German Council for
Sustainable
Development

The German Sustainability Code (GSC)

October 2011

www.nachhaltigkeitsrat.de

Preamble

The German Sustainability Code is a standard offering transparency as to a company's sustainability performance. It creates a scope of validity by applying benchmarking to corporate social responsibility. Its application is voluntary. The commentary provides details on the application of the GSC.

The German Council for Sustainable Development strives to see the German Sustainability Code applied well beyond the group of companies already actively engaged in sustainability reporting. It will critically monitor the application of the GSC.

The German Sustainability Code arose during a dialogue process involving numerous stakeholders. Representatives from the financial markets, businesses and civil society actively participated in the dialogue process. Businesses have field-tested the German Sustainability Code and found it to be highly practicable.

Content of the German Sustainability Code

STRATEGY

Strategic Analysis, Strategy and Goals

1. The company discloses how, for its main activities, it analyses the opportunities and risks related to sustainable development. The company outlines what measures it is taking in order to operate in line with the main and recognised sector-specific, national and international standards.
2. The company discloses how the strategy devised for its main activities and the systematic implementation of the strategy takes into account all aspects of sustainability which have a substantial impact on the company, for example strategic competition-based positioning, innovation management, business activities that conserve the climate, environment and resources; demographic developments, the value-added chain, the product life cycle, the product portfolio, etc.
3. The company discloses what qualitative and/or quantitative as well as temporal sustainability goals are set and operationalised, and how their level of achievement is monitored. The company discloses how the main suppliers, employees, capital markets, customers and main stakeholder groups are included on a regular basis.
4. The company states how deep into the value-added chain the sustainability criteria are verified and what significance sustainability has for added value.

Key performance indicators (KPI)	
GRI 1,2	*Description of key impacts, risks, and opportunities*
or	
EFFAS 1.5.1.	*The company should outline the importance of ESG for the corporate strategy and explain how ESG aspects are taken into account when implementing the strategy.*

PROCESS MANAGEMENT

Rules and Processes

5. Within the company, accountability for the sustainability of the company is specified in corporate management.
6. The company discloses whether the sustainability strategy is implemented using rules and processes. The company depicts specific circumstances from purchasing, production, services, human resources, investment, research and development as well as logistics/transport and marketing and describes how suppliers, customers as well as other stakeholder groups (e.g. employees) are taken into account.
7. The company discloses how, along the lines of financial parameters, key performance indicators on sustainability are integrated into periodical internal planning and control and how the reliability, comparability and consistency of data applied to internal controls and external communication are safeguarded through appropriate processes.

Key performance indicators (KPI)	
GRI 4,8	*Internally developed statements of mission or values, codes of conduct, and principles relevant to economic, environmental, and social performance and the status of their implementation.*
GRI 4,9	*Procedures of the highest governance body for overseeing the organization's identification and management of economic, environmental, and social performance, including relevant risks and opportunities, and adherence or compliance with internationally agreed standards, codes of conduct, and principles.*
or	
EFFAS S06-01	*Percentage of total suppliers and supply chain partners screened for compliance in accordance with ESG-criteria.*
EFFAS S06-02	*Percentage of suppliers and supply chain partners audited for compliance.*

Incentive Schemes

8. The company discloses how target agreements and remuneration schemes for executives are also geared to achieving the sustainability goals and how these are geared towards lasting value creation. It discloses the extent to which sustainability perform-

ance forms part of the evaluation of the top management (board/managing directors) conducted by the monitoring body (supervisory board/advisory board).

Key performance indicators (KPI)	
GRI 4,5	*Linkage between compensation for members of the highest governance body, senior managers, and executives (including departure arrangements), and the organization's performance (including social and environmental performance).*
GRI 4,10	*Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental, and social performance.*
or	
EFFAS S08-03	*Do you take ESG performance into account in your performance agreements? How do you integrate ESG principles within performance agreements in your company and to what extent do you apply them?*

Stakeholder Engagement

9. The company discloses how the relevant stakeholders are identified, how a dialogue takes place with them on a regular basis and how they are systematically integrated into the sustainability process.

Key performance indicators (KPI)	
GRI 4,16	*Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group.*
GRI 4,17	*Key topics and concerns that have been raised through stakeholder engagement, and how the organization has responded to those key topics and concerns, including through its reporting.*

Innovation and Product Management

10. The company discloses how innovations in products and services are enhanced through processes which improve sustainability with respect to the company’s utilisation of resources and to the user. A further statement is made as to whether the economic, social and ecological effects of the company’s main products and services are currently or will be assessed and improved through its value-added chain and product life cycle.

Key performance indicators (KPI)	
GRI EN6	*Initiatives to provide energy-efficient or renewable energy based products and services, and reductions in energy requirements as a result of these initiatives.*
GRI EN26	*Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation.*

GRI FS11	*Percentage of assets subject to positive and negative environmental or social screening.*
or	
EFFAS E13-01	*Improvement rate of product energy efficiency compared to previous year.*
EFFAS V04-12	*Total investments in research on ESG-relevant aspects of business such as e.g. eco-design, eco-efficient production processes, decreasing impact on biodiversity, improving health and safety conditions of employees or supply chain partners, consulting on integration of ESG aspects in change management, development of products to exploit ESG opportunities etc. in monetary terms i.e. currency as a percentage of revenue.*
EFFAS V04-13	*Percentage of products or services for* *- increasing eco-efficiency of client applications or operations,* *- developing and using clean technologies,* *- increasing fuel-efficiency,* *- offsetting climate change, carbon emissions, resource depletion,* *- making ESG-relevant products operable,* *- financing of ESG-relevant products or services.*

ENVIRONMENT

Usage of natural resources

11. The company discloses the extent to which natural resources are used for the company's business activities (input and output of e.g. materials, water, soil, waste, energy, emissions, land, biodiversity). It discloses in what way the sustainability management system incorporates the entire product life cycle into the analysis.
12. The company discloses what qualitative and quantitative goals it has set itself with respect to the efficient use of resources, the use of renewable energy sources, the increase in raw material productivity and the reduction in the usage of natural resources and how these goals have been met.

Key performance indicators (KPI)	
GRI EN1	*Materials used by weight or volume.*
GRI EN3	*Direct energy consumption by primary energy source.*
GRI EN8	*Total water withdrawal by source.*
GRI EN22	*Total weight of waste by type and disposal method.*
or	
EFFAS E04-01	*Total waste in tons.*
EFFAS E05-01	*Percentage of total waste which is recycled.*
EFFAS E01-01	*Energy consumption, total*

13. The company discloses the GHG emissions along with the goals the company has set itself in accordance with the Greenhouse Gas Protocol or standards based on the Protocol.

Key performance indicators (KPI)	
GRI EN16	*Total direct and indirect greenhouse gas emissions by weight.*
GRI EN18	*Initiatives to reduce greenhouse gas emissions and reductions achieved.*
or	
EFFAS E02-01	*GHG emissions, total (scope I,II, III)*
EFFAS E02-02	*GHG emissions, specific; Options: per unit of revenue, per FTE, per unit of production volume (e.g. tons of steel)*

SOCIETY

Employee Rights and Diversity

14. The company reports on how, on the basis of both nationally and internationally recognised standards, it works towards observing employee rights and also towards promoting employee involvement.
15. The company discloses in what way it has implemented national and international processes in order to promote equal opportunities, health and safety, integration of migrants and people with disabilities, fair pay as well as a work-life balance and also in order to suppress all forms of discrimination, e.g. based on race, ethnic background, gender, religion/ ideology, age or sexual identity.
16. The company discloses what steps it has taken to promote the general employability of all employees and to adapt it to demographic change.

Key performance indicators (KPI)	
GRI LA7	*Rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities by region and by gender.*
GRI LA8	*Education, training, counselling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases.*
GRI LA10	*Average hours of training per year per employee by employee category.*
GRI LA13	*Composition of governance bodies and breakdown of employees per category ac-cording to gender, age group, minority group membership, and other indicators of diversity.*
GRI HR4	*Total number of incidents of discrimination and actions taken.*
or	
EFFAS S03-01	*Age structure/distribution (number of FTEs per age group, 10-year intervals).*
EFFAS S10-01	*Percentage of female employees in relation to total employees*
EFFAS S10-02	*Percentage of female FTEs in senior positions in relation to total FTEs in senior positions*

EFFAS S02-02	*Average expenses on training per FTE p.a.*

Human rights

17. The company discloses what supply chain steps are taken with the aim of human rights being respected and forced and child labour as well as all forms of exploitation being prevented (Ruggie Report: "Protect, Respect and Remedy: a Framework for Business and Human Rights", ILO Core Labour Standards, UN Labour and Social Standards).

Key performance indicators (KPI)	
GRI HR2	*Percentage of significant suppliers and contractors that have undergone screening on human rights and actions taken.*
or	
EFFAS S07-02 II	*Percentage of total facilities certificated according to SA 8000 standard.*

Corporate Citizenship

18. The company discloses what contribution it makes to corporate citizenship in the regions in which it conducts its core business activities.

Key performance indicator (KPI)	
GRI EC1	*Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments.*

Political Influence

19. All significant input relating to legislative procedures, all major lobbying activities through entry in the lobby register, all significant payments of membership fees, all payments to governments as well as all donations to political parties and politicians should also be disclosed by country.

Key performance indicators (KPI)	
GRI SO6	*Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country.*
Or	
EFFAS G01-01	*Contributions to political parties as a percentage of total revenues.*

Corruption

20. The company discloses, on the basis of accepted standards (e.g. the Business Principles of Transparency International, International Corporate Governance Network‘s Guidelines Bribery and Corruption), what systems and processes are in place to prevent unlawful conduct, and corruption in particular, and how these systems are verified (e.g. IDW PS 980). The company depicts how corruption is uncovered and prevented, and sanctions are applied.

Key performance indicators (KPI)	
GRI SO2	*Percentage and total number of business units analyzed for risks related to corruption.*
GRI SO7	*Total number of legal actions for anti-competitive behavior, anti-trust, and monopoly practices and their outcomes.*
GRI SO8	*Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations.*
or	
EFFAS V01-01	*Expenses and fines on filings, law suits related to anti-competitive behavior, anti-trust and monopoly practices.*
EFFAS V02-01	*Percentage of revenues in regions with Transparency International corruption index below 6.0.*

Notes on the application of and commentary on the German Sustainability Code

Corporate practice is increasingly becoming shaped by the need for sustainability. Climate change and the secure supply of energy, depleting resources and the price increases associated with this, biodiversity conservation and demographic change are all challenges facing the political and business worlds and civil society alike. The market that rewards sustainability actions must, however, be created so that companies, services and products can be adequately assessed and sustainability afforded a commensurate degree of consideration.

The German Sustainability Code emanates from the definition of sustainability which was coined by the Brundtland Commission in 1987: “Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs. […] In essence, sustainable development is a process of change in which the exploitation of resources, the direction of investments, the orientation of technological development, and institutional change are all in harmony and enhance both current and future potential to meet human needs and aspirations.” The German Council for Sustainable Development perceives sustainability within the meaning of a triple bottom line as the equal consideration of ecological, social and economic aspects, the aim being to conserve the environment as well as social cohesion, and to advance economic development both in Germany and internationally.

Players on the financial and capital markets are interested in having a means of measuring corporate performance using non-financial indicators. The significance of environmental, social and corporate governance (ESG) factors for corporate analyses and for financial market decisions is increasing. This is apparent e.g. through the intense discussion on integrated financial and sustainability reporting. The German Sustainability Code has been developed in conjunction with business and financial market representatives as an instrument for the financial market. The German Sustainability Code describes the core requirements to be met by a corporate sustainability management system and lends transparency to the contribution made by sustainability to value creation.

This standard for providing transparency about sustainability management helps analysts to assess non-financial opportunities and risks. The financial dimension of sustainability can equally be represented in integrated reporting. Exactly which areas of focus, instruments and specific goals a company sets itself to meet the sustainability challenge is left up to the individual company and can vary from company to company and sector to sector. The inclusion of sustainability can have a significant impact on the company’s results, as, among other things, it reduces reputation and regulatory risks and reveals opportunities.

Currently, a wide variety of methods, data sources and indicators exist for assessing sustainability. The result is arbitrary and diffuse definitions, confusion due to competing assessments, and extra effort and expense. As a consequence, interest is growing in having generally applicable benchmarks as to what constitutes corporate sustainability and, following on from this, in reliable and comparable information. Through the “German Sustainability

Code", the German Council for Sustainable Development seeks to lend transparency to the methods of sustainability applied by companies and to make sustainability an effective benchmark for the economy as a whole and for the capital market. In substantive terms, the German Sustainability Code follows on from the principles of the UN Global Compact, the OECD Guidelines for Multinational Companies, the ISO 26000 guidelines for social responsibility, while, in instrumental terms, it follows on from the G3 reporting standards of the Global Reporting Initiative (GRI) or the reporting standards of the European Federation of Financial Analysts Societies (EFFAS). The introduction of standardised processes based on a select group of key performance indicators (KPIs) is designed to raise the degree of relevance, and enhance the comparability and measurability of sustainability management, which will serve all stakeholders.

Emergence and Dialogue Process

Against the backdrop of the financial and economic crisis in 2008, the German Council for Sustainable Development conducted a leadership forum in November 2009 on the question, how capital markets focus on sustainability. The discussion was continued in May 2010 at another workshop, this time involving around 20 investors, analysts and business representatives from home and abroad. An initial draft for a German Sustainability Code was then presented for public discussion in November 2010. Between December 2010 and February 2011, interested stakeholders were given the opportunity to express their views on the draft German Sustainability Code in writing. During the first dialogue phase, 75 organisations and/or individuals from Germany and Europe provided their comments, which the German Council for Sustainable Development discussed at workshops in Berlin on 18.3.2011 and in Frankfurt on 09.05.2011.

From June to mid-August 2011, the application feasibility of the German Sustainability Code was tested by interested companies during a participation phase and received positive feedback. A total of 28 companies with a market capitalisation of 463 billion euros and a total of 3,160,481 employees took part in this participation phase. A variety of investors and analysts accompanied the participation phase who checked whether the Code could be implemented in their companies. Against this backdrop, modifications were made during two workshops, most notably with respect to the requirements and key performance indicators.

On September 26th 2011, a multi-stakeholder forum was held at which various implementation permutations were discussed. Based on the ensuing vote, the German Council for Sustainable Development submitted a recommendation to the Federal Government in October on the further use of the German Sustainability Code and adopted the final version of the German Sustainability Code as submitted here. The German Sustainability Code is suitable for comparable initiatives in other countries in Europe and across the globe. It has been introduced by the German Council for Sustainable Development as an independent contribution to the ongoing discussion surrounding the relevance of non-financial key performance indicators.

All statements, documentation and articles relating to the Sustainability Code have been posted online (www.deutscher-nachhaltigkeitskodex.de).

Target Groups and Goals of the German Sustainability Code

The German Sustainability Code is a transparency instrument which can be used by companies of varying sizes: large and small enterprises, with or without current sustainability reporting procedures; capital-market-oriented companies and those wishing to inform other stakeholders about their corporate sustainability performance. The German Sustainability Code promotes the consideration of sustainability aspects on the capital market. Financial analysts and investors are of particular importance to the application of the German Sustainability Code. They assume the role of initiators with leverage, for example by including sustainability information into their analysis of opportunities and risks. The German Sustainability Code lends itself as a basis of valuation in portfolio management, for corporate bonds, when granting loans and for investor information. The Code therefore represents an extension of the reporting procedures applied under binding national and international accounting standards. It also supplements the widely accepted German Corporate Governance Code. The German Sustainability Code thus complements the global trend of augmenting the reporting procedure to incorporate various degrees of bindingness, the goal being to apply integrated reporting as the basis for integrated investment analysis.

The existing market for sustainable investment, with its specific requirements and depth of methodical evaluation, is complemented by a standardised instrument which is also appropriate for mainstream investors and analysts who, until now, have barely based their activities on sustainability information.

Being key market players, analysts and investors should assume greater responsibility for sustainable development. Safeguarding and increasing future viability requires adapting the definition of opportunities and risks so that it is in line with the standard of knowledge available on the temporal consequences of changing climate and environmental attributes, decisions on infrastructure investments as well as the effects of demographic developments.

The German Sustainability Code identifies and highlights corporate sustainability achievements as examples of best corporate practice, makes them more binding through transparency and comparability, and thus extends the basis for assessing sustainability. Capital flows can be channelled into future-proof business models and companies. Greater transparency enables companies to discern opportunities and risks more readily to manage these proactively. Companies located in Germany which, today, are already required to satisfy higher demands in Germany's social market economy, can use a declaration of conformity with the German Sustainability Code to lend worldwide transparency to their sustainability performance and turn this into a competitive edge.

The German Sustainability Code outlines the minimum requirements placed on sustainability management transparency. The German Sustainability Code is to be further refined on a regular basis. With this in mind, the German Council for Sustainable Development will set up an international transparency platform on which declarations of conformity issued by companies will be pooled and further developments permitted. To this end, the Council will organise an annual dialogue event, the aim of which would be to review the Sustainability Code and its market effectiveness and will, at the same time, invite all relevant stakeholders.

A decision at corporate management level must be made before the German Sustainability Code can be applied. Sustainability management and its transparent presentation are in increasing demand from capital market players in the analysis and investment processes. Demand can also come from within the companies themselves, for example from employees.

The German Council for Sustainable Development advises companies to apply the German Sustainability Code. Recognising and seizing opportunities and avoiding reputation risks are closely linked to sustainability strategies. At the European level and on global markets, the German Sustainability Code is an important and hitherto sole reference for a green economy.

Declaration of Conformity

To fulfil the German Sustainability Code, companies publish a declaration of conformity on their website. Declarations can also be published in annual or sustainability reports. In the declaration of conformity, companies report on whether they have satisfied the Code criteria (comply) or outline the reasons for deviating from it (explain).

Comprehensive reporting following the stringent reporting standards of the GRI (A+) or EFFAS (Level III) equates to compliance with the Code. It is also meaningful, though not compulsory, to issue a declaration of conformity in this case.

The declaration of conformity can be furnished using a template which is available free of charge from www.nachhaltigkeitsrat.de/en.

The responses to the Code criteria are provided as free text. The declaration (comply or explain) should be kept brief (no more than 500 characters per criterion) and, where applicable, contain a link to the corresponding passages within the published reference documents. It is not sufficient to merely state the name of the document (e.g. see “sustainability report”). Should companies believe certain individual factors are not relevant to them, they can state as much under “explain”.

Reporting as part of the Code is also deemed to be essential when no specific reference is made to its requirement in the Code criteria.

The German Sustainable Code specifies so-called key performance indicators (KPIs) for the Code criteria which are used for the purpose of comparability and, where applicable, quantifying, and which should be applied in addition to the Code criteria. The KPIs are standards which have been taken from the Global Reporting Initiative (GRI) and the European Society of Financial Analysts Societies (EFFAS).

Companies can decide whether to report on the basis of the KPIs of the GRI or EFFAS. However they decide, they should continue on this basis throughout the Code. The definition and computation of the KPIs are explained in the relevant standards being applied.

Sector-specific modifications are done voluntarily by the companies. Within the bounds of the GRI Sector Supplements and the sector-specific KPIs of the EFFAS, as well as recognised sector-specific KPIs, companies can make meaningful additions. With this in mind, a dedicated line has been provided for in the template. It is also possible to add several sector-specific KPIs per Code criterion.

In case of ambiguity, companies furnish an interpretation and corresponding explanation.

Definition of Core Terms

Corporate Citizenship: (Source: GRI Indicator protocol, local community): people or groups of people living or working in regions which are – economically, socially or ecologically – positively or negatively influenced by the company's activities.

Corruption: (Source: Transparency International) "the abuse of entrusted power for private gain".

EFFAS: European Federation of Financial Analysts Societies (EFFAS) is the umbrella organisation of the national societies of European financial analysts. During a three-year process, EFFAS developed KPIs from the perspective of analysts and investors and validated these with users in order to integrate environmental, social and corporate governance factors into the reports issued to capital market representatives. Presented in September 2010, the EFFAS KPIs are still a very young instrument which, unlike other ESG frameworks, reflect the capital market perspective. Index provider STOXX introduced the EFFAS KPIs as one of the first applications it used as the basis of a new ESG index family which was launched on the market in April 2011. (www.effas-esg.com)

GRI: The Global Reporting Initiative (GRI) is a network-based organisation which has developed one of the world's most widely-used sustainability reporting standards. It was first published in 2000 and is modified at regular intervals. It is geared to the general public and used by around 3,000 companies worldwide. Sector-specific additions and technical notes are published in addition to the reporting standard. (www.globalreporting.org)

ISO 26000: This guideline was created on the basis of a multi-stakeholder approach comprising experts from over 90 countries and 40 international or regional organisations. The guideline provides guidance on the principles of social responsibility. It is neither intended nor suitable for certification purposes. (http://www.iso.org/iso/social_responsibility)

Key performance indicator (KPI): KPIs are applied in order to provide further explanation and quantification, and to improve the comparability of the Code criteria for users of declarations of conformity with the German Sustainability Code. The KPIs help users from the capital market to integrate them into their analysis models or to use them to ascertain key data (e.g. emissions per unit).

Life cycle approach (Source: ISO 26000): „The main objectives of a life cycle approach are to reduce the environmental impacts of products and services as well as to improve their socio-economic performance throughout their life cycle, that is, from extraction of raw materials and energy generation, through production and use, to end-of life disposal or recovery. An organization should focus on innovations, not only on compliance, and should commit to continuous improvements in its environmental performance“

Process (Source: DIN ISO 9001): “Ein Prozess ist eine strukturierte Gruppe verbundener Aktivitäten, die zusammen ein Resultat erzeugen, das für die Kunden Wert besitzt.“ (A process is a structured group of activities that collectively results in adding value to the purpose of a client.)

Scope of reporting: In order to establish financial reporting comparability, the Code, as a rule, refers to the same group of companies as those included in the consolidated financial statements. Whenever deviations are made from this principle – when the report covers the entire supply chain – companies will make this known and explain the deviation. In this case, reference should be made to an established standard, such as the Greenhouse Gas (GHG) Protocol of the World Business Council for Sustainable Development (WBCSD).

Stakeholder (Source GRI, Guidelines for Sustainability Reporting, p. 8f.) Stakeholders “are defined as 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. This includes entities or individuals whose rights under law or international conventions provide them with legitimate claims vis-à-vis the organization. Stakeholders can include those who are invested in the organization (e.g. employees, shareholders, suppliers) as well as those who are external to the organization (e.g. communities).”

Standard: (Source: Leipziger 2010): "A standard has supra-regional and cross-sectoral validity. It is of a high binding nature in terms of reporting and auditing. It requires a certain degree of agreement among the stakeholders."

Supply chain (Source: ISO 26000): “Sequence of activities or parties that provides products or services to the organization. In some instances, the term supply chain is understood to be the same as value chain. However, for the purpose [of ISO 26000] supply chain is used as defined above.

Value chain (Source: ISO 26000): „Entire sequence of activities or parties that provide or receive value in the form of products or services. Parties that provide value include suppliers, outsourced workers, contractors and others. Parties that receive value include customers, consumers, clients, members and other users.“

Relevance (Source: ISO 26000): […] „Possible criteria include the:

- extent of the impact of the issue on stakeholders and sustainable development;
- potential effect of taking action or failing to take action on the issue;
- level of stakeholder concern about the issue; and

- identification of the societal expectations of responsible behaviour concerning these impacts.

Issues that are generally considered to be significant are non-compliance with the law; inconsistency with international norms of behaviour; potential violations of human rights; practices that could endanger life or health; and practices that could seriously affect the environment. In the context of the German Sustainability Code, the principle of essentiality is carried on throughout the document.