners comply with applicable international rules on human rights, such as the United Nations or the International Labour Organization. In the face of complex supply chains, this is easier said than done, but complexity must not be an excuse to 'overlook' this issue.

**Supplier Code of Conduct and/or audits**

The company should have its suppliers sign a Code of Conduct relating to human rights. If the company is capable of doing so, it would be even better if it could verify compliance with the Code by means of external audits and, ideally, if it also formed an opinion of the situation by visiting the site or sites in question. If the company has solely national or European suppliers, then it should conduct its procurement transactions in line with the requirements of national or EU-wide procurement law, which Germany and the EU use to regulate the award of public contracts. These guidelines also include environmental and social aspects besides transparency and non-discrimination.





## WHAT YOU SHOULD REPORT

- > Whether and how you ensure that your suppliers adhere to basic human rights (if you have international suppliers or procure goods and services internationally).

## WHAT OTHERS WRITE

The **Gesobau** housing company writes succinctly on this topic: "GESOBAU's business activities offer no significant risk of incidents of forced or child labour. When purchasing products such as promotional items, we pay attention to local production in Europe." (GSC Declaration of Conformity 2012)

**Hess Natur** describes its Supplier Code of Conduct with the following points: 1. voluntary employment, 2. no discrimination in employment, 3. no child labour, 4. respect for collective bargaining and the right to collective bargaining, 5. the payment of sufficient wages, 6. no excessive working hours, 7. decent work conditions, 8. regulated employment. Hess Natur elaborates further: "hessnatur has developed a comprehensive system for verification and implementation (columns 2 and 3 of hessnatur's management system for social standards). The foundations are formed by a) independent verification by the Fair Wear Foundation, b) internal monitoring conducted by Hess Natur and c) a complaints system to self-monitor sewing workshops." (Sustainability Report 2012)

The company discloses how it contributes to corporate citizenship in the regions in which it conducts its core business activities.

#### WHAT DOES THAT MEAN?

Companies pay taxes, provide jobs and, with their products or services, often help directly to satisfy needs of local people. They also use the infrastructure of the municipality and the region in which they operate, benefit from good roads, well-trained staff, cultural diversity and the fact that public safety is ensured. In this respect, this is a give-and-take situation. Since many companies know, however, that they can continue to be successful in the medium and long term only in a good environment and that municipal funds are often becoming scarce, they get involved in local social and environmental issues beyond their core business activities. This commitment that goes over and beyond the actual purpose of the company arises from the understanding that companies bear social responsibility (Corporate Social Responsibility, CSR, see Criterion 5).

#### **Workplace volunteering programmes (corporate volunteering)**

Many businesses encourage their employees to volunteer in social and environmental projects, either individually or, more often, as part of a team of colleagues. This could be a matter of hosting a party for a facility for disabled people, of renovating rooms in a kindergarten or renaturing part of a river together with an environmental organization. Such activities are not entirely altruistic: they can be useful for reinforcing the community spirit of the workforce, for further developing the corporate culture and for improving the company's reputation in the community and beyond. 'Time donations' such as these range from one-off to regular events.

#### **Social commitment affects the company**

Many companies donate to sports clubs or cultural events, for example, or get involved in social institutions through staff volunteering schemes (in-house volunteer programmes, corporate volunteering, see box).

The palette ranges from donations through voluntary work assignments to longer-term cooperation

Companies can also cooperate with schools and universities to offer students internships or to improve the relevance of their programmes of study.



## WHAT YOU SHOULD REPORT

- > Whether and how your business is involved in social, environmental and cultural projects in the community and /or the region (e.g. donations, support from staff in the context of corporate volunteering or group efforts; this could range from a simple indication of funded projects and organizations to a description of the involvement).

## WHAT OTHERS WRITE

With regard to employee engagement, the **Bundesdruckerei** reports the following: "The staff members of the Bundesdruckerei are also engaged in various educational and social projects. These include, for example, the production and provision of 'Olympia passports' for the German team of the Olympic, Paralympic and Youth Olympic Games or an annual Christmas campaign, in which employees make donations to social institutions in Berlin." (GSC Declaration of Conformity 2012)

With respect to giving concrete support to the community, **Vaude** reports as follows: "At its company headquarters in Tettngang, VAUDE contributes in many ways to the community through its close local involvement. In 2006, for example, VAUDE took over the operation of the local outdoor swimming pool to relieve the community of the financial and organizational burden. At the headquarters of the production facility in Vietnam, VAUDE has built a sewage treatment plant to the benefit of the entire town. VAUDE is building local guest houses, thus ensuring a more efficient infrastructure." (GSC Declaration of Conformity 2011)

All significant input relating to legislative procedures, all entries in lobby lists, all significant payments of membership fees, all contributions to governments as well as all donations to political parties and politicians should be disclosed by country in a differentiated way.

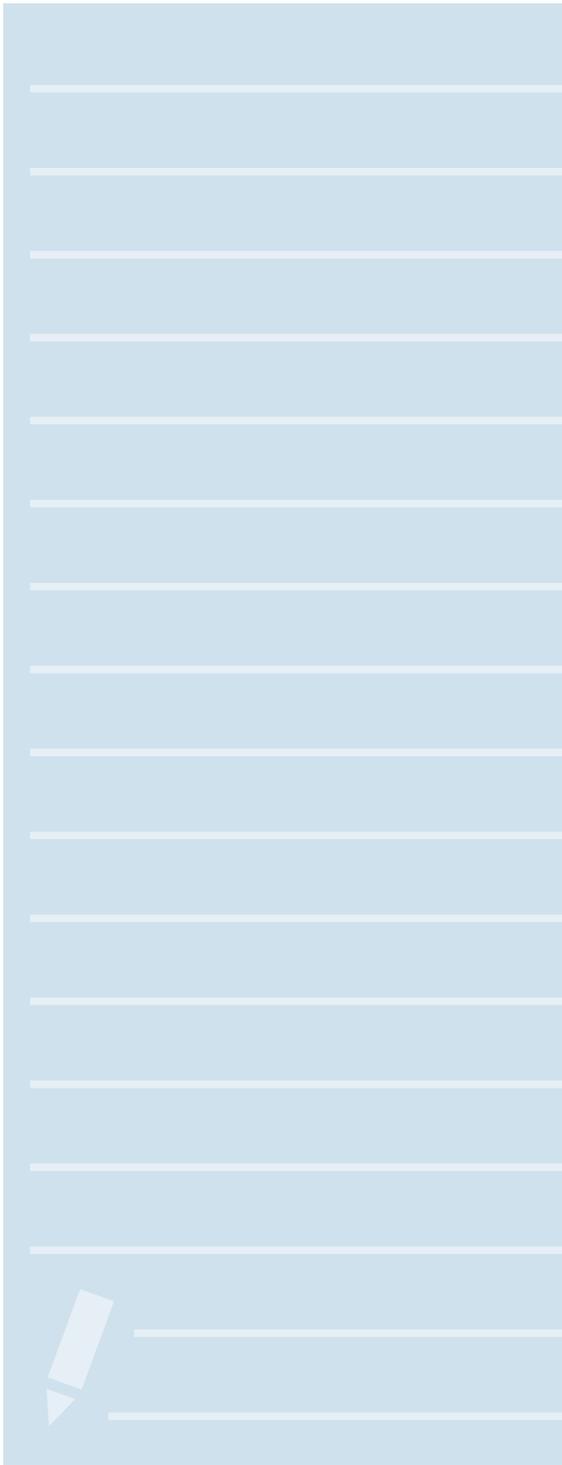
**WHAT DOES THAT MEAN?**

Many companies or their industry associations are involved at national or at European level in the legislative process that affects their industries. Large companies usually have their own offices in Brussels and/or Berlin in order to maintain a local presence, to establish contacts, to maintain a network and to exert influence on this process. Even in the federal states and communities, companies also influence decisions and developments that can have a beneficial impact on their business operations. This often happens through the chambers of commerce, retail associations, regional trade associations, or cause-related corporate initiatives and active lobbying.

**Political influence is legitimate if objectives and means are disclosed**

Representing one's own interests is legitimate if it is done openly and transparently and it is clear who is pursuing what goals and by what means. Businesses should, therefore, openly declare their positions, their memberships and the payments they make, as part of their lobbying activities, to political parties, politicians and/or organizations.

'Political influence' does not mean warding off state regulation and social requirements. Companies have even established their own organizations and foundations to promote sustainability objectives. Stiftung 2° – Deutsche Unternehmer für Klimaschutz, for example, is an initiative that is committed to stringent climate protection targets and that speaks publicly on the subject.





## WHAT YOU SHOULD REPORT

- > Which legislative processes are relevant to your business.
- > What your views or those of your industry association are with regard to political influence and how you exert influence in concrete terms.
- > Which organizations your company is a member of.
- > Which parties you have donated to in the past year, and if so, the amount of the donation(s).
- > What criteria you use to decide which activity or issue your business supports.

## WHAT OTHERS WRITE

The **Abfallwirtschaftsbetrieb München** waste management company reports thus on its involvement in associations: "Stable waste charges have a high priority at the AWM. That is why it is important to advocate for the principle of providing services for the public at state, national and European level. We are involved in various organizations and initiatives, such as the Verband kommunaler Abfallwirtschaft und Stadtreinigung (German Association of Municipal Waste Management and Urban Sanitation). Helmut Schmidt, Second Plant Manager at the AWM, is the Chairman of the National Group of Bavaria; and the manager of the plant management office is the Chairman of the European Technical Committee. Furthermore, since 1998, the AWM has been involved in the CEEP, the only cross-industry European association representing public employers, businesses and partnerships vis-à-vis the EU. The AWM supports the

CEEP with statements and participates in meetings of the German division." (GSC Declaration of Conformity 2012)

**Steinbeis Papier** presents, among other things, an initiative co-founded by the company: "The improvement in the perception and acceptance of recycled paper and the conscious use of resources of all kinds are stated goals and objectives of the Initiative Pro Recyclingpapier, which is strongly supported by STP as an active founding member. What is supposed to be supported in particular are the exchange of information and the dialogue between the various actors and stakeholders from business, government, academia and environmental groups. STP does not support politicians and political parties financially or with favours or benefits in kind." (GSC Declaration of Conformity 2012)

The company discloses which measures, standards, systems and processes are in place to prevent unlawful conduct and, in particular, corruption, and how they are verified. The company depicts how corruption and other contraventions in the company are prevented and exposed and what sanctions are imposed.

### WHAT DOES THAT MEAN?

Numerous corruption scandals have, in recent years, shown that the observance of laws is not always a matter of course. So far, SMEs have not been the focus of public interest, but this issue affects them just as much as it does international corporations. Corruption, i.e. corruptibility or the abuse of positions of power by public officials for private gain, is banned in Germany (Section 334 of the Criminal Code, StGB) and is punishable by up to five years in prison. Furthermore, business activities should be protected against corruption by Section 299 of the Penal Code, according to which corruption or bribery by company representatives can also be punished with up to three years in prison.

#### **Preventing corruption means strengthening businesses**

Corruption is not only criminal, but also harms the company: corruption spoils the corporate culture and creates a climate of distrust and selfishness. To prevent corruption in your own company, clearer guidelines and verification of whether they are respected are required.

Required are clear guidelines  
and measures to  
combat bribery and corruption

Many companies now have their own code of conduct, which specifies rules for the legally compliant behaviour of all employees and the management. Often, companies also refer to the principles of the Global Compact of the United Nations (for more on this and other standards in this context, see Appendix). In markets where corruption is rampant, companies need to analyze the potential conflicts and foster employees who adhere to the guidelines. The subject must, therefore, be deeply integrated into the management culture. Suitable measures continue to include the 'four-eyes' principle, whereby all contracts and agreements are reviewed by at least one other person. Staff should receive regular training on this topic and should be able to contact someone if they have any suspicions (ombudsman), without fear of being subject to sanctions by their superiors.



## WHAT YOU SHOULD REPORT

- > Whether you already have anti-corruption policies or not.
- > If you already have anti-corruption policies, how you monitor their compliance.
- > Who is responsible for the issue within your company.
- > Whether and how you make your managers and employees aware of this topic.

## WHAT OTHERS WRITE

**Howoge Wohnungsbaugesellschaft**, a housing association, writes as follows on this subject: "In order to comply with the requirements laid down in codes of conduct, the management and employees of HOWOGE have undertaken to strictly separate private interests from those of HOWOGE. Compliance with the internal codes of conduct has the highest priority. The applied catalogue of values ensures that statutory provisions are met at all times. Compliance, internal auditing and internal risk management ensure the transparency of and control over the processes. Events are regularly reported to the management." (GSC Declaration of Conformity 2011)

**GESOBAU** describes its well-established system: "A separate guideline, the compliance manual, contributes to the fact that our daily work at GESOBAU can be done in line with the company values at any time. For this purpose, various already existing guidelines for the supervisory board, management board and staff that deal with the good and proper behaviour in the company have been consolidated and updated. The 31-page compliance manual covers the entire spectrum of our business operations. [...] Since the beginning of 2013, 90% of our workforce has been given personal training with regard to the compliance rules. For this purpose, we have carried out a total of 21 events. There will also be a web-based training course for all employees. Since 2005, GESOBAU has appointed an independent ombudsman." (GSC Declaration of Conformity 2012)

**Community:** "All forms of organization of human relationships in a general and public collective that extend beyond the family unit", in particular the state, local authorities, but also churches or ethnic communities. (Source: [www.wikipedia.org/wiki/Gemeinwesen](http://www.wikipedia.org/wiki/Gemeinwesen); accessed on 5 June 2014)

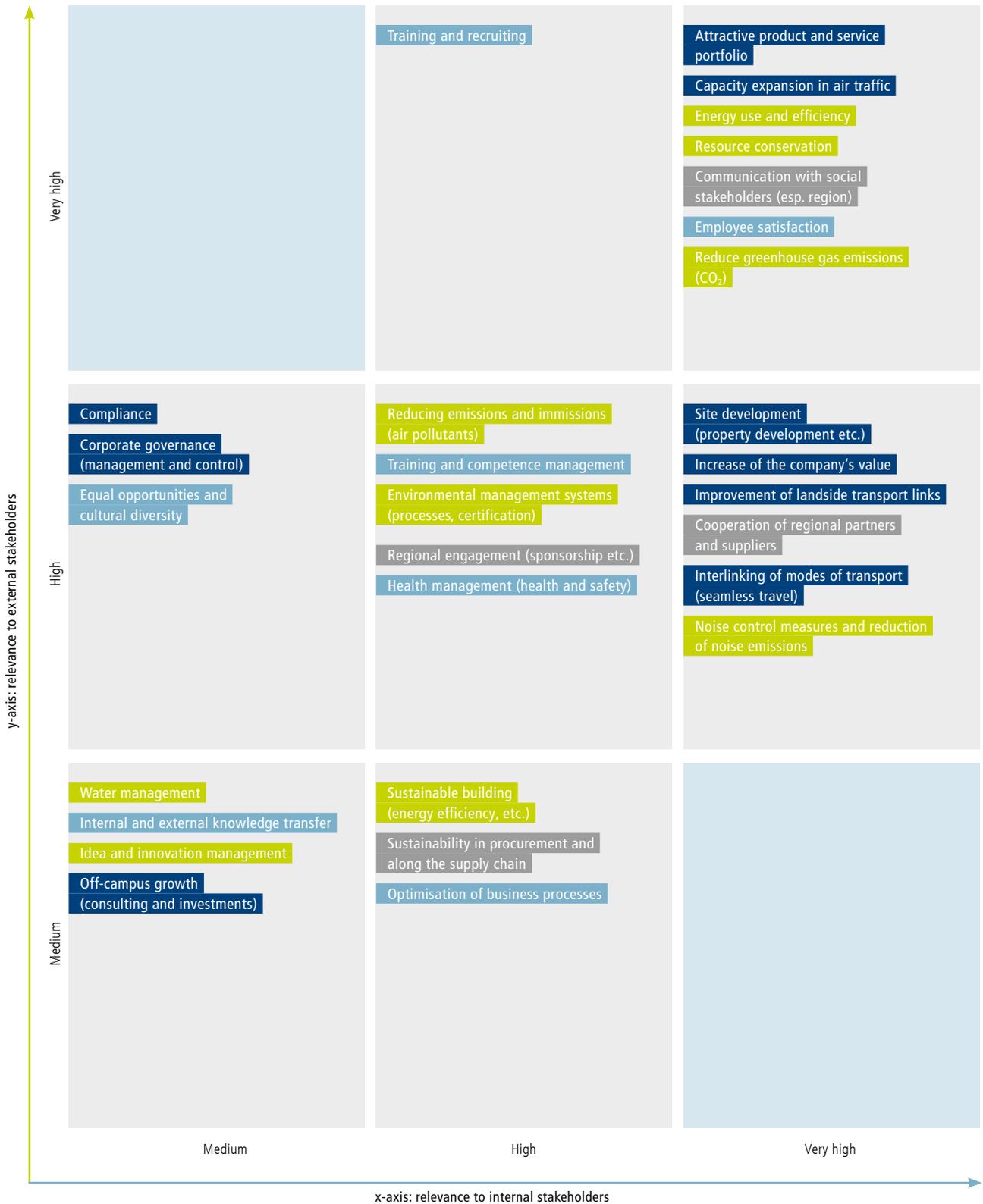
**Performance Indicator (PI):** Performance indicators serve to improve the comparability of the Code criteria for users of the declarations of conformity. They explain and quantify the respective targets for sustainability. They help users from the capital market to integrate them into their analysis models or to use them to determine key data (e.g. emissions per unit of power).

**Stakeholders** are defined as being "entities or individuals that can reasonably be expected to be significantly affected by the organization's activities, products, and/or services; and whose actions can reasonably be expected to affect the ability of the organization to successfully implement its strategies and achieve its objectives." (Source: Global Reporting Initiative (GRI): G4 Sustainability Reporting Guidelines. Amsterdam 2013: 94)

**Material aspects:** "Material aspects are those that reflect the organization's significant economic, environmental and social impacts; or that substantively influence the assessments and decisions of stakeholders. To determine if an aspect is material, qualitative analysis, quantitative assessment and discussion are needed." (Source: Global Reporting Initiative (GRI): G4 Sustainability Reporting Guidelines. Amsterdam 2013: 95). This can be shown in a materiality matrix.

**Materiality matrix:** A comparison of the evaluations of the company and the stakeholders regarding the materiality of the sustainability aspects. See the example of Munich Airport on the following page.

# The materiality matrix gives an overview of the core elements of the strategy



■ Business and management / governance / strategic action Fields  
 ■ Workforce and work environment

■ Environmental and climate protection  
 ■ Regional dialogue and social responsibility

Figure 4 – Source: Flughafen München GmbH/Strategic Sustainability Management

## INITIATIVES AND GUIDELINES

### **German Sustainability Code (GSC):**

The German Sustainability Code is aimed at companies and organizations. On the basis of twenty criteria and a selection of quantifiable performance indicators, the transparency standard describes sustainability services in a transparent and comparable form, the so-called declaration of conformity. With its assistance, the way in which companies embed sustainability into their core business can be assessed. Opportunities and risks become visible and can be managed proactively.

### **European Federation of Financial**

**Analysts Societies (EFFAS):** A network of European financial analysts, which, together with the German Association of Financial Analysts (DVFA), issued a guideline on integrating environmental and social aspects into financial reporting in 2010. ([www.effas.net](http://www.effas.net))

### **Global Compact of the United Nations (UN Global Compact):**

Initiatives of the United Nations for companies that commit themselves to aligning their operations with the ten principles of sustainability. These include, inter alia, human rights, labour standards, protection of the environment and the fight against corruption. ([www.unglobalcompact.org](http://www.unglobalcompact.org))

### **Global Reporting Initiative (GRI):**

A continuous dialogue on corporate reporting in which companies and their stakeholder groups participate. The GRI develops guidelines and thereby wishes to improve and standardize the quality of reporting, thus making it comparable. GRI's most recent directive is G4, which focuses on materiality, the supply chain and management approaches. ([www.globalreporting.org](http://www.globalreporting.org))

### **Organization for Economic Co-operation and Development:**

In 2011, the OECD formulated guidelines for the responsible conduct of companies (especially multinational ones). They were negotiated through an extensive international process of consultation between companies, trade unions, NGOs and governments, and contractually agreed between the governments of the OECD countries and a few other states. They are not binding on companies. (<https://mneguidelines.oecd.org/about>)

### **UN Guiding Principles on Business and Human Rights:**

Endorsed by the Human Rights Committee of the UN in 2011, they define the obligations of states and enterprises to protect and respect human rights. ([www.unglobalcompact.org/docs/issues\\_doc/human\\_rights/Resources/IntroToGPs.pdf](http://www.unglobalcompact.org/docs/issues_doc/human_rights/Resources/IntroToGPs.pdf))

## INSTRUMENTS

**Biodiversity analyses** or biodiversity checks; businesses can use them to gain some initial guidance regarding the impacts and dependencies of various industry sectors on biodiversity. ([www.business-and-biodiversity.de/aktivitaeten/biodiversitaetsmanagement/handbuch-biodiversitaetsmanagement/](http://www.business-and-biodiversity.de/aktivitaeten/biodiversitaetsmanagement/handbuch-biodiversitaetsmanagement/); accessed on 17 July 2014)

**Eco-Efficiency Analysis:** Eco-efficiency is the ratio of the total economic value of a product to the sum of environmental impacts that are produced by the manufacture of such a product. To achieve sustainability, the improvement of efficiency is an essential strategy, alongside consistency (innovative structural change) and sufficiency (frugality).

The ecological footprint is the surface area on the Earth currently required to maintain a person's lifestyle and living standards. These areas are, for example, the land used for the production of clothing, food, energy, and so on, but also for the disposal of waste or for binding the carbon dioxide released by human activities. The values are expressed in global hectares per person per year and vary greatly by region. This concept was developed by the scientists Mathis Wackernagel and William Rees in 1994. ([www.footprintnetwork.org](http://www.footprintnetwork.org))

**Product Life Cycle Analysis:** Also known as life cycle assessment for short (see Criterion 10, page 37).

# MANAGEMENT SYSTEMS RELATING TO SUSTAINABILITY

**Stakeholder Dialogues:** The exchange of views with the company's stakeholders about its sustainability strategy or sustainability goals and projects is now regarded as an important sustainability management instrument (see Criterion 9, page 34 and Lexicon of Sustainability: [www.nachhaltigkeit.info/artikel/stakeholder-dialoge\\_1571.htm](http://www.nachhaltigkeit.info/artikel/stakeholder-dialoge_1571.htm)).

**Sustainable Balanced Scorecard (SBSC):** This is based on the Balanced Scorecard. It is a concept to measure, report and control the activities of a company or organization where not only financial measures but also questions of vision and strategy are applied. The SBSC extends this to include sustainability. ([www.csr-news.net/main/2014/03/25/sustainable-balanced-scorecard](http://www.csr-news.net/main/2014/03/25/sustainable-balanced-scorecard))

**Sustainable Value:** This is a tool to calculate the economic effects of a business (increase in value) by including the environmental and social burdens associated with it. The concept was developed by a group of German scientists. ([www.sustainablevalue.com](http://www.sustainablevalue.com))

**EMAS** (Eco Management and Audit Scheme) as well as ISO 14001 are environmental management systems. The EMAS, also called Eco-Audit for short, was developed by the EU in 1993 and aims to help businesses to improve their environmental performance through the implementation of this comprehensive voluntary environmental management instrument. This is checked (certified) regularly by an external body. One corresponding international environmental management standard is ISO 14001 from the International Organization for Standardization. (<http://www.emas.de>; <http://www.iso.org/iso/iso14000>)

**ISO 9000** is the standard of the International Organization for Standardization (ISO) that addresses a company's quality management. With its eight principles (customer focus, leadership, involvement of the staff, using a process approach, taking a systems approach, encouraging continual improvement, fact-based decision-making as well as mutually beneficial supplier relationships), it is also in part a suitable instrument for sustainability management. ([www.iso.org/iso/home/standards/management-standards/iso\\_9000.htm](http://www.iso.org/iso/home/standards/management-standards/iso_9000.htm))

**ISO 26000** is a management guide that the ISO submitted in 2010. It gives companies and organizations recommendations how they can operate in a socially responsible way. This is not a certifiable management standard; its application is voluntary. ([www.iso.org/obp/ui/#iso:std:iso:26000:ed-1:v1:en](http://www.iso.org/obp/ui/#iso:std:iso:26000:ed-1:v1:en))

**SA 8000** is an international standard that defines the minimum standards of working conditions of employees, particularly in transnational companies. Its originator is Social Accountability International (SAI), an international non-governmental organization which can certify companies if they wish. The standard is based on the conventions of the International Labour Organization (ILO) and the United Nations (UN). ([www.sa-intl.org/index.cfm?fuseaction=Page.ViewPage&PageID=937](http://www.sa-intl.org/index.cfm?fuseaction=Page.ViewPage&PageID=937))

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## “What should I do first to comply with the German Sustainability Code (GSC)?”

- 1** Form a project group composed of people who well reflect the various areas of your business. (As the owner, you can, of course, complete the GSC by yourself, but if you involve your employees in this early phase, the topic gains more impact and feasibility.)
- 2** Together with the project group members, answer the following questions: What does sustainability mean for our business? What are we already doing? What objectives do we want to achieve within the company? How can sustainability management support the company's business operations? Where do the employees and stakeholders see a need for action? What are our competitors doing? What human and financial resources are available?
- 3** Together, go through all the 20 criteria and determine where information might be lacking and who in the company could furnish it.



# Journal of Sustainable Management Guidelines for SMEs