

## **The German Sustainability Code. A New Approach Linking Economy and Society onto the Pathway to Sustainability**

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European Sustainability Leaders, Champions and Front Runners Preparing Rio+20,  
European Conference hosted by European Partners for the Environment (EPE),  
Brussels December 21, 2011

### **Governance in Transition**

1. The interaction of politics, economy and the civil society is changing. Facilitating a sustainable development requires for all players to adjust to new forms of governance. The crowded, carbon and resource - constraint world, the emerging new geo-economic patterns and the actual fiscal stress ask for new forms of governance<sup>1</sup> beyond of what we know as administrative regulation and corporate responsibility.
2. Therefore, the concept of “sustainability” must neither be seen as philanthropy or an add-on to corporate communication, nor must it be perceived as a mere tool to minimize risks. Of course, minimizing risks remains a strategic task, but the next step in sustainability management is about maximizing chances and opportunities, about new business cases and job machines. Advanced corporate thinking should produce long term visions for the business case and for investment and focus on environment and social criteria in the value chain.
3. The recent years have seen an increase in sustainability engagement of leading enterprises. In Germany, more enterprises than ever associate themselves with the transition towards a sustainable economy. An indication is
  - the increasing number and quality of SD reports of corporations and small / medium enterprises<sup>2</sup>
  - the successful launching of the German SD Award for businesses<sup>3</sup>

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<sup>1</sup> The Potsdam-based Institute for Advanced Sustainability Studies (chaired by Prof. Dr. Klaus Töpfer) in collaboration with the German Council for Sustainable Development organized a series of workshops that discussed scientific findings around an emerging knowledge democracy. Most recent result: Roel in't Veld, Klaus Töpfer, Louis Meuleman, Günther Bachmann, Stefan Jungcurt, Jamel Napolitano, Alexander Perez-Carmona and Falk Schmidt (2011) TransGovernance. The quest for governance of sustainable development. Report, Potsdam; free download from [http://www.iasa-potsdam.de/fileadmin/user\\_upload/documents/Transgovernance - The Quest - Nov 2011.pdf](http://www.iasa-potsdam.de/fileadmin/user_upload/documents/Transgovernance_-_The_Quest_-_Nov_2011.pdf)

<sup>2</sup> The Ranking of SD reports is since 2009 run for SMEs with less than 5.000 employees. Then, 46 reports could be evaluated, this year 120 are published altogether, among those 57 first time reporters. Considering the total of 3.584.760 SMEs altogether representing 98% of the workforce, there is still a long way to go. The Ranking for Corporations takes into account 62 SD reports of the 154 biggest German companies following the FAZ. The tendency is to harmonize financial and ESG information, not only in content, but in frequency. Now already ¾ of all companies publish once a year, a plus of 25 % compared with 2009.

<sup>3</sup> <http://www.nachhaltigkeitstag.de/186-0-English-Summary.html>

- the broad support of the Energy Change (the phase out of nuclear energy with its impact on new technologies, innovation and the greening of the economy)<sup>4</sup>
4. Frontrunners and leaders should continue to share the competitive advantages while others should be encouraged to access the new practise of developing chances in a sustainable economy. Therefore, the future belongs to an “educated SD reporting” along shared and binding criteria.
    - a. The access should be voluntary by legal standard. Mandatory SD reporting seems only to enhance numbers, but not necessarily the quality of reporting. Regulating the SD reporting needs to move beyond the simple dichotomy of voluntarism vs. legal obligation.
    - b. The content should not be subject to the individual decision of each company. Providing guideline, transparency, and credibility makes sustainability count on the capital markets and in civil society.

### **The German Sustainability Code, GSC**

5. The GSC is a new and educated SD standard on how information should be structured and prioritized against what is at the core of sustainability management. The GSC addresses civil society stakeholders as well as stakeholders from the capital markets (pension funds, rating agencies, investors, investments consultancies and standards setting bodies). The capital market increasingly asks for sustainability solution. But this demand is often incoherent, fragmented and partially misleading. The need for reliable information is evident and will be satisfied by implementing the GSC.
6. In general, any successful framework for a sustainable economy will depend on market incentives and the (mostly regulatory) creation of new markets. For this, the GSC is an example in process and content because it links the financial service industries and the sustainable business case.
7. The German SD Council facilitated an intensive dialogue-process among stakeholders from companies, the capital market and the civil society. With this, the Code is an example for modern policy making and transformation governance.
8. The Code works with a “comply-or-explain” approach. Key performance indicators (20 from EFFAS and 27 from GRI) provide guidance. The GSC entry level does not require external auditing and represents a mean of initiating communication on SD (e.g. for SMEs and other not yet reporters). For more advanced companies it is advisable to raise effectiveness in particular in interaction with the capital market by using 3<sup>rd</sup> party audits or comparable instruments.
9. The German Council for Sustainable Development recommends for companies and organizations to apply the GSC on a voluntary basis. The Council itself will monitor the implementation. The GSC is a relevant mode of implementing CSR concepts as recently set out by the European Commission.

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<sup>4</sup> [http://www.bundesregierung.de/Content/DE/\\_Anlagen/2011/05/2011-05-30-abschlussbericht-ethikkommission\\_en,property=publicationFile.pdf](http://www.bundesregierung.de/Content/DE/_Anlagen/2011/05/2011-05-30-abschlussbericht-ethikkommission_en,property=publicationFile.pdf)

The international preparation of the UNCSD 2012 in Rio de Janeiro provide a setting in which the GSC could serve as good practice. Obviously, the Code should find its way into Europe and must not stay a German instrument.