

Guideline on the 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 or 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 Sustainability Code sets standards for transparency

By issuing this guide, the German Council for Sustainable Development (RNE) and the Bertelsmann Foundation wish to encourage small and medium-sized enterprises (SMEs)* in particular to apply the Sustainability Code. We want to support them to the best of our ability. The Sustainability Code is not simply a reporting tool tailored to your needs; it also provides you with guidance relating to sustainability management. It represents the condensed knowledge of years of experience with sustainable management and best-practice reporting. With its 20 criteria and selected performance indicators for sustainable management, the Sustainability Code makes it more clear what exactly is meant by the term ‚sustainability‘. It ensures that the main focus of attention is on essential – or ‚material‘ – aspects and at the same time provides support in intensifying your commitment to assuming responsibility for the environment and society as well as making it more efficient.

Many SMEs already organize their activities in a socially and environmentally responsible manner with a long-term perspective – and have often been doing so for decades or generations. They take limitations on resources, energy efficiency, demographic change or local commitment, for instance, into account when making entrepreneurial decisions. However, as a critical component in the value chain for a globalized economy, SMEs face additional challenges: investors, consumers, corporate clients and suppliers are demanding increasingly comprehensive and detailed information about companies‘ operations as a factor on which decisions regarding investing, supplier relationships and product purchasing are based. They have become sensitized to these topics through the impact of media reporting and non-governmental organizations. New topics are drawing focus: whether companies uphold human rights, combat corruption, and respect environmental or social topics and the needs of employees is of particular interest to the general public.

In order to strengthen the importance of these non-financial aspects of a company’s operations in public and entrepreneurial perception, in December 2014 the European Commission issued a guideline outlining companies‘ reporting obligation on non-financial information. It must be implemented in legislative form by December 2016. Companies who are part of the supply chain of companies with a reporting obligation will be indirectly

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

impacted by this directive. Companies with reporting obligation will take non-financial aspects that lie within the responsibility of another company in their supply chain but which fall within their own area of business into account in their reporting.

In this situation, the RNE supports efforts to achieve sustainable management by means of its Sustainability Code: by using this transparency standard all companies can start reporting quickly and easily and can thus keep the costs and effort required low. The Code can help improve sustainability management and link these topics with an assessment of economic success. It also offers enterprises the opportunity to portray their commitment to sustainable development and their related positive 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 is also a motivating signal to employees that this issue really does have high priority within the company. It raises awareness for the topic of sustainability and thus has the potential to influence a company's corporate culture.

We are making this guide available so that such enterprises may be able to leverage these benefits 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 the time, expertise and ideas they have contributed!



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ABOUT THIS GUIDE

Helpful companion

This guide helps companies to start applying the Sustainability Code. In it, we explain precisely what the Sustainability Code 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. This guide is not meant as a substitute for a management guideline addressing questions relating to strategic, organizational or implementational aspects of sustainable management. What it is, is a helpful companion on the path to preparing a declaration of conformity with the Sustainability Code that will provide ongoing orientation and narrow focus to the essential.

A framework for non-financial reporting

The Code offers clear orientation based on materiality and transparency for the reporting of non-financial performance indicators. It lays out the minimum requirements for companies and organizations in terms of what aspects of sustainability are to be reported on and, when applied correctly, fulfils the requirements of the statutory reporting obligation that will apply from 2017. The Sustainability Code can be used by companies and organizations of any size or legal form and independent of where the company's headquarters are located. Users include both large and small, public and private companies, organizations both with and without pre-existing sustainability reporting, both companies with a capital market orientation and companies that simply want to inform stakeholders about their activities as a company in the area of sustainability. The Code makes sustainability achievements and the significance of sustainability in a company or organization's core operations tangibly more comparable, thus enabling a comprehensive assessment of entrepreneurial performance and ability to take on the challenges of the future. In order to comply with the Sustainability Code, users prepare a declaration of conformity with the 20 criteria and the supplementary non-financial performance indicators derived and selected from the comprehensive reporting guidelines of the Global Reporting Initiative (GRI) and EFFAS (see table in Appendix on p. 69). As a user you report on how you comply with the criteria of the Sustainability Code and, if required, provide plausible explanations for why reporting for certain criteria is not possible.

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. In some cases, everything mentioned in the Sustainability Code 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.

For instance, a particular topic may not have cropped up in your company yet; with another, you might not yet have progressed far enough to say something tangible about it. Some criteria may not (yet) affect your business. 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. Many users report about the insight they have gained as a result of the process for preparing and agreeing their first declaration of conformity with the Code. Internal understanding of own sustainability achievements is improved, a process of ongoing improvement is initiated and conflicts in objectives resolved.

On page 68 of this guide you will find an overview of steps to be taken to prepare a first declaration of conformity with the Code.

Structure and core

The Sustainability Code 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)

The “Strategy” section 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 relating to sustainability are on your radar. You also describe how you weight them, how you deal with them, and what goals your business sets to make its business operations more sustainable – along the entire value chain, if possible. This section forms the core of the Sustainability Code. Fill it in very thoroughly to help you lay the foundation for all other questions; you will then have achieved the decisive factor for Code 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, stipulated that your purchasing department always buy 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 your company profile in the Sustainability Code database. They are part of the essence of sustainability and can and should also be reflected in the Code. The path to sustainability is also a struggle for the best way to achieve the objectives in each case. It requires that decisions be made.

Examples of how others do it

For each criterion, we have given examples from recent declarations of conformity 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 Sustainability Code – depending on their level of development – and the very minimum your company should report to meet the Code requirements. What also becomes clear, however, is that some have raised the bar even higher. This can, and should, inspire others to act similarly.

FREQUENTLY ASKED QUESTIONS

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

The world is currently facing significant environmental and social challenges. Due to sensitization as a result of media reporting and critical non-governmental organizations (NGOs) topics such as consideration of human rights, combating corruption and environmental, fair employment and social issues – in developing countries as well – are playing a growing role in public awareness. As key players in global supply chains, SMEs have a bi-directional relationship with global challenges. On the one hand, more and more SMEs are recognizing that the ability of their company to achieve future entrepreneurial success is not dependent solely on economic and regulatory factors but to a decisive extent on environmental, social and societal conditions as well. On the other hand, they are also recognizing that they share responsibility for sustainable future development. Many want to, and can, make a key contribution. Forward-thinking companies embed, either consciously or unconsciously, the principles of sustainability in their business strategies and decisions and develop concrete measures and mechanisms to ensure their implementation. In order that sustainability become a factor with a relevant impact on competition, companies should document and report to the public how they are assuming responsibility as a company. The Sustainability Code creates a link between the economic, environmental and social impact

of a company's core operations and offers a wide variety of opportunities for companies to pursue ongoing improvement. This was confirmed in a corresponding survey of users carried out by the RNE in December 2015. You can find the results of this survey on the project's website in the "Downloads" section.

There are already a number of reporting standards, such as the OECD Guidelines for Multinational Enterprises, ISO 26000, the Global Reporting Initiative (GRI) and the Global Compact of the United Nations (UN Global Compact). Why should a business apply the Sustainability Code?

These and other initiatives have furnished international reporting and management standards. Some of these standards, however, only cover part of the requirements that will come into effect with the reporting obligation from 2017 onward. The Sustainability Code offers a supplement to these standards, meaning it complements them and makes them accessible. At the same time, the Code reduces their in part highly complex requirements to the essentials. In order to do so, in dialogue with representatives of the capital market and of companies, the RNE has prepared a selection of performance indicators from common reporting standards (in particular the GRI G4 and EFFAS) and has described criteria (see p. 71) that clearly and concisely represent the key information on a company's sustainability performance. It thus provides support in particular for SMEs wishing to prepare a report according to the above-mentioned principles.

A systematic comparison of standards with Sustainability Code criteria can be found in the FAQs section at www.sustainabilitycode.org.

How do the Sustainability Code 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 its further efforts to implement and promote the ten principles. More information about Global Compact can be found here: www.unglobalcompact.org.

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

Unfortunately, sustainability reports usually receive fewer readers than one might wish. 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 essential. In the Sustainability Code declaration of conformity you can refer or link to your sustainability report and the data it contains.

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

The performance indicators, selected from GRI G4 and EFFAS, are a component of the Sustainability Code 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 yet 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 Sustainability Code?

The primary target groups that can use the declarations of conformity with the Code are:

- customers and suppliers that set great store by sustainability in the value chain;
- 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;
- policy makers who wish to get an idea of sustainable management;
- and financial market players in order to be better able to assess the opportunities and risks of investments and loans.

Large businesses can benefit from the Code by giving their partners in the supply chain an easy tool that meets customers' demands for sustainability. Potential users undoubtedly also include non-governmental organizations and the scientific community. In proportion to how the Code 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 publicised so far makes it hard for users to see how a company operates in comparison to others – if at all. In the maze of usually lengthy sustainability reports, the essential facts are often 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 more credible. The more companies participate in the Sustainability Code, the more likely it is to succeed in sparking competition to find the most sustainable solutions.

What impact will the EU-wide reporting obligation from 2017 have on SME?

In December 2014, the European Commission passed a guideline that expanded reporting requirements to include non-financial aspects and aspects related to diversity. The guideline must be implemented in national law by the end of 2016. The German Federal Ministry of Justice and Consumer Protection (BMJV) has submitted a corresponding draft bill; it will impact large capital market-oriented enterprises, credit institutes and insurance companies with total assets of at least 20 million euros or sales revenues of at least 40 million euros and which have at least 500 employees. The draft presented by the BMJV additionally applies to limited-liability partnerships and cooperatives.

Medium-sized companies that are part of the supply chain of companies with a reporting obligation may be indirectly affected by the guideline as companies with a reporting obligation are to give commensurate account in their reporting of non-financial aspects that lie within the responsibility of another company in their supply chain. In brief, the reporting requirements will be passed on to SMEs.

Does a declaration of conformity with the Sustainability Code fulfil the requirements of the EU reporting obligation for non-financial information in effect from 2017?

Compliance with the reporting obligation may be measured using national, international or European standards. However, some of these standards only cover the requirements in part. Companies can use the Sustainability Code as a basis when preparing the required information. The Code meets the requirements, covers all report elements, at the same time focuses on the essentials and can additionally be linked to other standards. The European Commission has again given it positive recognition as a possible reporting standard. The Code is also named in the context of the draft bill from the BMJV as a suitable standard.

Can the Sustainability Code also be used by international companies?

The Sustainability Code is already available now to international companies and organizations as an instrument for fulfilling the new EU reporting obligation. The full database is available in English, Greek and German. Translations of the Code are available in French, English, Greek, Russian and Hebrew.

How long does it take on average to fill in the Sustainability Code?

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, companies need 18 working days for preparation and internal approval of a declaration of conformity; companies preparing their first-ever report stated they needed 22 working days. Two-thirds of users consider the time expended to be commensurate (2016 survey of users). But even expending a lot of time on the Code 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 is the expected length for the report?

The declaration of conformity is intended to be short in order that relevant information be expressed succinctly. Generally, one expects to see between 500 and 2,000 characters per criterion.

What costs can we roughly expect?

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

How can the Sustainability Code benefit my company?

Around 85 percent of users see the improvement to reputation as a significant benefit (2016 user survey). The Code helps maintain credibility and access to markets but also can be beneficial in continually pushing forward innovation and new ways of thinking in companies, while maintaining proven principles.

Moreover, 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 identify whether it adheres to all laws and regulations (compliance). A large majority of users (around 70 %) also report seeing an internal learning effect, progress resolving conflicts in objectives step by step, achieving a unified understanding or posing constructive questions about accustomed workflows. An additional benefit is also to spur individuals to take their own actions and

responsibility seriously. It can help sensitize your staff toward the topic of acting sustainably and motivate them to do so.

You can, however, also use the Sustainability Code 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. The capital market in particular is increasingly using this information to assess the opportunities and risks of investments or granting someone a loan.

With your declaration of conformity with the Sustainability Code, you can demonstrate to what extent and how you can also report on your supply chain beyond your immediate corporate boundaries. As a supplier, you can use the Code to portray your sustainability achievements and thus score points when establishing relationships with new suppliers.

What kinds of support are offered?

1. **Online:** the Sustainability Code website (www.sustainabilitycode.org) provides a wide range of helpful information for both users and interested parties. There you will find, for instance, industry-specific guides and supplemental information on the Sustainability Code for the residential housing sector, savings banks, the food processing sector, the recycling industry and universities.
2. **Training partners:** the German Council for Sustainable Development (RNE) has developed a training concept dealing with application of the Code. Sustainability Code training partners throughout Germany offer informational events, training seminars as well as individual advisory services for preparing a declaration of conformity through to its publication. The Sustainability Code training partners must provide evidence of their expertise in the area of sustainability and complete extensive training as a trainer. The training partners are listed on the Sustainability Code website, organized by region.
3. **Sustainability Code mentors:** the Sustainability Code mentors are practitioners from companies all over Germany who provide support for interested parties and other users. An overview of the mentors is available on the Code website.
4. **Sustainability Code Team:** in Germany, the Sustainability Code Team will gladly assist at any time with advice and helpful tips. It can provide support for difficulties using the database, inform you of recent developments, initiate contact with training partners and mentors, review your declaration of conformity for formal completeness and after doing so provide you with the Sustainability Code user signet following publication. Please note that the signet is not a form of certification. All liability for correctness of the disclosures made in the declaration remains with the companies themselves. You can reach the Sustainability Code Team online at team@sustainabilitycode.org or via telephone at +49 30 700186-974.

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

In Germany, the Sustainability Code team reviews the declaration of conformity to determine whether it conforms to the formal requirements of the Code. In other countries, national cooperation partners to the German Council for Sustainable Development may take this role. 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 Sustainability Code is a standard for transparency that 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 receive a Sustainability Code 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.

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 essential for the effectiveness of the Sustainability Code. Please be sure to also note the time frame stipulated for the reporting obligation, should you be directly affected.

Can the declaration of conformity be published elsewhere other than on the Sustainability Code website?

The declaration of conformity can be viewed via the Sustainability Code database. You can use the signet as a button to link from your website to your company's profile in the Code database. Use the export function from your profile to download your declaration of conformity and provide it for viewing on your corporate website or use it as the basis for a sustainability report or other communication media.

THE 20 CRITERIA OF THE SUSTAINABILITY CODE

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STRATEGY

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The criteria in this section form the basis of the Sustainability Code. The issue at heart here is the foundation 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 Sustainability Code. On this basis 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 key recognized sector-specific, national and international standards.

WHAT DOES THIS MEAN?

The question here is what the strategic framework in which your company’s operations are embedded looks like. More specifically, how you assess sustainability in relation to your company’s core activities, how you integrate sustainability into your operations and which standards or guidelines you take into account. The statement ‘major activities’ always refers to the company’s core business, i.e. that part of the business activities where the company chiefly provides its services.

Create link between longer-term goals and visions to form an overall picture

Many companies are already 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. Thus, it is important to describe how you integrate key elements of sustainability into your business operations and in doing so systematically promote and pursue sustainable development.

Taken in their entirety, sustainability activities should include medium- and long-term goals as well as measurable benchmarks. Ideally, the activities are designed to dovetail with each other and have a focus that relates to the core business. The more comprehensively

International standards for sustainable management and reporting

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

- Core Labour Standards of the International Labour Organization (ILO, see also Criterion 14)
- 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)

sustainability is integrated into your company’s value chain, the more effective the sustainability strategy will be.

No fear of strategy

SMEs often do not point out clearly enough in which direction they want to develop 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.

But, for SMEs, the term ‘strategy’ sometimes sounds rather fanciful. In most cases, the overall picture is a result of a variety of sub-strategies that arise from real-time

observation of general business 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 put them in relation to each other.

And by the way: even if you do not currently have a defined sustainability strategy, you can still publish a declaration of conformity. You simply describe the reasons why a strategy of this kind is lacking or how you intend to develop one.

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

Naturally, a sustainability strategy can also be 'all of a piece': for example, if a company is clearly positioning itself against the backdrop of future demands and questions its past actions to readjust accordingly.

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.

But changed customer needs could also transform traditional 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, developing strategies for dealing with a limited pool of new young talent and ageing workforces.

Putting things in relation

International standards (norms, guidelines, principles, etc.) define aspects of sustainability across companies and sectors that should generally be taken into account by all companies. Many companies already orient themselves along these international standards. You should explain briefly which standards your company uses as a guide and how it complies with them.

Sustainability takes a different specific shape for every sector and every individual company. Thus, more and more industries are starting to develop their own standards of sustainability. If your company also takes into account a sector-specific standard of sustainable practice, you should also explain this briefly.



WHAT YOU SHOULD REPORT

- > Whether you have a sustainability strategy for your company.
- > What the main elements of this strategy are.
- > Which aspects of sustainability impact your business operations and which entrepreneurial opportunities and risks result for your company from these.
- > What standards are material to your business with regard to sustainability.

* You might already be able to demonstrate measures relating to the Sustainability Code criteria that follow, 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

AfB gemeinnützige GmbH, 2015:

[...] As part of developing a corporate strategy, SWOT analyses are to be included, identifying potential opportunities and risks – also in relation to the environmental and social aspects of issues. Opportunities such as wide-reaching reduction in unemployment among people with a disability and risks like changing market conditions could play a role, for instance. Currently our CSR department and the Management Board are in charge of carrying out these analyses. In addition, development of a materiality analysis in conjunction with relevant stakeholders is planned in order to identify further key sustainability topics. [...]

Grohe AG, 2014: [...] In order to assess the strategic orientation of the sustainability policy at GROHE, a materiality workshop was held in 2015 with staff from various company departments as well as external consultants. The matrix showing the positioning of the key issues in relation to both internal and external demands was then approved by the GROHE Management Board. The matrix made it clear how well the main areas of action within the GROHE sustainability policy coincided with the topics identified as being material.

Miele & Cie. KG, 2014: [...] The sustainability strategy and the integrated management system, which covers all departments, ensure that numerous national and international norms and standards are complied with. These include the UN Global Compact, the social standard SA8000 as well as the Codes of Conducts of the German Electrical and Electronic Manufacturers' Association (ZVEI) and the European Committee of Domestic Equipment Manufacturers (CECED).

Materiality matrix Grohe AG

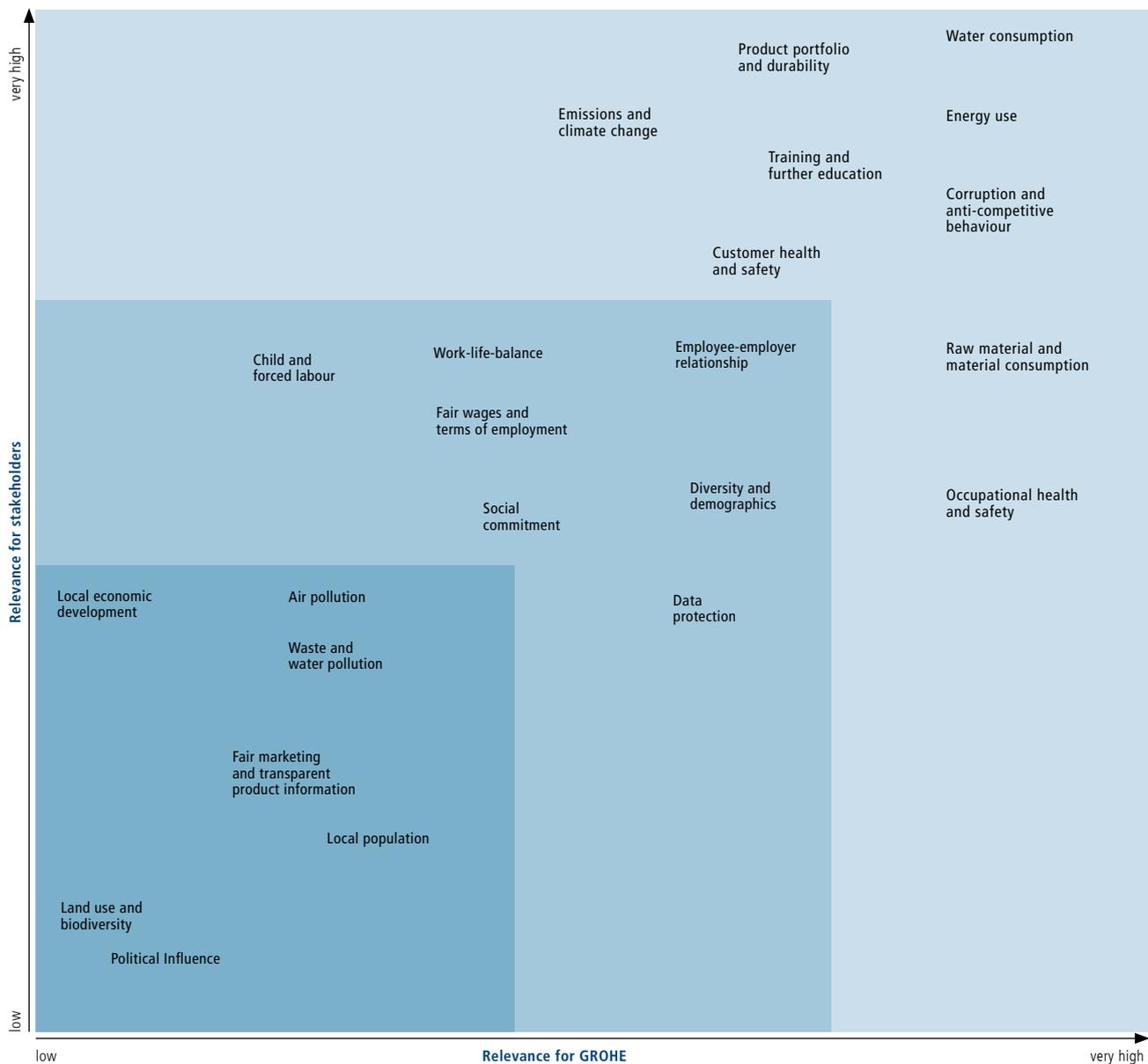


Figure 1 – Source: Grohe 2014, http://downloads.grohe.com/files/com/pdf/GROHE_Sustainability_Report_2014.pdf

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?

Here you give more concrete details on what sustainability means for your company – which specific aspects of sustainability effect your business operations and/or your core business.

In terms of sustainability management and reporting, the impact of your core business on the environment and society and vice versa are of particular importance. This includes all environmental and social issues, such as natural resources, staff or the community. The topics with high materiality are often those with overarching impact (e.g. climate change, human rights, corruption), sector-specific (e.g. ingredients, waste, materials flows) or company-specific (e.g. locational issues, employer attractiveness, specialist staff).

Beginning an analysis

A so-called materiality analysis may be a suitable tool here. This analysis process is being used more and more frequently, among other things as a result of the fourth generation of reporting guidelines from the Global Reporting Initiative (G4). The results of the materiality analysis can be presented in the form of a materiality matrix. A sample matrix is provided in the Appendix.

Every topic with high materiality is also related to certain stakeholder groups. In terms of materiality, experience has shown that taking the expectations of these

Materiality analysis and matrix:

are a strategic instrument used by companies to determine sustainability topics with greatest importance for a company and its stakeholders. It comprises:

1. an analysis of the external environment (e.g. opportunities and risks within the political, legal, economic, environmental, technological and social environment)
2. an analysis of the company from an internal perspective (e.g. its strengths and weaknesses with respect to areas of competency, resources, business model, product portfolio, value chain) and
3. an analysis of stakeholders' expectations (e.g. those of your customers, suppliers, neighbours, staff or even of consumer/environmental organizations via surveys, interviews or other forms allowing for dialogue and active participation, such as workshops or advisory councils).

The most relevant results of the analysis are then presented in the form of a matrix. The results of the analysis of the environment and the company form one axis of the matrix and the results of the analysis of stakeholders' expectations the other. By putting the topics of relevance for the company and for stakeholders into relation with each other, areas for action can be derived for strategic planning and subsequently prioritized (see also Appendix, p. 69). These then form the foundation for your company's sustainability strategy.

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stakeholders (e.g. customers, suppliers, employees, consumer and environmental organizations) into account in the analysis is to be recommended (see Criterion 9 for more details). Examining these in depth helps to counter a blinkered attitude within

Focussing on what is truly important

the company and exposes, at the same time, opportunities as well as potential risks that could damage the firm's good reputation.

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, wood in particular, 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. In addition to the raw materials, the firm's own recipes, the impact of the products on health, but also the product declarations take the main spotlight. 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 chemical companies, however, as they usually have energy-intensive operations, energy supply, energy sources as well as issues of labour and product safety will be essential.

At the same time, some things apply for companies, regardless of industry, such as the recruitment, employment and further development of employees as key activities needed for maintaining 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. A company can report 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 aspects of sustainability have high materiality for your company.
- > How you link these aspects to opportunities and risks of your company's business in terms of social and environmental issues.

WHAT OTHERS WRITE

GEWOBA Aktiengesellschaft Wohnen und Bauen, 2015: Key aspects of sustainability are a component of corporate strategy. These aspects were identified together with stakeholders as carrying high materiality. From these sustainability aspects, concrete goals and measures were derived and subsequently reviewed and managed via a balanced scorecard. Economic aspects and aspects related to governance: economic power, creation of living space for a range of needs, maintaining the integrity of the portfolio, customer satisfaction, buying and supplier selection, risk management, compliance. Environmental aspects: energy efficiency, climate protection and conservation of resources, usage of renewable energy, e-mobility, waste management, green area management. Social aspects: rent policy, diversity, social integration of different types of residents, social management, service management for the elderly, training and professional development, health management, career and family.

WZR ceramic solutions GmbH, 2014: [...] WZR's core business is ceramics. In this regard, the effective usage of raw materials in the additive manufacturing process WZR developed and uses deserves particular mention. Furthermore, WZR has dedicated itself to developing the recycling process for recovering raw materials from dental ceramics operations even further.

Cewe Stiftung & Co. KGaA, 2014: The results of a stakeholder survey as well as the results from internal questionnaires have been compiled in a materiality matrix. [...] Material opportunities and risks in the social and environmental area are: energy consumption, energy efficiency, carbon footprint, paper materials used (FSC-quality), waste generation and waste minimization, product safety, water usage, quality of wastewater, occupational safety, health protection and other aspects of personnel management. [...]

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

WHAT DOES THIS MEAN?

A good strategy, as you described in the criteria presented before, needs challenging goals and clear communication: what does the company want to achieve in which area and by when? The aim is to set sustainability targets for the activities identified as being material for the core business. For example, goals for improving the environmental efficiency of products, reduction targets for greenhouse gases, the use of resources and waste generated in production; but also goals for the training and development of employees, reducing the number of accidents, etc.

Quantitative targets mean those that are defined by a number, for example, the reduction of energy consumption by 20 percent. 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 example above this could be, among other things, the setting-up of a day-care centre or a parent-child office. For both quantitative and qualitative targets,

Goals should be clear, measurable and verifiable

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

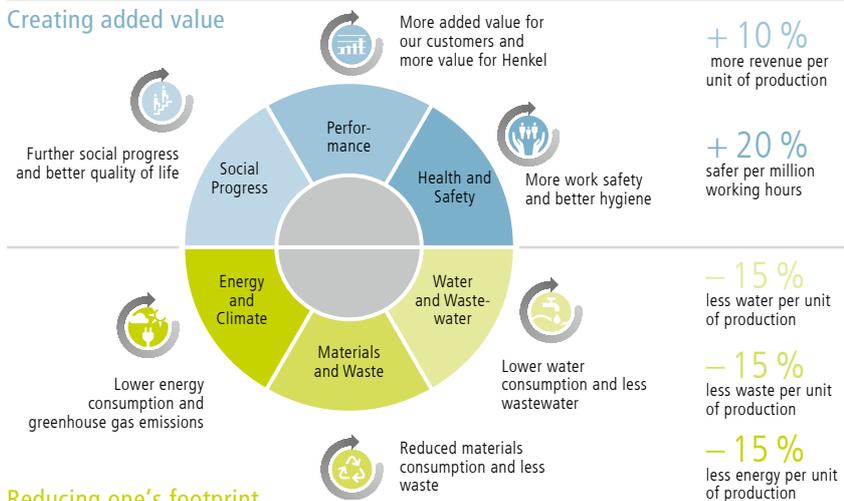


Figure 2 – Source: Sustainability at Henkel

A large blue rectangular area containing 20 horizontal white lines, serving as a template for notes or additional information.



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

Interseroh, 2014: Our sustainability strategy follows two overarching objectives: to make a decisive contribution to building a recycling economy (create value) and to consistently integrate sustainability in all processes within our company (secure value). In 2014, we translated these two goals into five major commitments by which we want to measure our future progress:

Create value:

1. We want to close three cycles annually for our customers – at the levels product, materials and logistics.
2. We want to improve our customers' sustainability performance by saving at least 50 million tons of raw materials yearly through our services within the ALBA Group.

Secure value:

3. We want to achieve yearly reductions in our specific environmental footprint.
4. We want to be the most attractive employer in our sector.
5. We want to act as an intermediary for sustainable development, to promote the idea of a sustainable recycling economy and address the topic of sustainability regularly with our stakeholders.

Henkel AG & Co. KGaA, 2014: [...]

Henkel has developed a variety of systems for measuring and checking the degree to which the goals set have been reached. For the year 2014, we recorded data from 163 company sites; this corresponds to 99 percent of our worldwide production volume. Using representative life cycle analyses we cover around 70 percent of our revenue in all product categories. During our innovation process we systematically assess the contributions our products make to sustainability. Based on the insight we have gained, we are currently developing our evaluation and measurement systems further in order to assess the progress we are making toward our 20-year goal for 2030, integrated throughout the entire company and our value chains. [...]

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

WHAT DOES THIS 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 3). Here in particular the immense ecological (e.g. when growing cotton) and social challenges (e.g. working conditions in

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

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, which 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 comprises 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

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

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 inhumane 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

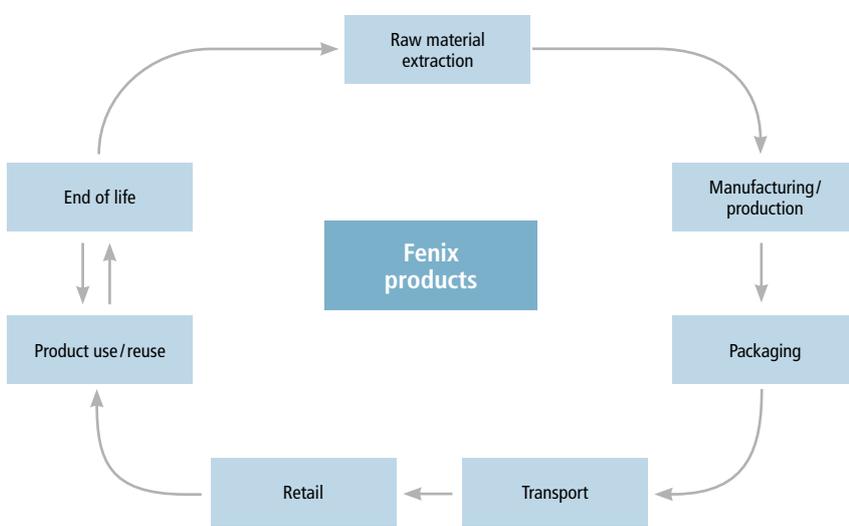


Figure 3 – Source: CSR Report 2013, Fenix Outdoor

Looking beyond the end of one’s nose

Manufacturing companies have to take a close look at the social and environmental quality of the preliminary 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

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 third-party companies.

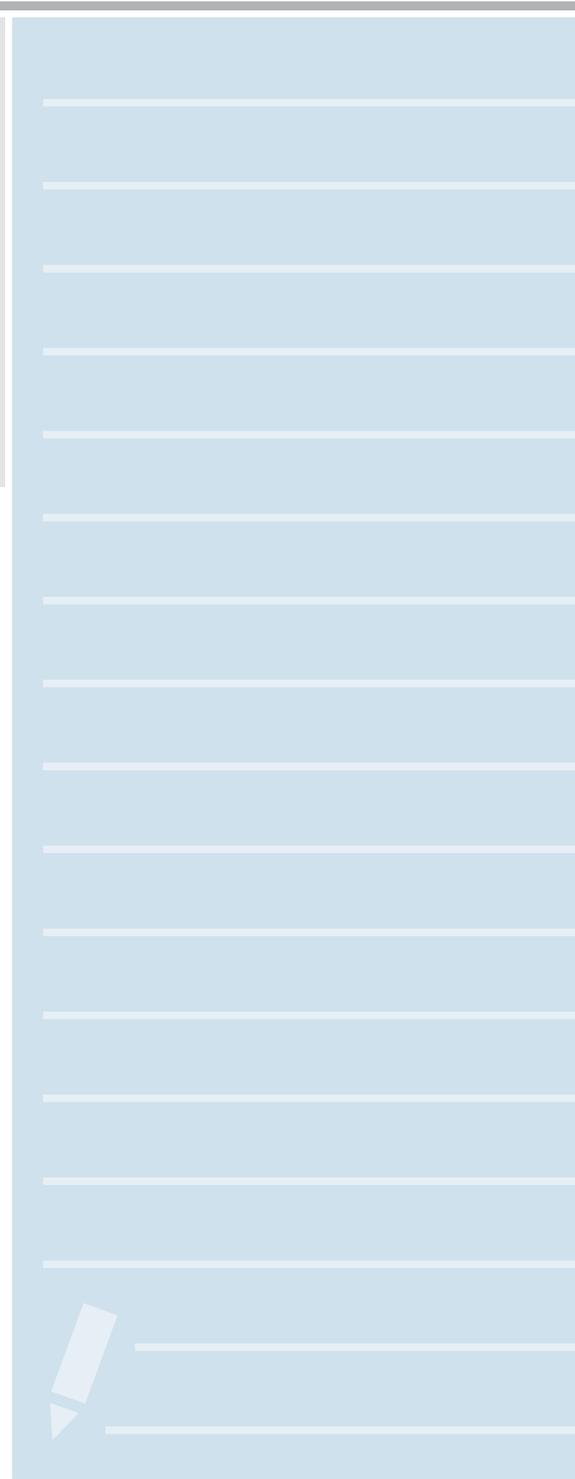
components and products are often manufactured in Germany. This is especially true for service providers. But even in such cases, certain services might be outsourced, such as customer services to call centres, transport requirements to logistics companies, who might in turn commission third-party companies to carry out these services.

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, those suppliers contributing the largest share of resources should be questioned with respect to the upholding of minimum social and environmental standards. Many companies already include this procedure in their purchasing guidelines. It is important that suppliers also give a promise of compliance. One possibility is to stipulate the requirements for the general terms and conditions of buying as a component of the contract and to define consequences for non-compliance.





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

Erwin Häbel GmbH, 2015: [...] A large portion of our value chain deals with the processing of different types of metal, aluminium in particular. The aim is to achieve the best possible degree of use from the raw material metal sheets by minimizing waste from cutting. All unusable cuttings are fed entirely back into a reuse process. Up to 90 percent of the machining remnants are collected and also fed into the recycling process. Only a limited amount of plastics are processed, and here, too, the rules of recycling apply. The amount of leftover waste is very low, and all waste is evaluated for any possible other recyclable materials. [...]

Rinn Beton- und Naturstein GmbH & Co. KG, 2014: The sustainability performance upstream is one of the key areas for action in the Rinn sustainability strategy. The aim is to secure high social and environmental standards throughout the entire value chain. At talks held yearly with suppliers, the content and significance of the Rinn Code is explained. Using a supplier assessment system, we evaluate if a given supplier is fulfilling the requirements of environmental and social standards such as the environmental management system according to ISO 14001. These are included in our purchasing guidelines and since 2015 are being reviewed step by step via self-assessments and up to level 2 audits. In order to ensure compliance at earlier stages in the value chain, Rinn is working together with its suppliers to implement guidelines and management systems geared at maintaining standards of sustainability throughout their own supply chains.



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?

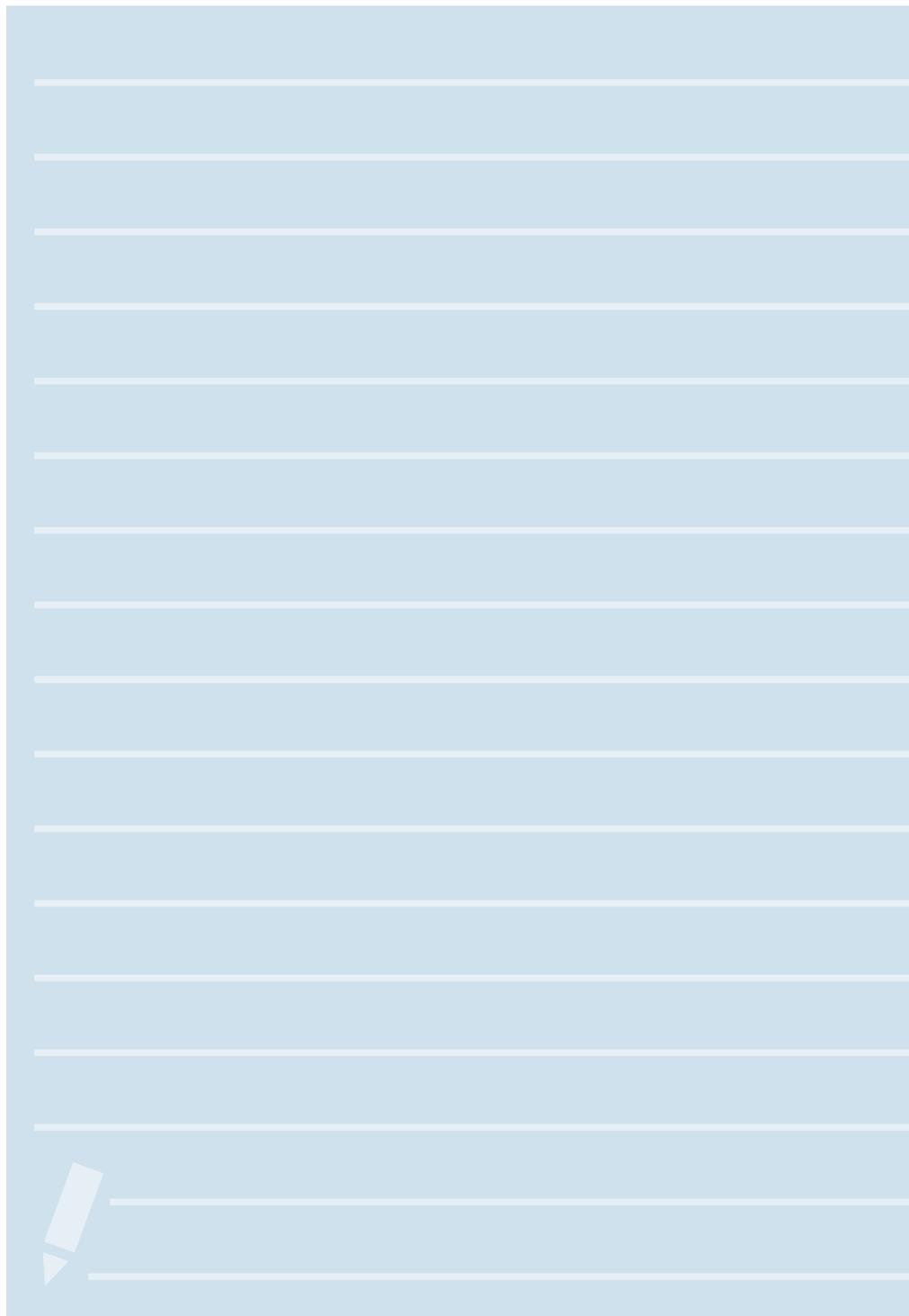
Accountability within the company's management with regard to sustainability is disclosed.

WHAT DOES THIS 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 within its ranks to be 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 steering committee).

WHAT OTHERS WRITE

Nölken Hygiene Products GmbH, 2014: [...] Sustainable management is a component of corporate strategy at Nölken and has been firmly anchored in corporate hierarchy via a corporate office since 2011. The Sustainability department is responsible for advising the Management Board and implementing measures. The Sustainability Officer shares responsibility for developing a company-wide sustainability strategy, leads projects and measures, and coordinates their implementation. [...]

Igefa Handelsgesellschaft mbH & Co. KG, 2014: The igeфа Sustainability Council is the Germany-wide body responsible for the association's sustainability activities. It is made up of representatives from among the owners and management, quality and environmental management officers as well as communications officers.

Deutsche Hypothekenbank, 2014: The Management Board bears central responsibility for sustainable action within Deutsche Hypo. In operational terms, sustainability management is allocated to the Communications department and the Office of the Management Board. It receives additional advice from the Sustainability Working Group, a body which is made up of various members of staff from all departments with tasks related to sustainability. The processes for managing sustainability strategy are clearly laid out in terms of structural and procedural organizational definitions.

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

WHAT DOES THIS MEAN?

To achieve the objectives of the sustainability strategy, business processes need to be reviewed and possibly management processes changed. In general, this has implications for all areas of the company. 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 day-to-day business. '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 CO₂ 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. Overall, if a company wishes to implement its strategy successfully, not only must the managers and employees 'play along', 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.
- > Examples of how this control is executed in relevant areas of your company.

WHAT OTHERS WRITE

BeoPlast Besgen GmbH, 2014: A system of performance indicators is maintained and actively incorporated, such as by recording all consumption. Furthermore, audits are conducted regularly to review the status quo and recognize developments in good time and steer these as needed. Impulses for key developments in sustainability performance at BeoPlast can be related to both internal and external factors as BeoPlast also draws support from a team of energy efficiency advisers. Based on the data collected, forecasts and targets are formulated for the next 12 months. [...] The entire staff is informed several times a year both in person and in electronic form about goals, strategies and results related to sustainability performance at BeoPlast and actively integrated in the process as contributors. [...]

Grohe AG, 2014: The specialist department GROHE Corporate EHS & Sustainability Management coordinates and supervises EHS & sustainability activities at GROHE. Instruments used to this end include organizational guidelines, procedural instructions and key figures applying to all units worldwide as well as regular internal and external audits and certifications in the areas of compliance (internal revision), quality (ISO 9001), environment & work safety (ISO 14001/OHSAS 18001) and in future also energy (ISO 50001). The key indicators are a component in target setting agreements up through executive management level. [...]

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 THIS MEAN?

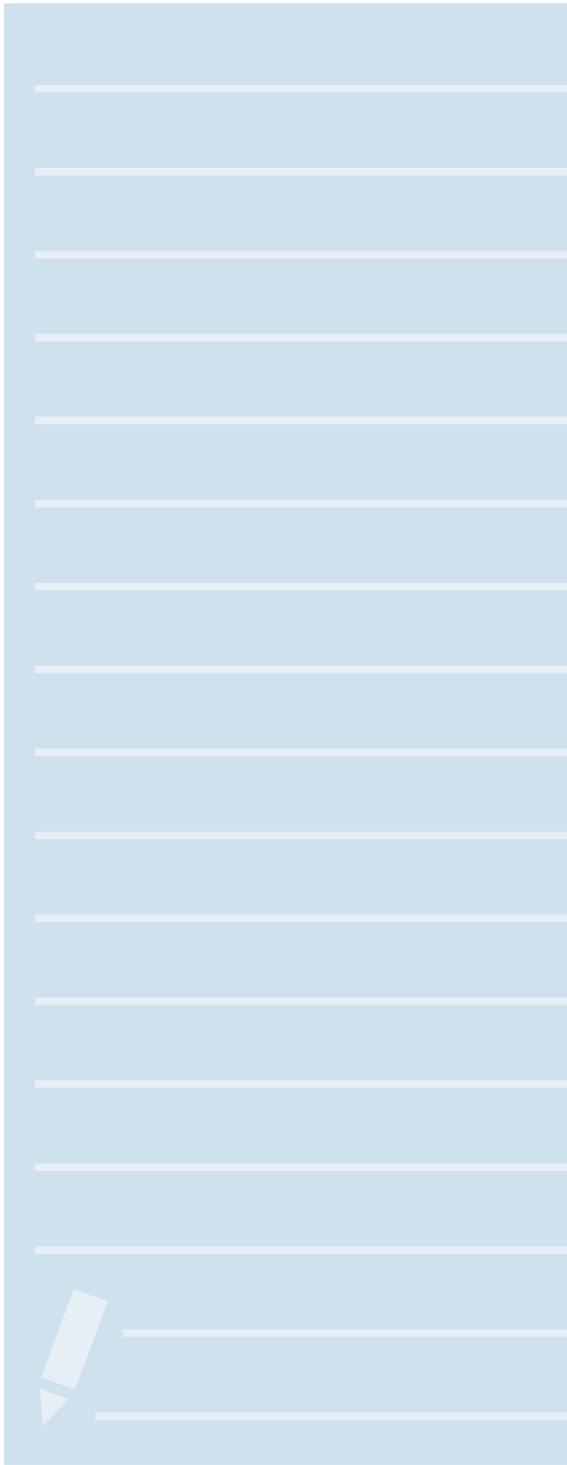
Most companies have defined key financial data which they use for controlling purposes: return on sales, sales per customer or profit by business segment. These give an exact picture of where the company stands with regard to the achievement of its financial goals. The same principle should be applied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

Key indicators help the company stay on course

Such indicators could be, for example: 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 main areas for action that have been defined for the company (see Criteria 1 and 2).

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 recorded regularly on the same basis, so that they are comparable over time. Here, consistency means avoiding cases where, for example, temporary employees are included in the head count in one year and omitted the next. Reliability consists, for example, in collecting data at all company locations according to the same measurement basis and also checking them for plausibility. Take, for example, recording employee numbers: it should not be the case that one location only reports the permanent staff, while another also takes into account temporary staff and trainees. With regard to plausibility: if energy consumption halved in a certain year, for example, while in previous years decreases of only 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, possible answers range 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

Robert Bosch GmbH, 2014: To be able to steer and assess development in the main focus areas of our sustainability work, the respective business units are given specific goals related to systematic improvement of environmental performance, reducing accident rates or increasing the ratio of women in management roles, among other things.

Three examples:

- Bosch set itself the goal of reducing its relative CO₂ emissions by 20 percent by the year 2020 as compared to 2007. In 2014, the company had achieved a reduction of 19.9 percent.
- By 2020 Bosch wants to reduce its worldwide accident rate to 3 accidents per 1 million hours worked. In 2014, the average rate was 3.1. For comparison: in 2007 Bosch recorded 6.8 accidents per million hours worked.
- By 2020 one out of five management positions at Bosch is to be filled by women. In 2014, 12.9 percent of the relevant positions were held by women. [...]

Landesbank Baden-Württemberg AÖR, 2014:

A staffing policy that takes sustainability into account is the optimal foundation for entrepreneurial success. In order to make implementation of the "Guidelines for Sustainability in Human Resources Policy" measurable, we regularly record such key performance indicators (KPIs) as:

- Percentage of employees leaving of own accord
- Percentage of part-time contracts
- Participation in leadership seminars/workshops
- Staff development measures per employee
- Turnover rate
- Employee satisfaction rate
- Level of professional training
- Missed time due to illness
- Ratio of women in management positions
- Percentage of employees with a disability
- [...]

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 THIS 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 to, for example, 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 dedication, 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 it 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 within a company, incentive schemes for managers and employees – especially finan-

cial 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.

Sustainability must become a practised part of corporate strategy

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 German 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”.

It is intended to ensure public companies take a perspective that is 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 corporate strategy.



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 approved absence for community involvement 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

Interseroh, 2014: Sustainability goals with variable remuneration components for executives can be linked by achieving a close dovetailing of sustainability strategy and corporate strategy. Employees are given additional incentive to innovate in the form of prizes. [...]

AfB gemeinnützige GmbH, 2015: Our remuneration system does not include any direct measurement of achievement of sustainability goals. Indirect positive impact with regard to social and environmental sustainability is, however, generated with proven effect via performance-linked remuneration systems due to the sustainability inherent in our business model.

DZ BANK AG Deutsche Zentral-Genossenschaftsbank, 2014: [...] In addition, the DZ BANK and four other leading financial institutions committed themselves in 2013 to a joint policy paper for aligning the remuneration of management with a set of ethics principles. These principles were developed in conjunction with the Wittenberg Center for Global Ethics (WCGE). The aim is to design remuneration systems to be transparent, avoid setting false incentives and take into account long-term requirements for continued business success. With its signing of this policy paper, DZ BANK has committed itself to success- and value-oriented business management.

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 THIS MEAN?

Many sectors of the economy are closely observed by stakeholders, i.e. social stakeholders, such as policy makers, the media and, in particular, civil society organizations, e.g. environmental and developmental organizations, churches or trade unions (see Figure 4). 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 initiating dialogue with stakeholders.

In order to know the exact demands of society, a tailored approach is helpful

On the other hand, maintaining its reputation as a company that is firmly embedded in the region and being considered a good employer can, however, already be one reason for taking a closer look at public opinion. SMEs should, therefore, also have a clear picture of the growing demands on the part of customers, consumers, employees, young talent, society at large and politics and should develop a more tailored sustainability strategy based on this insight.

Stakeholders of the company Ulrich Walter GmbH / Lebensbaum



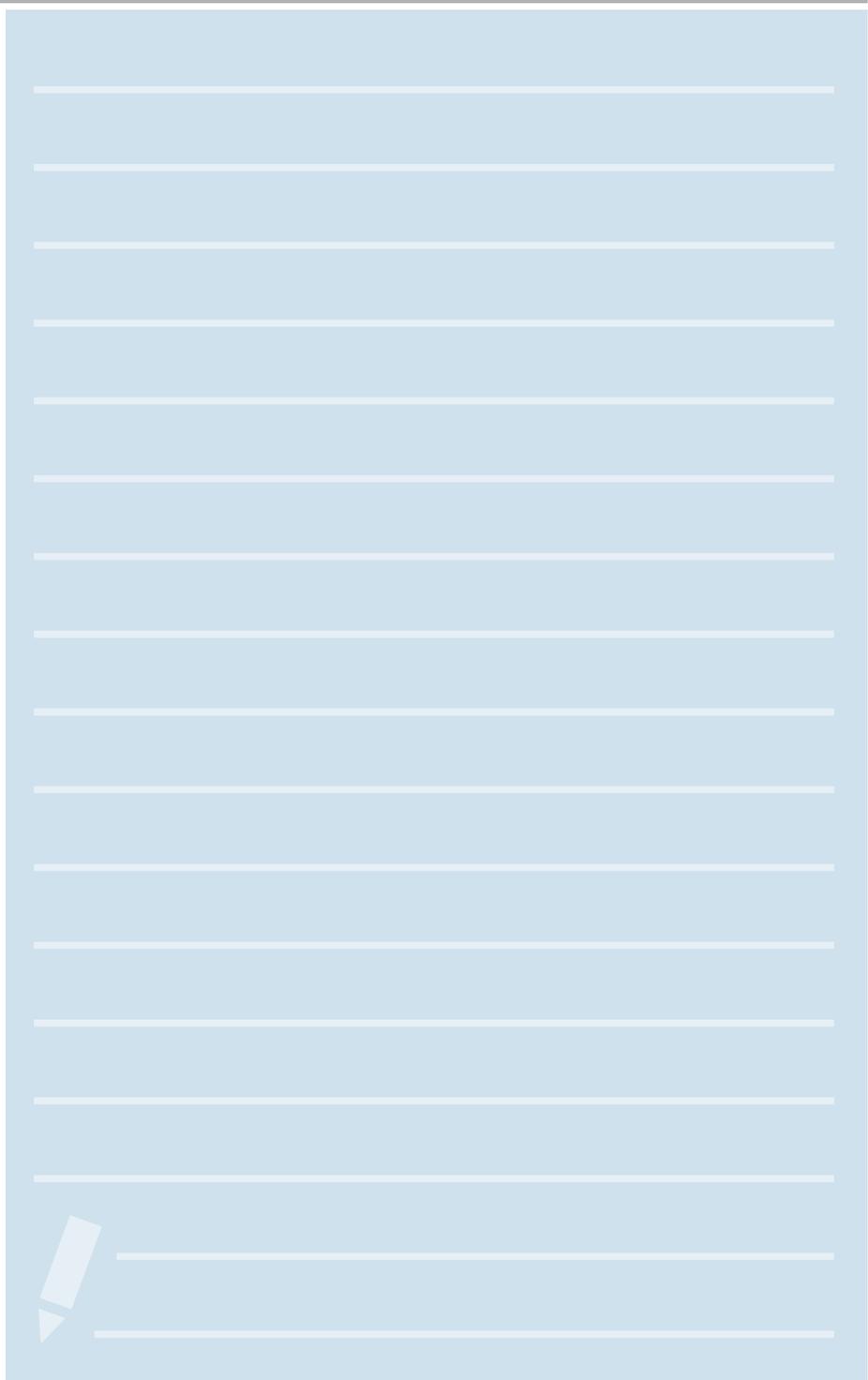
Figure 4 – Source: Annual Report 2013, Ulrich Walter GmbH/Lebensbaum

It is advisable to examine with whom dialogue is expedient and necessary

Often, the expertise of stakeholders can also be used to find solutions to unresolved issues. It may also be useful to compare the goals of the sustainability strategy with the expectations of various societal stakeholder groups. The company should, therefore, closely review what demands – beyond the usual legal obligations – are being made by policy makers and civil society at large with respect to sustainable development; for example, 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.

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 possibly be addressed here 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 results, one should then examine with which groups a more intensive dialogue would be helpful 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

Blechwarenfabrik Limburg GmbH, 2014: As part of sustainability reporting, a dialogue process with stakeholders is carried out. [...] Blechwarenfabrik carefully assesses the impact of its actions and its products on a variety of stakeholders. By actively seeking dialogue with stakeholders, their expectations and demands can be identified. In order to define topics with highest relevance, a materiality matrix was prepared on the basis of the survey results. Blechwarenfabrik recognizes the following stakeholder groups: trade unions & employee associations, employees, customers, suppliers, transporters, recycling organizations, policy makers, local authorities, associations, the general public.

Paulsen's – Landhotel und Restaurant, 2015: [...] For the year 2016, it is planned to expand dialogue with stakeholders to include external stakeholder groups. These include, for instance, customers, suppliers and the general public (policy makers, public administration, civil society). [...]

REWE Group (Zentral-AG und Zentralfinanz eG), 2014: [...] Since 2010, the REWE Group has been organizing a personal, open and critical exchange with stakeholder groups via various dialogue formats. Discussion topics include how retail and the industry can motivate consumers to adopt more sustainable consumption habits. In 2013 and 2014 a total of around 900 representatives took part in the four dialogue forums. Participants included representatives from politics, NGOs, the scientific community and the industrial sector as well as employees of REWE Group, and even customers. Topics dealt with were

resource conservation, protection of flora and fauna, social responsibility and the future of sustainable consumption, among other things. Key concerns on the part of stakeholders were addressed in person, and they will help shape future development of the REWE Group sustainability strategy. [...]

ejobau GmbH & Co. KG, 2014: An annual anonymous staff survey is conducted via the privately owned institute Great Place to Work. Other forms of stakeholder dialogue take place via associations (e.g. B.A.U.M and VDMA) and on the part of communities directly with management. A stakeholder analysis in concrete written form does not yet exist. Thus far, stakeholders' expectations have been taken into account on a case-by-case basis, with the main focus here being on employees and suppliers.

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 to if and 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 THIS MEAN?

Companies need to be and remain innovative in order to assert themselves on the market. This applies even more so 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 thus 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 both sides of a sheet of paper saves

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 up to a certain processing phase ('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 into the environment (waste, CO₂, etc.).

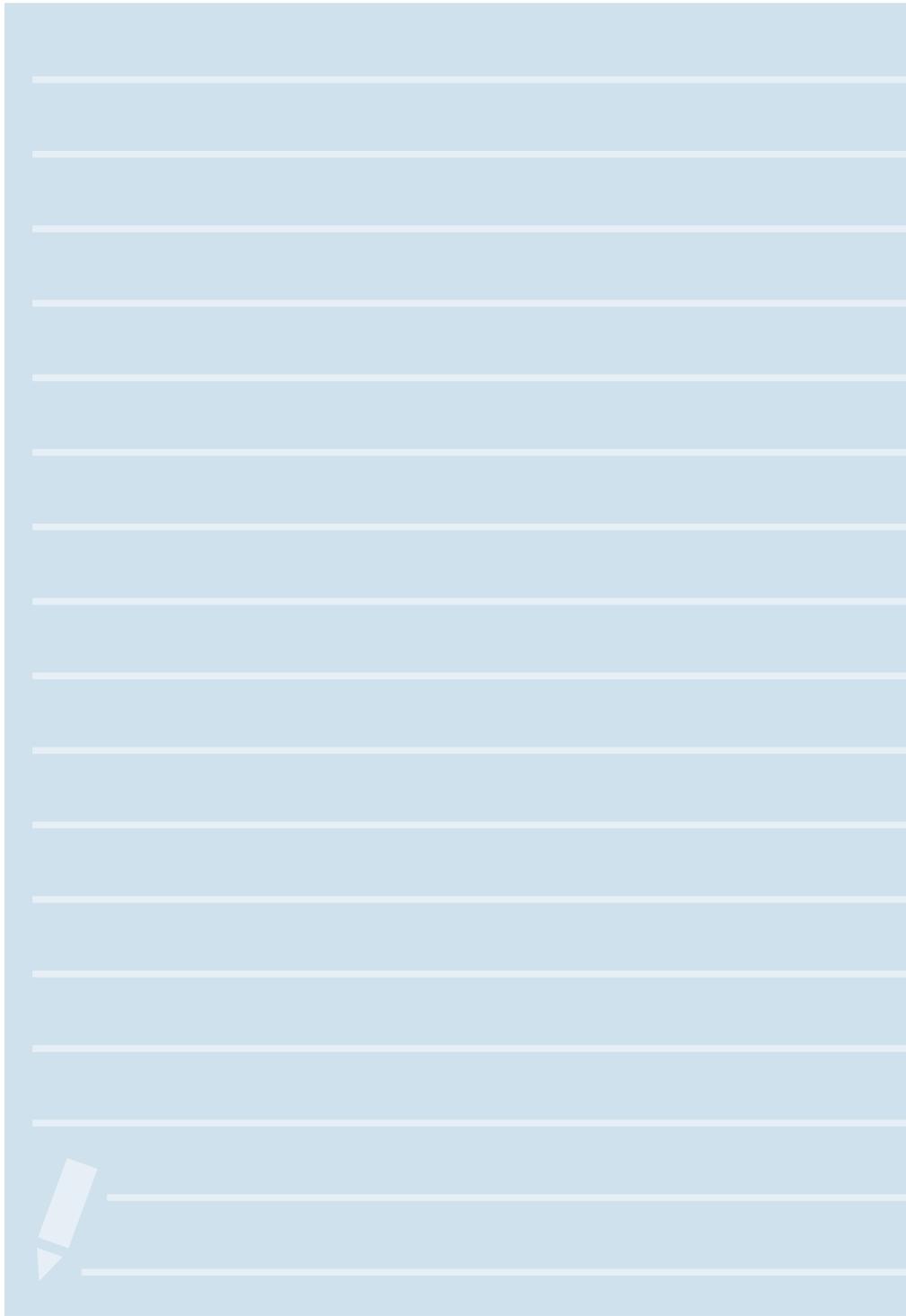
money and reduces resource consumption. The innovation lies more at the level of staff behaviour, who should be involved in any case so they can break new ground. Are they well informed? Are their ideas or opinions asked for? Do the executives lead by example?

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 innovations 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 corporate management that is open to experimenting and encourages employees to express and implement their ideas – and that also forgives occasional mistakes. Appropriate measures to strengthen innovation can range from simple measures within 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

BeoPlast Besgen GmbH, 2014:

As a rule, BeoPlast produces the moulds used in manufacturing its plastic components in-house as well. This means that we concern ourselves with design right from the very first step and must also consider criteria like efficiency, usage and useful life in the process. As far as our commissioning partners will allow, we make suggestions for improving a product's design and if accepted implement them accordingly. [...]

Wankendorfer Baugenossenschaft für Schleswig-Holstein eG, 2014:

[...] In order to introduce a professional, IT-based facility management system, in 2010 we launched a cooperation with the University of Kiel. The Centre for Geoinformation located there assisted us in developing an innovative management concept and in implementing the use of geoinformational systems. Since then we have gained a precise geographical overview of the properties we advise and can monitor, control and optimize all

residential property processes and services (cf. Annual Report 2010, pp. 22) [...]

We also take an innovative approach to expanding the range of services we offer. For example, with products like the "75+" programme, which offers age-appropriate services for our renters, we are adjusting to suit our customers' needs.

Henkel AG & Co. KGaA, 2014: [...] In order to ensure that product development progresses are in line with our sustainability strategy right from the start, the focus areas have been firmly established in the Henkel innovation process since 2008. This means, our researchers are required to show at a certain stage which concrete advantages their project offers in terms of product performance, added value for the customer and consumer, and societal and social benefits ('more value'). Moreover, they also have to outline how it contributes to decreasing resource consumption ('smaller environmental footprint'). The "Henkel-Sustainability #Master®" assists in assessing these contributions. [...]

Miele & Cie. KG, 2014: [...] Via intensive contact and exchange with many key interest groups and competence partners, such as the Öko-Institut Freiburg e.V., the WWF and the Deutscher Hausfrauenbund e.V., external requirements are integrated into the product development process at a very early stage. This often results in further developments in Miele appliances being available for customers considerably earlier than required by law or other factors. [...]



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, land and biodiversity as well as emissions for the life cycles of products and services.

WHAT DOES THIS 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.

Spotlight on your company's environmental impact

This topic should now be described in greater and more specific detail. By using an input-output balance sheet (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 'weak spots'; energy consumption in offices is

Input-output balance sheet

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. It also takes into account the impact on nature such as land use 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 assessment goes even further (see Criterion 10).

by no means negligible due to extensive technology and air-conditioning 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 occur 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 Criteria 1 and 2) 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

Die Fahnen-Gärtner GmbH, 2014:

[...] FAHNENGÄRTNER requires water for its production processes. Thanks to a variety of measures, the amount of wastewater generated has been reduced in recent years from just over 20,000 m³ to approximately 10,000 m³. The pH value is between 7 and 9. The values for the freight carried lie at all times within the limits stipulated by the TEXTIL 1992 wastewater emissions directive. [...]

Blechwarenfabrik Limburg GmbH, 2014:

[...] For the production of our packagings, we need the raw material tinplate. The raw material from which tinplate is made is steel band, which is produced in steel works in blast furnaces. Tinplate is 100 percent recyclable. It can be melted down and processed again and again in an unlimited cycle with no loss of quality. [...]

aFB gemeinnützige GmbH, 2015:

Thanks to our operations, the useful life of IT devices can be extended considerably through reusage. This contributes to

conserving natural resources. In a study by the Technical University of Berlin, the potential for conserving natural resources through the preparing and re-selling of IT hardware was assessed. With respect to greenhouse gas emissions, the study determined a savings potential of up to 73.5 kg CO₂ equivalent per reused device. There are also potential savings for the resource metal of up to 146 kg iron equivalent as well as up to 830 MJ primary energy sources. [...]

Veolia Deutschland GmbH, 2014:

[...] In the Water unit, water extraction is one of the key indicators for describing our usage of natural resources. In 2014, water extraction came to 60 million cubic metres for Veolia in Germany. Of this, around 8 percent was extracted from surface water bodies and 25 percent from groundwater; further, approximately 66 percent came from district water. The 132 treatment plants operated by Veolia in Germany ensure that used water is cleaned and fed back into the water cycle in high quality.

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 THIS 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 cent per year and to adopt the steps necessary to do so, e.g. efficiency measures in production. In administrative units, 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 photovoltaic unit.

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.

Resource productivity and resource efficiency

Raw material or resource productivity describes the ratio of natural resources used (input) to the amount of final product. The lower the amount of resources required per unit product, the greater the resource productivity. Resource efficiency is defined as the ratio of a particular benefit to the use of natural resources required. 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, through design changes (miniaturization) or recycling but also by means of new business models (car sharing instead of buying).



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

Platanera Rio Sixaola S.A., 2014:

Our company's goal is to not only conserve resources and use them efficiently, but also to even improve the availability of ecosystem services over the long term thanks to sustainable business management.

- Energy consumption: already covered 100 percent by solar power
- Water extraction: the goal of an annual reduction of 5 percent has already been considerably outperformed. Current consumption: 1.96 l/kg
- Wastewater emissions: analyzed regularly by external partners. Values are already significantly lower than the limits stipulated by the Costa Rican Ministry for the Environment. However, optimization of the filter systems is planned.
- Biodiversity: integrated cultivation management, companion planting, soil protection, habitat generation, integration into international corridors, monitoring, etc.

Deutsche Wohnen AG, 2014: [...] We

have set high demands for the environmental sustainability of our new-builds and in part use construction materials that have been certified in line with the Cradle to Cradle® concept. The materials are designed with cyclical material flows in mind and create closed cycles for the complete reuse of materials. The objective of our residential property management company DWCF is to in future select heat insulation materials for existing properties strictly in accordance with environmental criteria. [...]

Tchibo GmbH, 2014: [...] When designing

our sales and transport packaging as well, we take care that resource consumption is reduced. In our packaging guideline, which comprises both quality as well as environmental requirements, we have laid out clearly defined requirements. In early 2015 we began developing a packaging strategy that goes even further. With it, we have committed ourselves to four complementary approaches under the headings "avoid", "reduce", "reuse" and "improve". In this way, we want to reduce our paper and cardboard consumption by 30 percent per shipment as compared to 2013 by the year 2020.

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 THIS 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

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

- Scope 1 covers the direct CO₂ emissions of the production facilities, offices, etc. of the company and, where appropriate, of their own power generation plants.
- Scope 2 refers to indirect CO₂ emissions resulting from energy producers from whom the company purchases energy for its production or operation of its buildings.
- Scope 3 includes all other CO₂ emissions generated along the value chain, e.g. by suppliers, transport, during the use phase of the products or during disposal.

It is thus a way to determine the direct and indirect CO₂ emissions resulting from the firm's activities and in the different stages of a product's life. Precise knowledge of the CO₂ footprint has gained in importance since it enables climate effects to be described more precisely.

Further information: www.ghgprotocol.org

Knowing and minimizing consumption levels

It would be ideal if each company produced such a CO₂ balance (also known as CO₂ 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 application at a reasonable cost. Since there are other greenhouse gases besides CO₂, such as methane, they are converted into CO₂ equivalents (CO₂ = 1) according to their global warming potential to make it easier to compare them.

First, it is crucial that a company 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 are doing 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

Miele & Cie. KG, 2014: In its 2015 sustainability report Miele presents a complete CO₂ balance according to the international standard of the Greenhouse Gas (GHG) Protocol. It thus also takes into account indirect CO₂ emissions resulting from (outbound) transport, distribution in Germany and business travel, in line with Scope 3 of the GHG Protocol. Miele has set itself the goal of reducing the company's CO₂ emissions of 556 kg per ton of product (2013/2014) by 3 percent by the end of the 2015/2016 financial year. [...]

Bilfinger SE, 2014: [...] Our aim is to expand our reporting of energy consumption and CO₂ emissions relating to our vehicle fleet as well as flights, rental cars and train travel to European level by 2016. We have formulated a guideline for our

vehicle fleet, defining a sliding scale of CO₂ guideline values and instituting a bonus-malus system to incentivize the use of low-emission vehicles. Our aim is to further reduce CO₂ emissions from fuel consumption and to continually lower the CO₂ guideline values. [...]

Platanera Rio Sixaola, S.A., 2014: Our production is 100 percent climate-neutral, regenerative and energy-autonomous thanks to solar energy. The "100% Carbon Neutral" programme recently even recorded a surplus of 132.28 tons of climate-relevant gases saved.





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 both nationally and internationally recognized standards of employment rights and how it promotes employee involvement in sustainability management.

WHAT DOES THIS 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 training and professional development are regulated. Respecting these rules is a matter of course for the overwhelming majority of companies domiciled in Germany and thus a 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

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

Companies with suppliers or business partners in countries with weak statutory 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

ILO core labour standards

As globalization progressed, calls to define and protect humane working conditions and workers' rights around the world came to the fore. Thus, in 1998, 185 states committed themselves to upholding the eight core labour standards 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.

compliance with the code checked by external audits or – in the best case – reviews the situation on-site in person.

Keep an eye on sites abroad and suppliers

In addition, it would be interesting to know how the company goes beyond the legal requirements, regulations and accepted German standards to protect the interests of its employees, 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 opportunities 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.
- > Where you go even beyond 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

Merck, 2014: [...] Via the workplace regulations of the Merck Human Rights Charter, we have committed ourselves to upholding basic employment and social standards and have pledged ourselves to the core labour standards of the International Labour Organization (ILO), the UN Global Compact and the Responsible Care® Programme of the chemicals industry. Our global guidelines and directives ensure implementation at our sites and even exceed statutory requirements. All new employees at Merck receive training on these issues and are provided with information on our Code of Conduct and our understanding of diversity and social inclusion. In this way we communicate a unified vision of our values and strengthen our corporate culture. [...]

Grohe AG, 2014: [...] GROHE has been running a corporate feedback system for many years now. All employees can submit suggestions for improvements via this system. In doing so they participate – financially as well – in savings and improvements for the company. In 2014, a special drive was initiated on the subject of quality. The winners received prizes from among GROHE’s own, sustainable products (GROHE Blue®, GROHE EcoJoy® fixtures, among others). To honour extraordinary dedication and projects, since 2011 GROHE has been awarding internal sustainability prizes in the categories environment, water, energy and workplace safety (GROHE SustainAbility Trophy). [...]

Rinn Beton- und Naturstein GmbH & Co. KG, 2014: The Rinn business sites are located in Germany. Upholding labour rights is thus guaranteed within the framework of the laws of the Federal Republic of Germany. Employees are integrated via numerous feedback mechanisms as well as an annual staff survey as part of sustainability management. [...]

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 THIS 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 German 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?

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

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 the issues mentioned above into account, even if they do not play a central role in their culture or are assessed differently. At the very least, the core labour standards of the International Labour Organization (ILO) should be adhered to (see Criterion 14).

German General Equal Treatment Act

The German 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.

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 as well as the work-life balance of your employees.

WHAT OTHERS WRITE

Wüstenrot & Württembergische AG, 2014: [...] The share of women in management positions in back-office functions was successfully raised to 24.3 percent. Management positions that open up or are newly created (replacement ratio) were filled to 44.2 percent by women – an increase over the previous year as well. This was made possible through a variety of measures, such as target agreements to support talented young female managers, career advising or the women’s network, but also in particular through a concerted effort on the part of the executives tasked with filling the management positions. [...]

BeoPlast Besgen GmbH, 2014: At BeoPlast, the share of employees with migration background has for many years already been approximately 45 percent. This high percentage has a tangibly positive effect on our corporate culture. The low turnover rate can be seen as evidence of this. Certain tasks are given to the Mettmann district’s Workshop for the Disabled (WfB); this share of tasks has constantly

increased for years. We are pleased to be able to support in this way people who can offer excellent performance despite often being underestimated. [...]

DekaBank Deutsche Girozentrale, 2014: [...] Health management at DekaBank was designed within the context of life cycle-oriented human resources management as an answer to the challenges posed by demographic change and the concurrent lack of qualified personnel. [...] In order to make it easier for employees to include more exercise and movement in their daily lives, the DekaBank offers an own Deka Health Center, which is visited by around 240 staff. Located close to their workplace in Frankfurt am Main, staff and their life partners can take advantage of a wide-ranging sport offering. [...]

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 to demographic change.

WHAT DOES THIS MEAN?

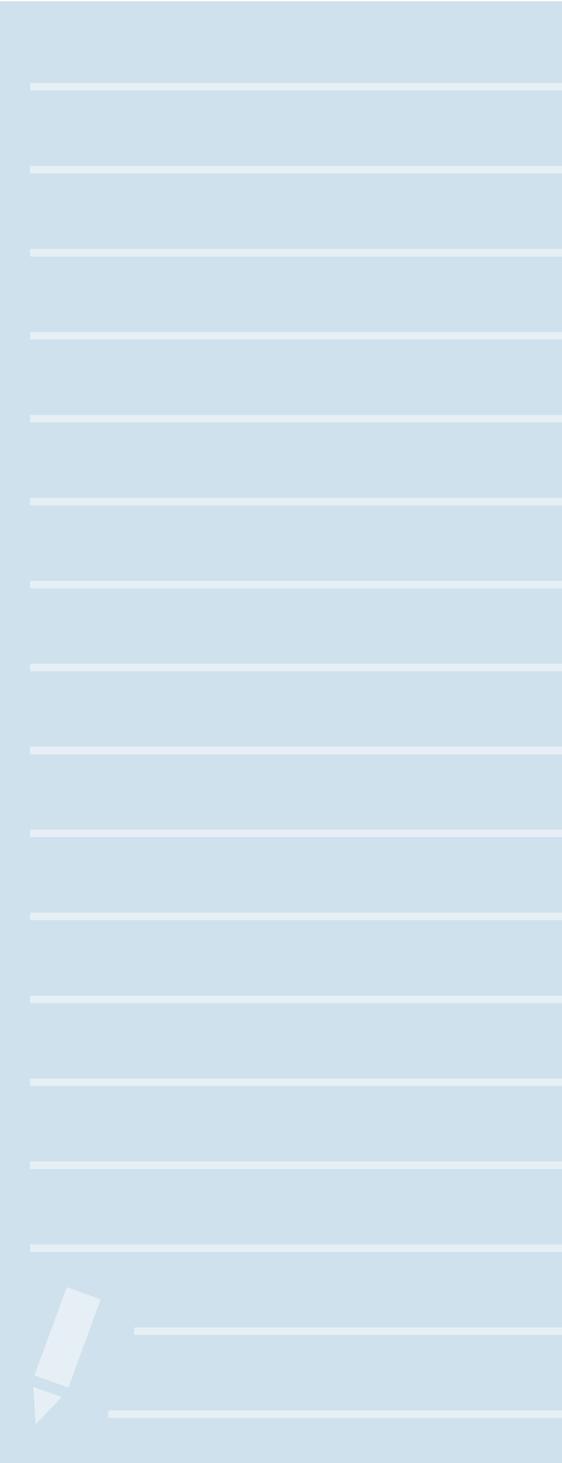
The structure of the population is changing rapidly in Germany: there are fewer of us and we are becoming older and older, as is the case in most industrialized nations. With this so-called demographic change, the age structure in many companies is also changing, that is to say that the proportion

Having demographic change in view and under control

of older workers is rising. This is something companies need to adjust to. The term 'employability' is understood as the ability of people to participate in working and professional life. One prerequisite for this is that their technical and social skills match those that are required for the working world. A further requirement is that they are also physically able to work.

Finding and holding on to good skilled workers

The subject has an additional component, however: SMEs in particular, which represent three quarters of jobs and 80 percent 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 professional development 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.
- > Whether and how you promote training and professional development.
- > 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

HypoVereinsbank, 2014: [...] Against the backdrop of demographic change, the topic of age diversity is growing increasingly important for the HVB. The average age of our staff is currently 43 years. Our aim is to achieve a balanced generational mix within the bank and to augment our business's success by tapping the opportunities offered by having an intergenerational perspective. [...]

SCHWARTAUER WERKE GmbH & Co. KGaA, 2014: [...] Currently we offer training in seven professions; the length of training ranges from two to three and a half years. In past years we have taken on an average of 14 new apprentices per year. As of the end of 2014, we employed a total of 47 apprentices and thus achieved a training ratio of 6 percent. Following successful completion of their training, we take on all apprentices as contracted employees for at least 12 months. [...]

GESOBAU AG, 2015: [...] Fully half of our staff has already worked for us for over 20 years. This presents a considerable opportunity to benefit from their experience and their well-founded expertise. At the same time, it poses the challenge for us of maintaining their health and ability to perform and of promoting life-long learning. To pursue these objectives, we employ extensive health management measures, a high degree of personal responsibility and scope for individual adjustments in the workplace as well as development offers and regular training seminars.

bauverein AG, 2014: bauverein AG has for many years made significant investments in offering its staff opportunities for professional development. In the year 2014, our staff took advantage of a total of 5,124 hours of development measures. For 2015, an analysis of the special requirements of the 55+ target group is planned. [...]

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 THIS MEAN?

As a rule, governments should be the ones to ensure that fundamental human rights are respected, but with the economy going global and companies becoming more significant, international companies can and must do a lot to ensure the observance of human rights. However, even SMEs who work exclusively with German suppliers should ensure that they too respect the human rights that are enshrined in the German Constitution and the UN Convention on Human Rights.

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 sex, 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 these disregard basic human rights – especially in countries with weak statutory 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 those of the United Nations or the International Labour Organization. When dealing with complex supply chains, this is easier said than done, but complexity must not be an excuse to ‘overlook’ this issue.

The company should have its suppliers sign a code of conduct relating to human rights. It may be expedient to initially work with supplier questionnaires provided by sector initiatives, such as the Business Social Compliance Initiative (BSCI). An evaluation of this kind can help identify possible risks. Even better would be – assuming the company is able – to have compliance reviewed by means of external audits. In order to keep the corresponding costs comparatively low, competitors – who draw from the

same suppliers – may combine efforts and conduct joint audits. The optimal solution is for a company to gain an overview of the on-site situation via an in-person visit. 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

Supplier code of conduct and / or audits

law, which Germany and the EU use to regulate the awarding of public contracts. These guidelines also include environmental and social aspects, in addition to transparency and non-discrimination. Additional information on this topic can be found in the Appendix under the heading “Supplier management systems”.



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

Stadtsiedlung Heilbronn GmbH, 2014:

As a company with exclusively regional operations, this topic is only of ancillary importance for us. [...] It is, however, not possible to exclude definitively the possibility that construction materials are used that stem from countries of origin where these are produced or extracted under unacceptable conditions. In order to minimize this risk, we plan to include corresponding clauses in the contracts agreed with our contractors. The same applies to appropriate pay of employees at our contractors and their own upstream suppliers.

elobau GmbH & Co. KG, 2015:

[...] Suppliers: sustainability and ethical practices are a crucial component of initial supplier assessment. Information regarding membership in ethical practice associations such as BSCI or the use of sustainability standards such as the SUSTAINABILITY CODE or Global Compact is requested.

- Does the company have a mission statement?
- What is the company's view of topics with societal significance, in particular with respect to child labour, fair working conditions and equal opportunities?
- What is the company's position on market-damaging practices?
- Are initiatives in the social sphere supported?
- Is compliance with statutory environmental standards assured?
- Is the company aware of its specific impact on society?
- Is social responsibility integrated into the areas of health management, staff training, suppliers?
- [...]

KESSEL AG, 2014: The upholding of human rights is given top priority at KESSEL. The company takes a decisive stance against forced and child labour. Obligations to uphold human rights and prohibit child labour are to be included in future in contracts with service providers and suppliers.

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

WHAT DOES THIS MEAN?

Companies pay taxes, provide jobs and, with their products or services, often directly help to satisfy needs of local people. At the same time, they also use the infrastructure of the municipality and the region in which they operate, benefit from good roads, welltrained staff, cultural diversity and the fact that public safety is ensured. Thus, it is a give-and-take situation. Since many companies know, however, that they can

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

continue to be successful in the medium and long term only in a good environment and that municipal funds are often scarce, they get involved themselves with local social and environmental issues beyond their core business activities.

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 team 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.

This commitment that goes above and beyond the actual purpose of the company arises from the understanding that companies bear social responsibility (corporate social responsibility, CSR, see Criterion 5).

Social commitment benefits the company too

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).

Companies can also cooperate with schools and universities to offer students internships or to improve the practical 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

AfB gemeinnützige GmbH, 2015:

Our business operations improve the common good in our region and reduce negative effects from external sources. As a company that promotes social inclusion we create jobs in the regular employment market for people with a disability and thus make a contribution toward helping the disabled participate in society and the workplace. [...]

Evenord-Bank eG-KG, 2015: Evenord-Bank is a value-oriented universal bank with strong roots in its regional market of metropolitan Nuremberg. The company's basic values form the foundation for its banking operations. These also include social involvement. As a result, this also means that anti-social behaviour, such as the financing of ethically unjustifiable projects, is not supported. [...]

REWE Group (Zentral-AG und Zentralfinanz eG), 2014: [...]

The REWE Group is involved in its communities at a national level as well. For the last 18 years, the company has been one of the main supporters Germany-wide of more than 900 food-banks and the Bundesverband Deutsche Tafel e.V. association. Similar cooperations exist in other countries as well, such as with the Vienna foodbanks in Austria. [...]

Evangelisches Siedlungswerk in Bayern Bau- und Siedlungsgesellschaft mbH, 2014: [...]

In addition, the ESW offers some 1,000 council flats and works together with welfare and social work institutions to help find residences for people with difficulty on the rental market such as youth with prior convictions or the homeless.

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.

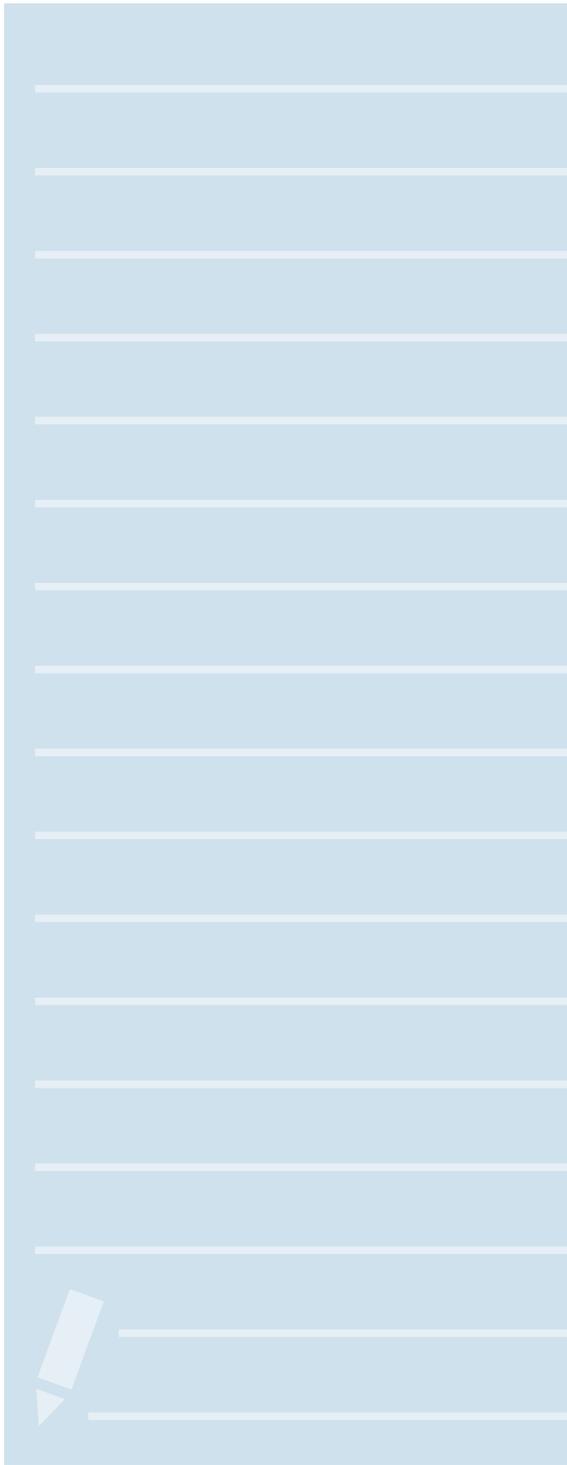
WHAT DOES THIS MEAN?

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

DFS Deutsche Flugsicherung GmbH, 2014: [...] As a federally owned company we make our expertise available to persons involved in making public policy. Insofar as our communication of information helps to clarify the facts of a situation, we take a very positive view of political influence. Political influence of this sort takes place via direct dialogue with persons in office or with groups of office holders within organized bodies or separately. [...]

KESSEL AG, 2014: KESSEL is a member of the industry association Zentralverband Sanitär Heizung Klima and the sanitary, heating and air-conditioning trade lobby for Germany. In addition, KESSEL is also involved in a variety of norms committees. The reasons for this involvement are on the one hand regular participation in sector developments and on the other hand the development of technical regulations for future application. KESSEL AG does not support any political parties or politicians.

Fraunhofer UMSICHT, 2014: As defined in its mission statement, the Fraunhofer Society is an independent entity and maintains a neutral position vis-a-vis the interests of individual groups from the political, business or societal arenas and thus does not participate in lobbying activities or political opinion making. The Fraunhofer Society has been listed as a "not for profit organisation" in the EU's Transparency Register since 2011. [...]

Interseroh, 2014: At a political and industry-association level, Interseroh is involved in Germany in generating societal and political awareness for topics related to a recycling economy and seeing that these are taken into account in relevant regulatory amendments. Our overarching goal is to help shape the conditions to promote even further the full usage of materials and/or reuse of primary raw materials, such as in the Environment and Energy Committee of the Chambers of Commerce of Cologne and Bonn/Rhein-Sieg as well as in the Association of German Chambers of Commerce and Industry (DIHK). [...]

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 THIS 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 German 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 taints the corporate culture and creates a climate of distrust and selfishness. To prevent corruption in your own company, clear guidelines and verification of whether they are upheld are required.

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.

Required are clear guidelines and measures to combat bribery and corruption

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

Igefa Handelsgesellschaft mbH & Co. KG, 2014: [...] Illegal conduct can be reported, anonymously if desired, via a corresponding reporting procedure to an ombudsman; the originator of the report is not penalized in any way as a result of the report. To date no reports of suspected corruption have been made. Staff training on corruption prevention is additionally planned for 2015/2016 to increase awareness and provide guidance.

Deutsche Hypothekenbank, 2014: [...] A Reputation Committee is available to provide support on a case-by-case basis for questions relating to concrete business occurrences. [...] In addition, the topic of avoiding money laundering and terrorism financing is uniformly regulated through the establishment of a group money laundering officer. Employees at Deutsche Hypo

participate in regular online training once every three years on the topic of fraud prevention and money laundering and are thus sensitized to these topics.

Wankendorfer Baugenossenschaft für Schleswig-Holstein eG, 2014: [...] A Compliance Officer appointed by the Management Board is responsible for ensuring employees are informed of regulations and the law, for creating awareness for the upholding of minimum standards of behaviour and for assisting staff in reflecting on the integrity of their actions. [...]

YOUR DECLARATION OF CONFORMITY IN 5 STEPS

1

First, you need official approval from executive management level for the undertaking. Then select people with whom to form a team that reflects the various areas of your business. The team should include persons with specialist knowledge and responsibility from the various business units. If you involve your staff even as early as this initial phase, the issue will gain additional power and effectiveness in implementation.

2

Review together with the team all 20 of the Code criteria and qualitative performance indicators. Determine for which criteria data is already available and, if necessary, where it is still lacking. If you have not yet formulated a strategy, work together to identify which sustainability topics have key importance for your company to remain futureproof and what economic, environmental and social impact your business operations have. By including the perspective of your stakeholders groups (e.g. customers, suppliers, employees, etc.) you will give your credibility a broader foundation. Finally, determine within the team who is responsible for which criteria and by when data and texts need to be supplied.

3

Consolidate all the quantitative and qualitative information available for the respective criteria. Formulate and describe the performance indicators you will be using to evaluate goal achievement. Decide whether you will be using the indicators of the Global Reporting Initiative (GRI G4) or the European Federation of Financial Analysts Societies (EFFAS) as your basis. Prepare an explanatory text (orientation: 500 to 2,000 characters per criterion) for each of the criteria of the declaration of conformity. Use these texts to disclose which criteria you comply with or explain instances where the relevant data is not yet being collected or where the requested information is not relevant to your business. Tip: for drafting the texts you can use the template available online in the download area following registration (step 4). Once drafted, have the texts and data approved by executive management.

4

In order to submit a declaration of conformity you must register with the Sustainability Code database with user name and password. You will receive an email for the purpose of verifying your account. Once registration has been completed, starting immediately you can begin creating your company profile in the Sustainability Code database. You can edit it at any time, add additional users and create new reporting years. Transfer all information collected thus far on the criteria (figures, texts and indicators) to the database. There is an entry field for each criterion wherein you can edit your texts and figures. The declaration of conformity can only be sent to the Sustainability Code Team (team@sustainabilitycode.org) for review once all entry fields have been completed. A review for completeness, including list of sources and links, is carried out based on a checklist (GRI G4 or EFFAS) and with respect to the 'comply-or-explain' approach. No certificate is issued. Following successful review and with your approval, the declaration of conformity is then published in the database and your company is provided with the Sustainability Code user signet.

5

Now you can use the declaration of conformity for your own corporate communications. The Sustainability Code signet can be included on your website, in brochures and in emails, among other things. You can issue a press release or inform your customers and/or commissioning partners and suppliers of the declaration of conformity personally. In addition, it will be also possible in future to export it to different file formats so that the declaration of conformity can be used as a basis for a sustainability report or for other communication media.

APPENDIX

CRITERIA AND INDICATORS TO THE DECLARATION OF CONFORMITY

Categories	Code Criteria	G4-Indicators	EFFAS-Indicators
STRATEGY	1. Strategic Analysis and Action		
	2. Materiality		
	3. Objectives		
	4. Depth of the Value Chain		
PROCESS MANAGEMENT	2. Responsibility	G4-56	EFFAS S06-01 EFFAS S06-02
	6. Rules and Processes		
	7. Control		
	8. Incentive Schemes	G4-51a G4-54	
	9. Stakeholder Engagement	G4-27	
	10. Innovation and Product Management	G4-EN6 G4-FS11	EFFAS E13-01 EFFAS V04-12
ENVIRONMENT	11. Usage of Natural Resources	G4-EN1	EFFAS E04-01
	12. Resource Management	G4-EN3 G4-EN8 G4-EN23	EFFAS E05-01 EFFAS E01-01
	13. Climate-relevant Emissions	G4-EN15 G4-EN16 G4-EN17 G4-EN19	EFFAS E02-01
SOCIETY	14. Employment Rights	G4-LA6	EFFAS S03-01
	15. Equal Opportunities	G4-LA8	EFFAS S10-01
	16. Qualifications	G4-LA9 G4-LA12 G4-HR3	EFFAS S10-02 EFFAS S02-02
	17. Human Rights	G4-HR1 G4-HR9 G4-HR10 G4-HR11	EFFAS S07-02 II
	18. Corporate Citizenship	G4-EC1	
	19. Political Influence	G4-S06	EFFAS G01-01
	20. Conduct that Complies with the Law and Policy	G4-S03 G4-S05 G4-S08	EFFAS V01-01 EFFAS V02-01

TERMS

Comply-or-explain is a principle which gives reporting companies the flexibility to explain deviations in their report from required disclosures. In the declaration of conformity, companies report on how they comply with the 20 criteria of the Sustainability Code and, if required, provide plausible explanations for why reporting for certain criteria is not provided.

Key performance indicator (KPI):

Performance indicators explain and quantify the respective sustainability goals. They serve to improve the comparability of the Code criteria for users of the declarations of conformity. They help users from the capital market to, for instance, integrate them into their analysis models or to use them to determine key data (e.g. emissions per unit of power). The performance indicators selected from GRI G4 and EFFAS (see table) are a component of the Sustainability Code and are, just like the criteria, reported on according to the principle of “comply or explain”.

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)

Materiality analysis and matrix:

A strategic instrument of analysis used by companies to determine sustainability topics with greatest importance for a company and its stakeholders. It comprises an analysis of the external environment, an analysis of the internal company environment and an analysis of stakeholders’ expectations. The results are then presented in the form of a matrix. The results of the analysis of the environment and the company form one axis of the matrix and the results of the analysis of stakeholders’ expectations the other. By putting the topics of relevance for the company and for stakeholders into relation with each other, areas for action can be derived for strategic planning. (cf. also: www.controlling-wiki.com/de/index.php/Wesentlichkeitsanalyse)

INITIATIVES AND GUIDELINES

Economy for the common good:

An alternative economic model developed and supported by the Austrian Association to Promote the Economy for the Common Good. The model defines business success based on a system of values oriented on the common good. The goal of an ethical market economy is thus a good life. Human dignity, global fairness and solidarity, environmental sustainability, social justice and democratic co-determination are key elements. Using the common good matrix, companies prepare a common good balance sheet. (www.ecogood.org)

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)

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)

Global Reporting Initiative (GRI):

A continuous dialogue on corporate reporting in which companies and their stakeholder groups participate. The GRI develops guidelines aimed at improving and standardizing the quality of reporting and thus making it comparable. GRI's most recent directive is G4, which focuses on materiality, the supply chain and management approaches. (www.globalreporting.org)

International Labour Organization

(ILO): A special organization of the United Nations that formulates and implements international labour and social standards. Its actions are governed by four fundamental principles: freedom of association and right to collective bargaining, protection from forced labour, abolition of child labour, protection against discrimination in employment and occupation. On this basis, a total of eight fundamental labour conventions have been defined: freedom of association and protection of the right to freedom of association, right to organize and the right to collective bargaining, forced labour, abolition of forced labour, equal remuneration, discrimination (employment and occupation), minimum age, prohibition of and effective measures to eliminate the worst forms of child labour. (www.ilo.org)

Organization for Economic Co-operation and Development: In 2011, the OECD formulated guidelines for the sustainable and 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. (<http://mneguidelines.oecd.org/>)

Sustainability Code: The 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.

Sustainable Development Goals

(SDGs): The 17 development goals of the Agenda 2030 for Sustainable Development link the principle of sustainability with economic, environmental and social development. The Agenda 2030 system of goals is universal and applies equally to developing, threshold and industrialized countries. In this way, the new Agenda intends to form the foundation for an evolved global partnership. It was approved by the General Assembly of the United Nations (UN) and entered into force on 1 January 2016 with a term of 15 years (until 2030). (www.sustainabledevelopment.un.org/sdgs)

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)

MANAGEMENT SYSTEMS RELATED TO SUSTAINABILITY

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 improve their environmental performance through the implementation of this comprehensive voluntary environmental management instrument. This is checked (certified) regularly by an external body. A corresponding international environmental management standard is ISO 14001 from the International Organization for Standardization. (<http://www.emas.de> and <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)

ISO 14001 sets the criteria for a certifiable environmental management system. This norm can be applied to companies and organizations in both producing industries and the service sector. The ISO 14001 is part of a family of norms that cover the areas of environmental auditing, communication, labelling, performance assessment and life cycle assessment as well as other environmental aspects of product development, among other things.

ISO 26000 is a management guide that the ISO presented in 2010. It provides companies and organizations with recommendations on 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)

ISO 50001 is a norm aimed at supporting organizations and companies in setting up a systematic energy management system. Unused energy efficiency potential is to be tapped, energy costs reduced and the greenhouse gas emissions and other environmental effects of energy consumption lessened. (<http://www.iso.org/iso/home/standards/management-standards/iso50001.htm>)

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)

Supplier management systems:

The practical implementation of increased transparency requirements in procurement management poses considerable challenges for companies, as procuring and assessing information can tie up significant levels of resources. More and more often, companies find themselves confronted with numerous questionnaires and controls. Various industry initiatives and platforms offer web-based assistance for supplier questionnaires. These include BSCI, E-TASC, EICC, PSCI, Together for Sustainability. Platform providers include, for example: Achilles, EcoVadis, FFC (Fair Factories Clearinghouse), Intertek GSM, NQC, Sedex, SupplyShift.

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/informationen-biodiversitaetsmanagement/handbuch-biodiversitaetsmanagement/)

CR Compass supports SMEs in setting up their management system for corporate responsibility (CR) and in preparing a sustainability report. The CR Compass can also be used to prepare a progress report according to the requirements of the UN Global Compact. The web-based application supports SMEs in CR implementation and accompanies them in preparing a sustainability report. The CR Compass is supported by the ESF programme of the EU. (www.cr-kompass.de)

Eco-efficiency analysis: Eco-efficiency analyses determine the relationship between goal achievement (lowest possible impact on environment) and resource usage (funds). An eco-efficiency analysis thus provides indispensable information relating to the efficiency and effectiveness of a variety of alternatives and measures for products and services. While the process of preparing a life cycle assessment is described in detail in the ISO norms 14040 and 14044, no comparable norm exists for either the life cycle cost analysis or the eco-efficiency analysis nor is there an internationally recognized code of conduct. (vgl. hierzu auch: www.prosa.org)

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)

360report is a software solution for preparing sustainability reports. The software integrates international reporting standards of the Global Reporting Initiative (GRI G4), ISO 26000, UN Global Compact as well as the Sustainability Code. When several standards are being applied, they are linked such that a single entry of the data is enough to satisfy several standards. (www.360report.org)

Product life cycle analysis: Also known as life cycle assessment for short (see Criterion 10).

Stakeholder dialogues: The discourse held with a company's stakeholders about its sustainability strategy or sustainability goals and projects is these days regarded as an important sustainability management instrument. (see Criterion 9 and Lexicon of Sustainability: www.nachhaltigkeit.info/artikel/stakeholder_dialoge_1571.htm). The AA1000 Stakeholder Engagement Standard (AA1000SES) of the non-profit network AccountAbility provides a list of principles

for successful handling of stakeholder groups. (www.accountability.org/standards/aa1000ses.html)

Sustainable Balanced Scorecard (SBSC): This is based on the Balanced Scorecard. The decisive criterion of an SBSC is that in addition to the usual economic aspects, environmental and social sustainability aspects are also taken into account systematically. It is a management tool that can aid in evaluating and steering company performance with regard to the two dimensions of sustainability on an ongoing basis. The balanced weighting of the various indicators is given particular importance as the SBSC refers not only to the system of indicators but also to the strategy-compliant implementation of goals as envisioned by management. (cf. also: www.controlling-wiki.com/de/index.php/Sustainability_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)

GUIDES TO SUSTAINABLE MANAGEMENT AND REPORTING

Global Reporting Initiative (GRI):

Ready to Report? Introducing sustainability reporting for SMEs. Amsterdam 2014.

(www.globalreporting.org/information/news-and-press-center/Pages/New-GRI-booklet-gives-SMEs-a-helping-hand.aspx; Download 22.05.2016)

Global Reporting Initiative (GRI):

G4-Leitlinien zur Nachhaltigkeitsberichterstattung. Amsterdam 2013.

(www.globalreporting.org/resourcelibrary/German-G4-Part-One.pdf; Download 22.05.2016)

European Federation of Financial Analysts Societies (EFFAS):

KPIs for ESG. A Guideline for the Integration of ESG into the Financial Analysis and Corporate Valuation. (www.effas-esg.com/wp-content/uploads/2009/04/effas_kpis_for_esg_1_2_09_04_09_final.pdf; Download 22.05.2014)

IMPRINT

© 2016 Bertelsmann Stiftung
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Design
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Photo
Monkey Business Images/Shutterstock.com

Print
Schleunungdruck GmbH,
www.schleunungdruck.de

ASSISTANCE AND INFORMATION:

Online: the Sustainability Code website (www.sustainabilitycode.org) provides a wide range of helpful information for users.

Sustainability Code Team: You can reach the Team online at team@sustainabilitycode.org or via telephone at +49 30 700186-974.

Trainings partners: Sustainability Code training partners throughout Germany offer informational events, training seminars as well as individual support in preparing a declaration of conformity. The Sustainability Code training partners have completed training on the Code and are listed on the project website.

Sustainability Code mentors: experts from companies that already have a declaration of conformity who report at events about their experiences and provide practical tips. They are also listed on the project website.

