PRACTICAL GUIDE FOR COMPANIES DEVELOPING A SUSTAINABILITY MANAGEMENT SYSTEM

The most relevant elements for modern sustainability management, taken from an in-depth analysis of international sustainability frameworks and from a survey with leading companies in Chile, Mexico and Germany.

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Preface

"*The Practical Guide for Companies Developing a Sustainability Management System*" was made to assist companies in setting up a sustainability management system that is consistent with the main management elements included in international sustainability frameworks. The guidance is intended for those organizations who are in early stage development of a sustainability management system.

"I was aware that international standards and guidelines are interrelated in many ways. This overview helped us to see exactly which components of a management system are typically required."
Exequiel Rolón Michel, Sustainability and Community Relations Manager, Fresnillo plc

"*This document provides a practical guide for companies that are starting to develop a Sustainability Management System.*"
Charles Kimber, Corporate and Commercial Affairs Manager, ARAUCO

"*This guideline adds value not only through the analysis of international standards, but also because sustainability managers share practical experiences which reveal the elements of a sustainability management system that are particularly useful.*"
Dr. Christoph Jäkel, Vice President Sustainability Strategy, BASF SE

1 | Introduction

Sustainable development has been embraced by some of the largest, most profitable companies and investors in the world. Larry Fink, CEO of BlackRock, the world's largest asset manager with about $6 trillion in assets under management, writes annually to CEO's. Recently he communicated that profits and purpose are inextricably linked. He went on to state that BlackRock's engagement priorities for 2019 are: governance, including your company's approach to board diversity; corporate strategy and capital allocation; compensation that promotes long-termism; environmental risks and opportunities; and human capital management.

In Latin America companies have indicated that:
- Key customers are increasingly asking questions about environmental protection and working conditions
- Communities expect sustainable development, particularly when new projects are introduced
- Civil society and other watchdog organizations are campaigning for social and environmental change

While expectations and market signals for sustainable development have never been stronger, many companies in Latin America are just starting the journey to organize sustainability more systematically.

Companies wishing to introduce a systematic sustainability management system are faced with the challenge of a multitude of international standards. While their intention is rather similar, the sustainability management system standards are not the same.

Unfortunately, there is no widely recognized standard describing how to organize sustainability management in a systematic way. This guidance helps solve this problem by describing the most important components of a sustainability management system that:
- works well
- aligns with international standards
- facilitates compliance with customer expectations and requirements

In addition to the guidance, Latin American companies are encouraged to review "SGE 21 Sistema de Gestión Ética y Socialmente Responsible" and leading company sustainability reports in their sector.

To identify the most important components of a sustainability management system, the international standards in the figure below were reviewed as part of this study.

International Sustainability Standards Evaluated

- OECD Guidelines for Multinational Enterprises
- OECD Due Diligence Guidance for Responsible Business Conduct
- UN Guiding Principles on Business and Human Rights
- ISO 26000 Guidance on Social Responsibility
- ISO 14001 Environmental Management Systems
- ISO High Level Structure for Management System Standards
- EMAS - EU Eco-Management and Audit Scheme
- NMX-AA-162-SCFI-2012 Auditoria Ambiental
- Equator Principles
- GRI Standards
- Guía de sustentabilidad de la BMV
- SDG Compass. The Guide for Business Action on the SDGs
- SGE 21. Sistema de Gestión Ética y Socialmente Responsable
- AIAG Supplier Sustainability Self-Assessment
- SA 8000 - Social Accountability 8000

In addition to reviewing the international standards outlined above, we integrated practical company experiences:

- A survey of sustainability managers from Mexican, Chilean and German companies was conducted to find out what is particularly important for a good functioning sustainability management system
- Experiences with sustainability management were discussed with board members and sustainability managers during four workshops in Chile and Mexico
- Sustainability reports were evaluated to compile best practices

The guidance is therefore based on the knowledge of sustainability management of a large number of companies predominantly from Chile, Mexico and Germany but also from The Netherlands, Switzerland and the US.

Participating companies

Almost 100 companies participated in this project, among them ABB México, ALEN, ALFA, AMSA, Andes Iron, ARCA Continental, ARCONIC, ASEXMA, Barrick, BASF, BHP, BIMBO, BIOPAPPEL, Boehringer Ingelheim, Bosch, CAMEXA, Caterpillar, CCU, CEMEX, Champion, Chilehuevos, Cía Puerto Coronel, CITIBANMEX, CLAUT, Coca-Cola GmbH, Coca-Cola FEMSA, CODELCO, CODESSER, Colbún, Comercial Roshfrans, Compañia Aceros del Pacífico, CONPAX, CORFO/País Digital, CUPRUM, DISAL, Dow Chemical, Dräxlmaier, F. Hoffmann-La Roche, Forestal Arauco, Fresnillo plc, Gerdau, Grupo Banorte, Grupo CONDUMEX, Grupo Electroger, Grupo Herdez, Grupo INDUSTRIAL SALTILLO, Grupo Xignux, Grupo Zapata, HELVEX, John Deere, KDM, Lota Protein, Merck, MEXALIT, Mission Hills, Muelles de Penco, ORAFTI Chile SA, Osram, Otto Group, OXIQUIM, Pacifichydro, PEMEX, Petstar, Portuaria Cabo Froward S.A., Portuaria, Productos Farmacéuticos, Productos Laminados de Monterrey, Puerto de Arica, Puerto de Iquique, Puerto Lirquén SA, Puerto Talcahuano, San Vicente Terminal Internacional, SAP, Siemens, SIGMA Alimentos, SOLISTICA-FEMSA, Talcahuano Terminal Portuario, Transoceánica, Unilever, Veolia México, VITRO, Volkswagen, WAL-MART.

Roundtable in Santiago de Chile on April 10, 2018

2 I Corporate Sustainability Challenges

Before discussing the individual elements of a sustainability management system, it is helpful to first obtain an overview of the typical sustainability topics and the embedding of the management system in corporate governance (see the figure *Governance and scope of sustainability management* on the right). The typical topics sustainability management deals with include:

Environmental protection in manufacturing: Smart manufacturing processes reduce the environmental footprint, reduce raw material losses, prevent conflicts with neighbors and authorities, and reduce operating costs.

Employee´s interests: Responsible employers ensure the occupational safety and health of their workforce, provide training, pay fair wages, ensure diversity, prohibit forced and child labor.

Environmental product stewardship: Responsible product design protects both the consumer and the environment by providing quality products that are safe for use and have a minimized impact on the environment in their lifecycle.

Consumer protection: Responsible companies assure that there is no misleading advertising, fair purchase and warranty conditions, and data protection.

Supply chains (environment, human rights): Responsible sourcing reduces risks in upstream supply chains. In the business relations with their suppliers, companies are increasingly expected to consider working conditions and the environment. This is true even though the possibilities of a company to influence its suppliers vary with individual value chains.

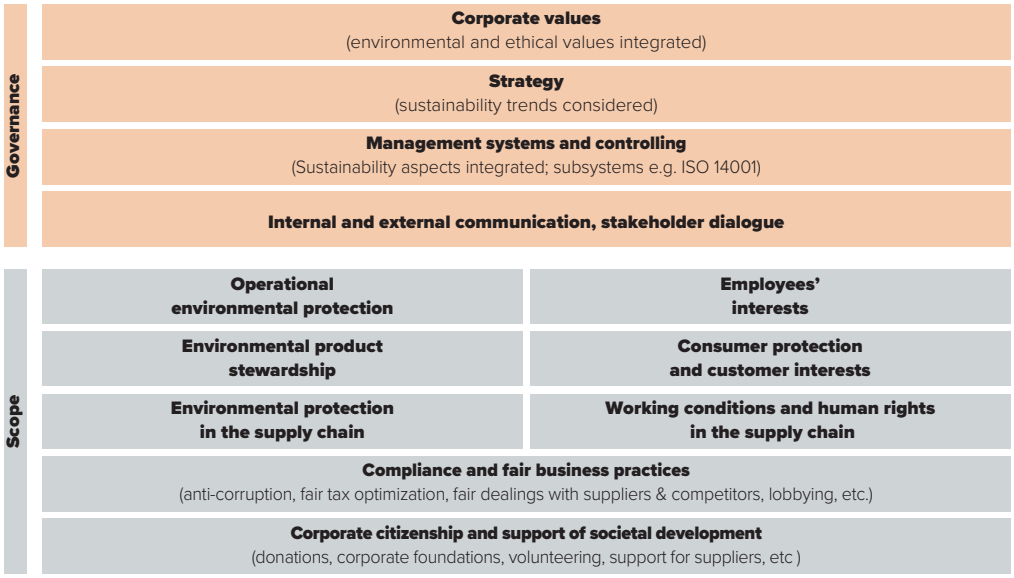
Cross-cutting aspects: Responsible companies comply with the law and apply fair business practices. This includes combatting corruption, abstaining from aggressive tax optimization and enabling fair deals with suppliers.

To achieve improvements in these areas an appropriate corporate governance is necessary (again see the figure on the right). Governance includes corporate values, strategy, management systems and communication. Sustainability-related components of corporate governance are often presented separately to make them tangible for certain audiences. For example, a company may establish sustainability values and strategies, detail sustainability management systems and issue certain sustainability communications.

However, sustainability related values are preferably integrated into the general corporate values, and relevant environmental and social aspects are better taken care of when being taken into account in the classic strategy areas (e. g. long range strategies, portfolio management, manufacturing and supply chain, product development, enterprise risk management, capital planning, HR strategy).

Similarly, a company is encouraged to integrate its sustainability management into its overall management system and business processes. While it is true that sustainability management needs to be visible, it will not have ownership at the business process level if it remains a separate initiative.

Governance and Scope of Sustainability Management

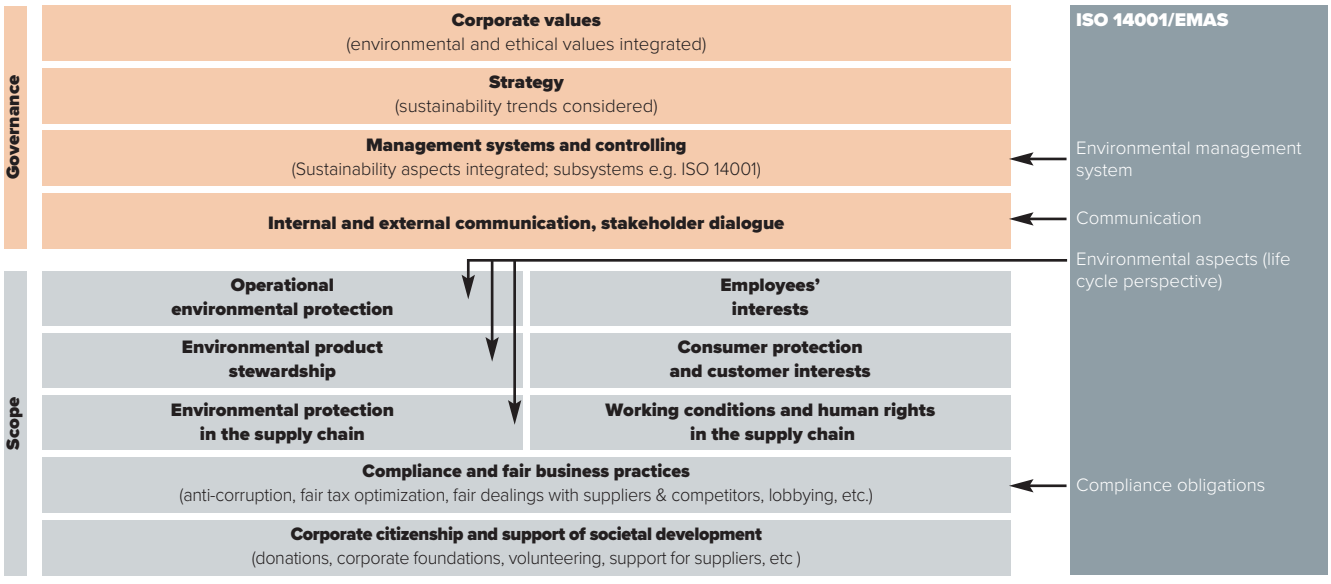


Loew and Braun 2009

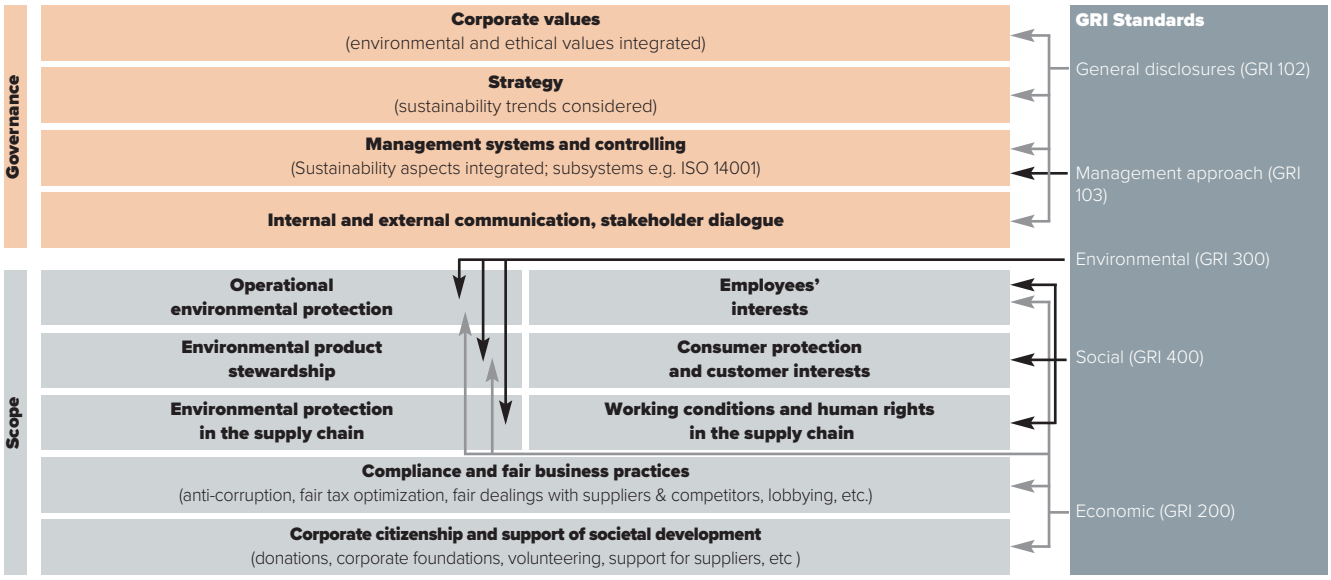
Comparison of leading Sustainability Management Frameworks

A comparison of four leading sustainability management frameworks is presented below and on the next page. The figures illustrate that the system, described above, can be applied to all frameworks in the area of sustainability management. For each framework it is easy to see whether it covers all topics of sustainability management or only a part of it.

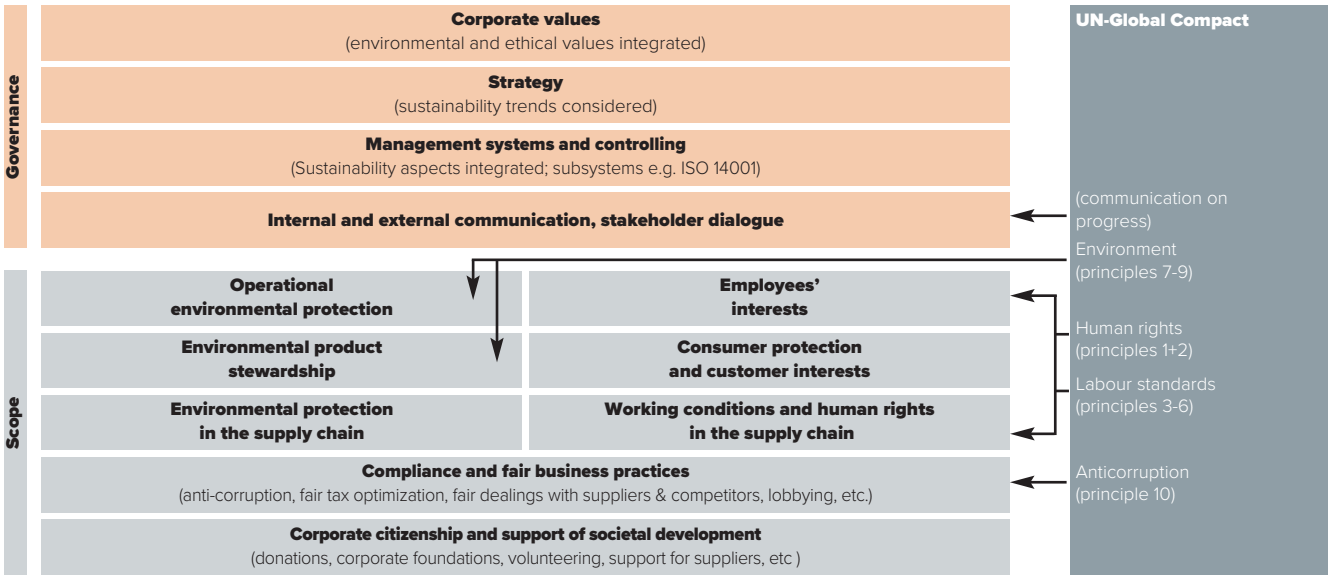
Sustainability Framework Mapping - ISO 14001/EMAS



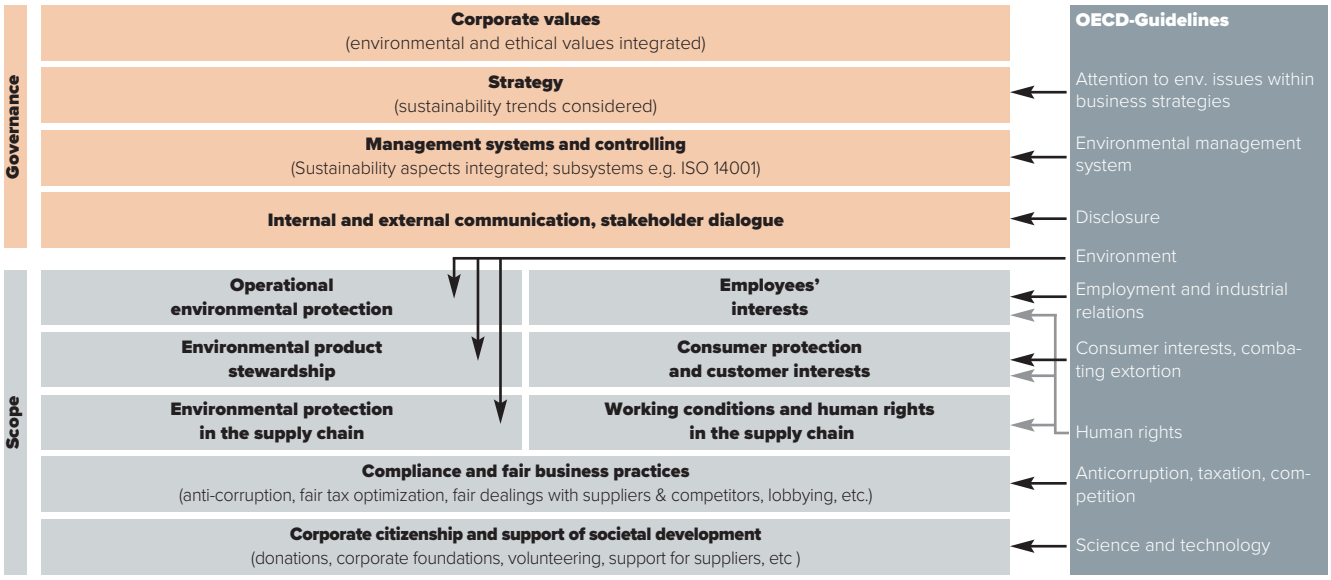
Sustainability Framework Mapping – Global Reporting Initiative (GRI)



Sustainability Framework Mapping – UN Global Compact

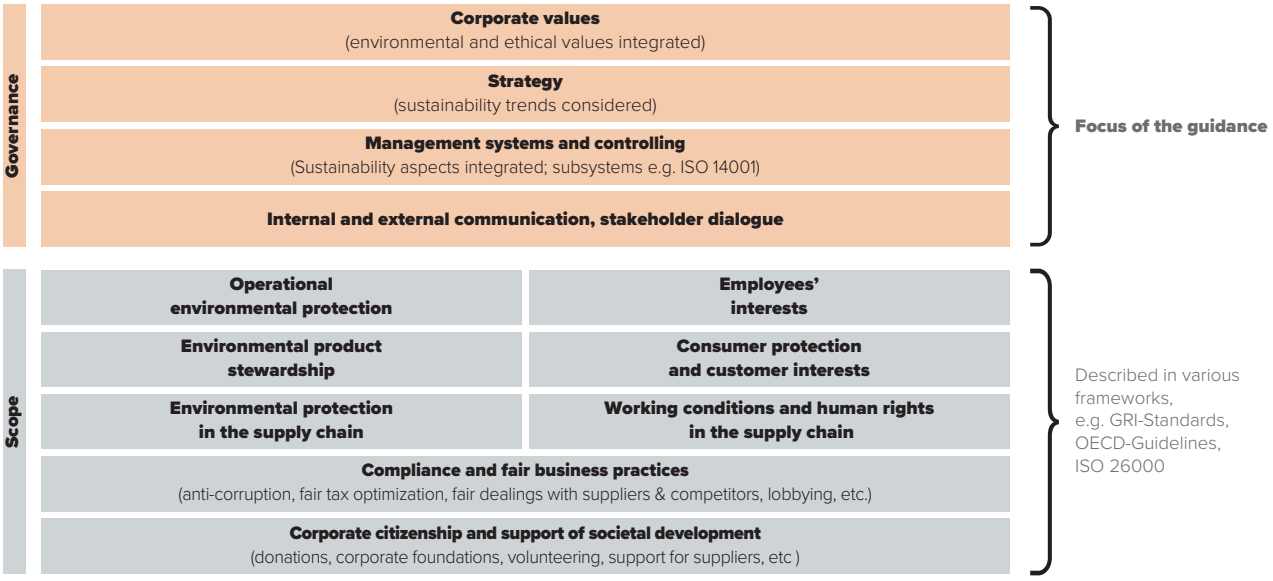


Sustainability Framework Mapping – OECD Guidelines



The figure reminds that the focus of this guidance are the elements of the management system including related components of the governance structure.

Focus of the Guidance



3 I Sustainability Management System

While there are recognized standards for environmental management (ISO 14001), quality management (ISO 9001) and sustainability reporting (GRI), there is no internationally recognized standard for sustainability management. Frameworks such as ISO 26000, the OECD Due Diligence Guidance for Responsible Business Conduct or the UN Guiding Principles on Business and Human Rights are occasionally applied by companies, however, no framework has established itself as the leading standard.

In an effort to provide companies with a quick overview of how they can set up a well-functioning sustainability management system, the most important frameworks for sustainable corporate management were systematically compared (box on page 10). In addition, the experiences of 40 sustainability managers were evaluated in a survey. The result is a compilation of the 20 most relevant elements for a sustainability management system. These elements are described on the following pages.

A management system with these 20 components is intended for large companies. Medium-sized companies may not need all elements. For example, small and medium-sized companies usually do not require a sustainability department.

Management systems are often set up step by step. At the beginning it is necessary to appoint a sustainability manager who, with the support of an executive manager, gradually implements the various system elements according to the requirements of the company.

Structure of the Sustainability Management System

Area	The 20 most relevant elements of a sustainability management system	
Policies ➜ page13	• Policy • Code of Conduct	
Organisational structure ➜ this page	• Board of director responsibilities • Senior management responsibilities	• Sustainability officer • Sustainability department
Processes ➜ page 14	• Integration in business processes • Systems to ensure compliance	
Continuous improvement ➜ page 16	• Goals and measures (Progress tracking) • Monitoring, indicators and performance evaluation	• Management of ESG risks • Grievance mechanisms • Training
Communication ➜ page 19	• Leadership and commitment • Internal communication • Stakeholder dialogue	• Stakeholder engagement • Sustainability reporting
Preparatory tasks ➜ page 12	• Determining the relevant aspects • Determining the scope of the management system	

4 I Organisational Structure

Organisational structure	• Board of director responsibilities • Senior management responsibilities	• Sustainability officer • Sustainability department

Sustainability Officer and Sustainability Department

Clear responsibilities, sufficient time and adequate management support are essential for projects to be successful. In the case of sustainability management, it is therefore necessary to appoint a sustainability officer who sets up the management system and ensures that it works well.

In large companies with many social and environmental issues the tasks of sustainability management typically require a small department of subject matter experts who provide technical support and coordinate global strategy implementation and communication.

Once the sustainability management system has been implemented, the sustainability officer fulfills the tasks listed in the box on the right. This way it is ensured that the company effectively manages its sustainability risks, saves costs and opens up new business opportunities.

Senior Management Responsibilities

Looking at the tasks of the sustainability officer, it becomes clear that sustainability management is cross-functional. To improve sustainability performance, changes to business processes at the functional level must be implemented. This requires mutual projects with a variety of functions including production/manufacturing management, product development, human resources, environmental health and safety, marketing, information technology, communications and/or procurement.

With the support of the senior management some companies establish a Sustainability Steering Team that is comprised of the sustainability officer together with senior managers from functions, who are accountable to lead, coordinate, and implement key elements of the sustainability strategy. The committee often supports strategy development, approves strategies, goals and projects, aligns and allocates resources to support implementation, measures progress, and approves external communications.

Responsibilities of the Sustainability Officer

- Adapt business processes to ensure that environmental and social aspects are addressed
- Develop and track goals and measures
- Provide information management and data collection on sustainability issues
- Lead sustainability reporting and communication
- Coordinate stakeholder dialogue and engagement
- Contribute to corporate strategy and risk management
- Assure social and community stewardship

Board of Director Responsibilities

Sustainability strategies should be approved at the highest levels in the organization, i.e. the company's CEO and Board of Directors. The Board will need to determine where sustainability fits within its overall fiduciary duties. Some simple steps Boards can take include:

- Establish a standing agenda item on sustainability
- Establish or clarify responsibility for sustainability (e.g. of the overall Board, a Board committee or a lead Board member)
- Understand stakeholder concerns
- Ensure management has established a sustainability strategy that addresses both risks and opportunities
- Ensure management has appropriate information and data management systems to support reporting and external disclosure

Further information

- CERES (2015): View from the Top: How Corporate Boards Engage on Sustainability Performance
  ➔ www.ceres.org

5 I Preparatory Tasks

Preparatory tasks	• Determining the relevant aspects • Determining the scope of the management system

Determining the Relevant Aspects

The list of sustainability issues can be quite long. In fact, the GRI standards include 31 environmental topics, 20 employee topics, and 45 other topics on which companies are requested to disclose - provided they are material to the company from a sustainability point of view. The GRI standards also require that the sustainability report describes how the key sustainability aspects have been identified.

Determining which issues are most important (or material) to a company is an essential first step in the development of a sustainability management system. Companies just starting out should be aware that materiality has more than one definition. Financial materiality considers relevant aspects that could impact a companies financial performance and share price. Sustainability materialty considers aspects that could be relevant to a broader range of stakeholders (e.g. employees, environmentalists, trade unions, social NGOs, neighbours, govermental authorities, customers, consumers, and investors).

Companies that are just starting out may choose to draw up a simple list based on knowledge of own operations, review of peer strategies and stakeholder concerns. Further advanced companies, however, should carry out a systematic materiality analysis to identify and prioritze risks.

The result of the analysis is often presented in the form of a materiality matrix. This matrix considers the views of external stakeholders together with the company's assessments of its impact. The company's assessment of impact should consider the breadth of social and/or environmental impact. An example of a materiality matrix is provided below. Real-life examples are provided in a separate publication (see further information on next page).

Materiality Matrix (according to GRI Standard 101; adapted)

Determining the Scope of the Management System

When introducing a sustainability management system, the scope must also be defined in terms of own operations, contracted operations, national and international business, joint-ventures, etc. Scope is generally established at a global level, but can vary by goal or commitment made, for example:

- Companies may focus on measuring energy, water, greenhouse gas, and waste emissions only from production sites. Or they may choose to include large offices, warehouses, and research and development centers.
- Companies may start by addressing labor practices in their own operations. As their system matures, many companies broaden the scope to include suppliers in at-risk geographies or industries.
- Companies may choose to exclude joint ventures particularly when they do not have a controlling interest.

As companies establish their sustainability management system and subsequently the strategy, goals and reporting, it is essential that clear boundaries are established to provide clarity in scope.

Further information

- GRI Standard 101 - 1.3. Materiality ➔ www.globalreporting.org
- Loew & Werner et al (2019): Real Life Examples for Management Elements of Sustainability Management (with examples for materiality matrixes.) ➔ www.4sustainability.de, www.wec.org
- OECD (2018): OECD Due Diligence Guidance for Responsible Business Conduct. Chapter 2: Identify and assess actual and potential adverse impacts associated with the enterprise's operations, products or services.

6 I Policies

Policies	• Policy • Code of Conduct

A good management system requires a policy or a set of policies. This is not only the conclusion from the analysis of the frameworks, but also supported by the majority of the sustainability managers.

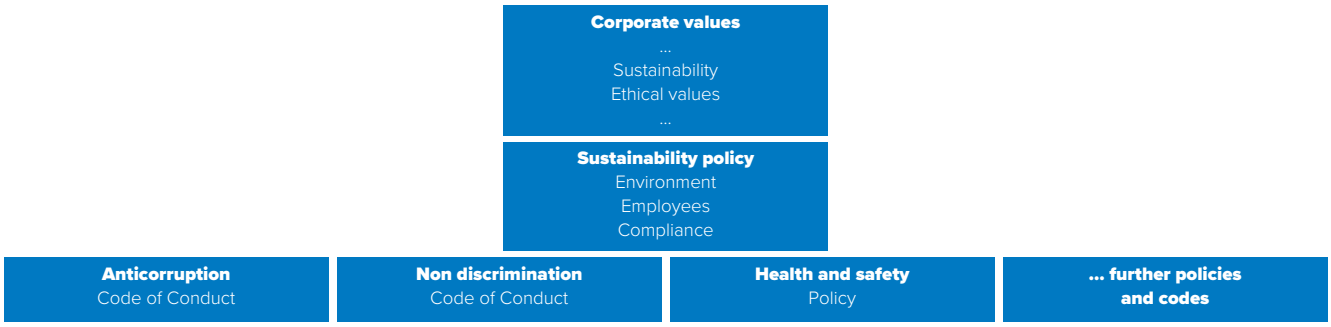
Many companies develop an overarching sustainability policy that covers the most relevant sustainability aspects (environment, social, governance) of the company in a general way. It recognizes the importance of the issues and commits to taking steps to drive improvement and reduce risk.

Companies sometimes already have some organization wide policies in place for specific topics such as:

- Employees
- Suppliers (Code of Conduct)
- Occupational health and safety
- Privacy and data protection
- Product quality
- Ethics and compliancy
- Equal opportunity employment

When setting up a sustainability management system, it is advisable to design a "value system" with a sustainability policy and further specific policies as noted above. These specific policies or codes should be linked to the sustainability policy. In case there are written corporate values, a corporate mission statement or similar, it is helpful to show the link to the sustainability policy. Ideally sustainability is already part of the corporate values or can become part thereof.

Corporate value system



However, policies are not effective if they are not communicated, lived and valued. At the end of the day, it's all about the values written down becoming part of the corporate culture. Accordingly, it is important, among other things, to introduce these policies to current and new employees, to deal with them in further training and to address them again and again at suitable occasions.

Further information

- Loew & Werner et al (2019): Real Life Examples for Management Elements of Sustainability Management
  ➔ www.4sustainability.de, www.wec.org

7 I Processes

Processes	• Integration in business processes • Systems to ensure compliance

Integration in Business Processes

Sustainability management leads to substantial improvements for the environment and society when business processes are improved. Hence an essential task of sustainability management is to initiate projects in which environmental or social requirements are integrated into existing business processes. The adjacent box contains a few examples. Such projects require constructive cooperation with the relevant departments/functions in a company. After completion of the projects, the environmental or social requirements must be taken into account together with the previously applicable requirements (e.g. quality, internal reporting, internal assessment of suppliers).

Integration in Business Processes - Examples

- Promotion of diversity and equality in personnel policy (recruitment, training, promotion)
- Consideration of climate protection/other environmental aspects when constructing new buildings/investing in machinery
- Early consideration of the interests of local residents and environmental associations in major projects
- Systematic consideration of environmental and social aspects in the product development process
- Consideration of social and environmental practices when selecting a new supplier or contract manufacturer

Systems to Ensure Compliance

Most of the sustainability officers answering our survey stated that procedures to ensure compliance with local, regional and national regulations are essential. This is due to the fact that compliance with laws is undisputedly part of the values of sustainability and furthermore the risks of non-compliance are far too great. Serious violations of the law can

damage a company's reputation and thus invalidate many important positive effects of sustainability management. In order to ensure compliance, responsibilities must be clarified. Some companies nominate compliance officers, others delegate this task to their legal department. There is an international standard, ISO 19600, which describes a compliance management system.

Further information

- ISO 19600 Compliance Management Systems ➔ available at the national standardization bodies
- Loew & Werner at al. (2019): Real Life Examples for Management Elements of Sustainability Management ➔ www.4sustainability.de, www.wec.org

8 I Continuous Improvement

Continuous improvement	• Goals and measures (Progress tracking) • Monitoring, indicators and performance evaluation	• Management of ESG risks • Grievance mechanisms • Training

Continuous improvement in environmental protection is the central idea behind ISO 14001 and EMAS. It is therefore not surprising that several instruments are available which serve to achieve improvements.

Goals and Measures (Progress Tracking)

Both our survey among sustainability managers and our analysis of the frameworks for sustainability management found that the most important management tool to promote improvements are goals with related measures and deadlines. Goals should be:

- Specific – goals should express clear expectations
- Measurable – goals should be able to be tracked and monitored
- Achievable – goals should be realistic and attainable
- Relevant – goals should support achievements of relevant aspects
- Timebound – goals should include a date for completion

The same requirements are valid for the measures, which are usually internal projects to achieve the goals. A systematic compilation of the measures associated with goals is also called "sustainability program" (a suitable, however rarely used term, analogous to the environmental program at EMAS- the EU based Environmental Management System, which is similar to ISO 14001). In theory, it is assumed that the goals will be set first and that associated measures will then be developed. In practice, however, it may happen that project ideas already exist, or measures are already planned, and that overarching goals required for the sustainability program are determined on the basis of these ideas. Hence existing goals and measures should be identified and considered when developing a sustainability management program.

An excerpt from a sustainability management program is illustrated below. The management plan includes the goals, measures to support implementation, deadline for completion, status and progress update.

Sustainability program with goals and measures (example)

Goals and measures	Deadline	Status	Progress by 12/2018
Environment			
Goal: All production sites shall apply environmental management systems according to ISO 14001 Measure: Introduce ISO 14001 at the sites Mexico City and Monterrey by 2019. Status: ↗ Measure: Introduce ISO 14001 at the sites Tijuana and Oaxaca by 2020. Status: ↗	**2020**	↗	In 2018, sites in Mexico-City and Monterrey transferred their environmental management system to the ISO 14001:2015. Certification is scheduled for May 2019.
Goal: 15% reduction in our direct and indirect greenhouse gas emissions (scope 1 and 2) (2015 baseline). Measure: Introduce systematic measurement of energy consumption at all production sites by 2018. Status: **achieved** Measure: Analysis in order to identify energy savings potentials at all production sites by 12/2019. Status: → Measure: Implementation energy savings projects that will reduce CO_2 emissions in the amount of 3,500 metric tons by 12/2018, (now extended until 2020). Status: ↘ Measure: Examination of roofs and other surfaces suitable for installation of photovoltaics. Preparation of a pilot-amortization calculation for one site by 2020. Status: **new**	**2021**	→	By the end of 2018, we had lowered our GHG emissions by roughly 11% relative to 2010 –despite operational growth - In 2018, examinations of potential energy savings at production facilities became part of our routine processes. - In 2018, we implemented 21 projects to save energy and reduce CO_2 emissions. With combined CO_2-reductions of 2,500 metric tons we didn't reach our 2018 goal. That is why we plan to initiate 10 new projects with potential savings of 1,500 metric tons of CO_2 to be implemented within two years.
[.....]			
Employees			
Goal: Reduce the lost time injury rate (LTIR) Group-wide (to 1.5 or less). Measure: Roll out our "Be Safe! Program" at all sites outside Mexico by 2019. Status: → Measure: Adapt LTIR measurements at all sites to the new group-wide performance indicator standard by 2020. Status: ↗	**2020**	→	LTIR was 1.5 on all sites in Mexico with 24 accidents reported. There is no data for sites outside of Mexico yet. - Our "Be Safe! Program" was implemented at all our sites in Mexico and at 50% of sites in Costa Rica and Panama. - LTIR measurements according to the new standard were introduced at all sites in Mexico, Costa Rica, and Panama.
Goal: Achieve a 30% representation of women in leadership roles (senior & middle management) Measure: Introduce teams at departmental level to promote women in 2019. Status: **new** Measure: Perform analyses and identify focus areas for actions in all business units, and develop goals and measures to lift women into leadership roles by 2019. Status: **new**	**2019**	**nuevo**	

Monitoring, Indicators and Performance Evaluation

Companies are expected to publish performance indicators that measure their progress and improvement on their relevant environmental and social aspects.

When selecting sustainability indicators, companies should use metrics that are commonly accepted and referenced by leading international standards. This approach facilitates uniform measurement of progress and enables comparative analysis and benchmarking.

The GRI standards describe indicators that are common across all industries. GRI also has separate guidelines on "Sector Disclosures" for industry-specific sustainability indicators."[1]. The table on the next page is an example of a set of energy and climate indicators.

[1] At the time of going to press, GRI had only published industry guidelines that refer to the GRI-G4 guidelines, which are no longer valid. Even if these industry guidelines do not yet fit the new standards, they contain useful information. GRI has announced that it will adapt the industry guidelines to the GRI standards.

Companies should consider the following when developing a sustainability indicator system:

- Alignment with topics identified as relevant in their materiality analysis
- Scope of individual indicators
- Quality and accuracy of data that is available to calculate the indicator
- Adequacy of IT systems to collect and aggregate data for the indicators

A step-by-step approach is recommended that considers the above. When companies initially start to report sustainability indicators, they often use a smaller set of indicators, ideally those related to their most important impacts.

Energy and climate indicators in company X operations (example)

	Baseline 2002	2018	2019
Greenhouse gas emissions, scope 1 and scope 2 according to the GHG Protocol Standard (million metric tons of CO_2 equivalents)	24,713	19,976	20,716
Specific greenhouse gas emissions (metric tons of CO_2 equivalents per ton of sales product)	0.897	0.564	0.579
Primary energy demand (million MWh)	55,759	57,423	57,268
Energy efficiency (kilograms of sales product per MWh)	494	617	625

Risk Management for ESG

The letters E, S, and G stand for Environmental, Social and Governance. This choice of words is from the financial world, the content, however, is about sustainability. Many companies are introducing sustainability management because they want to reduce their risks in this area.

Ideally, the essential environmental and social risks are already identified in the materiality analysis (see page 12). If there are not yet sufficient precautions in place to reduce ESG risks, appropriate projects that lead to new processes must be initiated.

The sustainability officer is also responsible to monitor the development of emerging environmental and social issues. If an emerging risk is identified the company should determine if it is affected and if yes, the adequacy of precautions have been taken should be determined.

In both cases sustainability management works as risk management for ESG risks.

Risk Management for ESG should not be confused with conventional risk management. Conventional risk management generally focuses on short term financial risks. However, sustainability-related risks are often of a long-term nature or the risk of direct substantial financial impacts is low. Thus, they do not meet the criteria of financial risk management.

Grievance Mechanisms

Companies are expected to have established complaint mechanisms for relevant topics. Classic examples are anti-corruption and anti-discrimination, in which whistleblowers can report grievances anonymously and in a protected way.

Complaint mechanisms can also be useful for consumers and for neighbors of factories, mines or large construction sites. Ultimately, it is always a question of ensuring that both real problems and misunderstandings are identified and clarified at an early stage.

Training

Training is required or recommended by over two thirds of the frameworks evaluated. In contrast, only one third of the sustainability managers surveyed rated training as very important. This doesn't mean they find trainings unnecessary, but, in their view, other aspects are of greater concern for a successful sustainability management.
Certainly, the question arises whether the corporate training program should be adapted, although not right at the beginning of the implementation of the sustainability management system. Once the system is up and running it is recommended that the sustainability manager work with HR and cross-functional departments to update existing training courses where appropriate.

Further information

- GRI Standards (For sustainability indicators). ➔ www.globalreporting.org
- OECD (2018): OECD Due Diligence Guidance for Responsible Business Conduct. Chapter 6.2: When appropriate, provide for or cooperate with legitimate remediation mechanisms.
- Loew & Werner at al. (2019): Real Life Examples for Management Elements of Sustainability Management ➔ www.4sustainability.de, www.wec.org

9 I Communication

Communication	• Leadership and commitment • Internal communication • Stakeholder dialogue • Stakeholder engagement • Sustainability reporting

Leadership and Commitment

Leadership and commitment of the top management is one of the most important success factors for sustainability management. This was strongly confirmed by our expert survey. Of course, it is no surprise that internal projects run better when they receive support and buy-in from top-management.

In sustainability management, support from senior executives is particularly important, because sustainability issues are often regarded as secondary if middle and senior managers have not been required, recognized or rewarded for engagement. When it comes to environmental and social issues and change, there is often resistance. This requires not only diplomatic tact on the part of the sustainability manager, but also an undisputed commitment on the part of top management.

Internal Communication

Once the introduction of sustainability management has begun, this should be communicated on an organization-wide basis. It is important for employees to understand where their employer stands on sustainability. Regular ongoing communication about progress against commitments made (goals and targets) increases employee awareness and active engagement, may avoid grievances, helps to ensure alignment, and enables the organization to stay focused on improvement.

Stakeholder Dialogue and Stakeholder Engagement

Stakeholder dialogue and stakeholder engagement are often confused. Stakeholder dialogue refers to all possible forms of exchange with external parties on sustainability issues. This includes, for example, talks with NGOs, politicians or neighbors, participation in conferences on sustainability issues and interviews with journalists, scientists and students. The purpose of these dialogues is to understand each other better and to get to know new developments at an early stage.

Stakeholder engagement, on the other hand, is the systematic involvement of stakeholders in order to form a well-founded opinion on a specific issue. For example, when it comes to the planning of a major project, it is conceivable that a company might not only inform the public, but also discuss solutions with affected parties to avoid or reduce disadvantages.

Stakeholder engagement does not mean that certain decisions are delegated to stakeholder committees. The decision remains the responsibility of the company; stakeholder engagement is intended to improve the information base and, if necessary, to find new ideas and possible solutions.

Some larger companies set up sustainability advisory boards with experts who discuss the sustainability strategy or individual central sustainability challenges of the company with the Executive Board on a case-by-case basis.

Sustainability Reporting

The majority of large international companies prepare a sustainability report and provide relevant information on their websites. Medium-sized companies are producing sustainability reports, although the proportion of reporters is lower in those companies. Sustainability reporting is on the increase due to increasing stakeholder expectations, customer expectations and peer activity.

For some companies, the first sustainability report is the impetus for setting up a sustainability management system. When preparing the report, it is necessary to clarify which environmental and social issues are essential for one's own business activities, and in a second step write down how to proceed, as a means to reduce negative impacts or even avoid them altogether. However, this learning process only takes place if the aim is to produce a good and meaningful sustainability report.

Most experts agree that a good sustainability report should be prepared using the GRI standards. These standards are internationally recognised and have been in use for 20 years. The GRI standards have been regularly improved with the involvement of stakeholders over that period. The GRI standards are extensive and may appear complex to a new user. It should be noted that it is not necessary to report on all the topics mentioned in the standards, but only on those that are important for the company (see determining the relevant aspects on page 12).

It is important for credibility that the sustainability report is objective and authentic. This also means that problems are addressed openly, especially those problems that many people are aware of. It is also important that sustainability reports not only reflect a past period but also take up strategies for key challenges facing the company in the future.

Although many companies want to address customers, neighbours, civil society and government officials, among others, with their sustainability reports, they also use the report to show their commitment and progress to employees.

The frequency and extent of reporting depends on the size of the company. Large companies are expected to report annually. For smaller companies, it may also be a good idea to prepare a new report only every second year and in-between publish either a short interim report on their website or just provide an update of the performance indicators.

Especially when the first sustainability report is prepared, the learning curve is high. Because the requirements of the GRI standards act like a checklist and when deciding upon what to report, the parties involved may for the first time take a sustainability perspective. The benefit is therefore not only in the finished report but also very much in the preparation process.

Further information

- GRI Standards for Sustainability Reporting ➔ www.globalreporting.org
- Loew & Werner at al. (2019): Real Life Examples for Management Elements of Sustainability Management ➔ www.4sustainability.de, www.wec.org

10 I Verification

When companies set out to become more sustainable, i.e. set up a management system and prepare a sustainability report, the question often arises as to whether the report or the management system should be verified. Verification has undisputed advantages. It provides the company itself with more confidence and the audits are often associated with useful learning processes. However, it must be considered that verification also causes corresponding cost and that verification alone does not assure credibility among many stakeholders. A company must earn credibility through its actions, through dialogue and by dealing openly with problems.

This is neither a plea against nor in favor of verification. It depends - as so often - on the situation and the goals. For large companies with a mature sustainability management verification is increasingly expected. Verification might be applied on the sustainability report and/or its data, on a carbon footprint or on parts of the management system.

If verification of the management system is considered, it must be taken into account that there is no internationally recognized standard for auditing a sustainability management system. There are only internationally recognized ISO standards for management systems regarding the environment, occupational safety, hygiene or other aspects that can be used for an external audit.

While there may be some national or regional standards on sustainability management that are available for verification, they are not widely recognized internationally. They may give reputation and confidence in the country or region where the company has its business location, though.

Standards intended for verification

- ISO 14001 Environmental management systems - requirements with guidance for use
- ISO 45001 Occupational health and safety management systems - requirements with guidance for use
- ISO 22000 Food safety management systems - requirements for any organization in the food chain
- SGE 21. Sistema de Gestión Ética y Socialmente Responsable www.foretica.org/sge21/

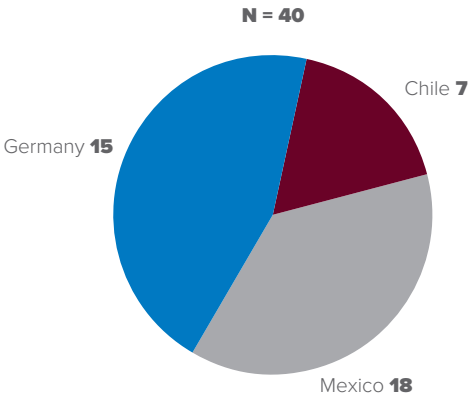
11 I Selected Empirical Results

Basis for the Research

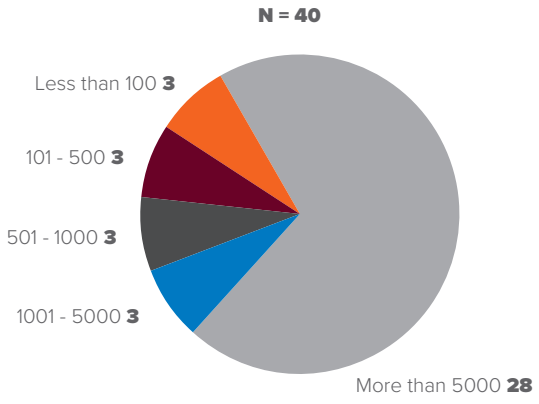
The information provided in this guidance is based on research carried out in 2018. Part of this research was an analysis of 7 mainly international frameworks which contain requirements for sustainability management (see page 4). In order to include expert knowledge from practitioners, sustainability managers from Mexican, Chilean and German companies were asked to participate in a survey and to assess the importance of each of the management elements required by the frameworks.

Most of the professionals who participated in the survey work in large companies, often in multinational corporations.

Origin of the respondents

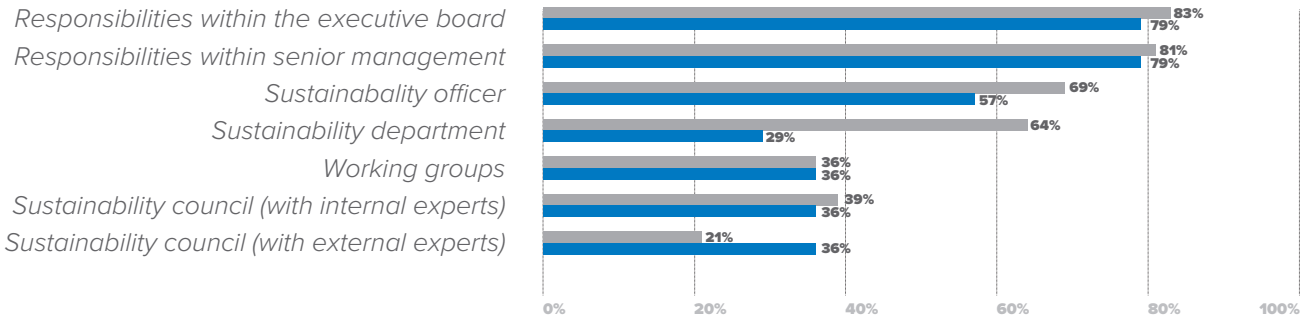


Size of the companies where respondents work



Organizational Structure

With regards to the design of corporate organizational structure, there are few differences between the assessment of practitioners from companies and the frameworks examined. Both analyses confirm that the responsibilities for sustainability must be defined with the executive board and senior management. Furthermore, there should be at least one sustainability officer who is operationally responsible for sustainability management. The majority of the experienced[2] experts in the survey also consider a sustainability department to be very important, and about 40% find much value in working groups. This can be attributed to the fact that 70% of the responses included are from companies with more than 5,000 employees.



■ *Managers which state this component is very important (n=36)* ■ *Frameworks requiring this component (n=14)*

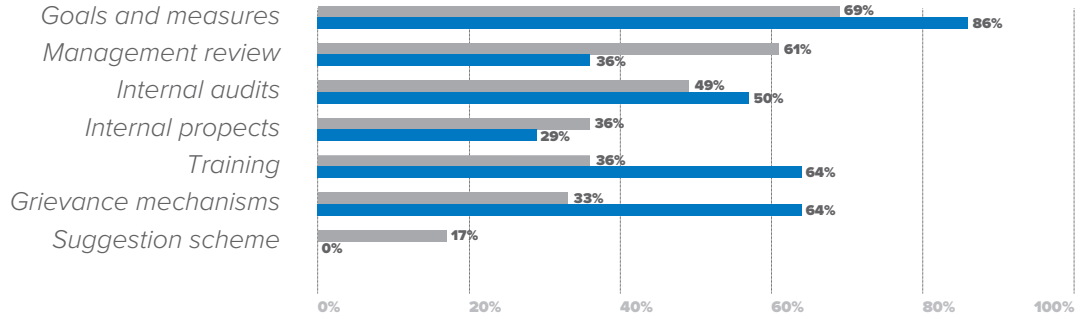
Management Processes

Not all frameworks require procedures to ensure compliance. This is likely due to the different objectives of the frameworks, in addition to our assumption that compliance was taken for granted by the authors. However, for 2/3 of the sustainability officers, procedures to ensure compliance are essential, due to the fact that compliance with laws is undisputedly part of the values of sustainability and the disadvantages of non-compliance are far too great. Former surveys on environmental management systems have shown that many companies have introduced ISO 14001 and EMAS[3] in order to achieve greater legal certainty. Another aspect that is noted very important to the majority of company experts is information management, an issue not commonly addressed by international frameworks. Another evidence that both the frameworks and the practitioner's expertise must be considered for successful sustainability management.

Continuous Improvement

Both the survey and our desktop analysis found that the most important management tool to promote improvements are goals and related measures.

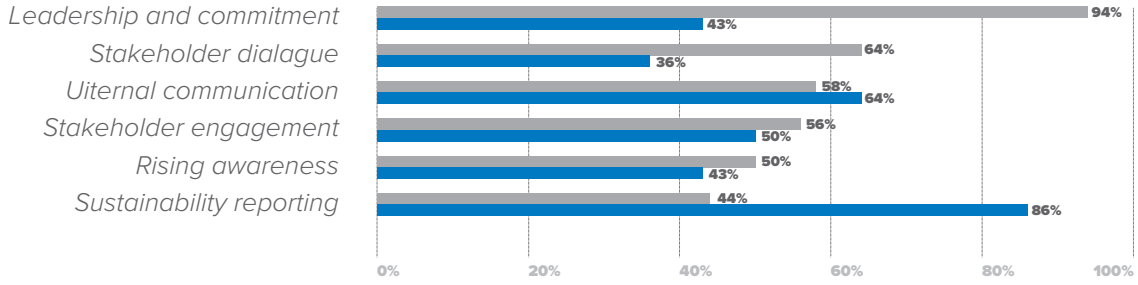
Furthermore, approximately half of the sustainability managers rated management reviews and internal audits as very important. These internal self-controls contribute to anchoring the management system. Internal projects, training and complaint mechanisms are less often seen as very important. Especially regarding training and regarding grievance mechanisms there is a considerable discrepancy between the analysis of the frameworks and the opinion of the practioners.



■ *Managers which state this component is very important (n=36)* ■ *Frameworks requiring this component (n=14)*

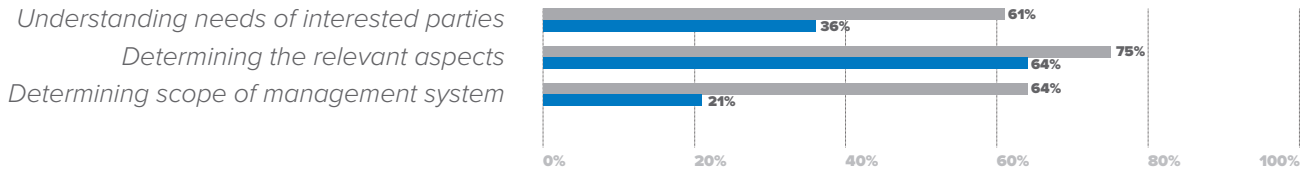
Communication

Regarding communication and reporting the opinions of the experts and the results of the analysis of the frameworks are diametrically opposed in two respects: While most of the frameworks require sustainability reporting, less than half of the sustainability managers consider reporting to be very important. And, while only 43% of the frameworks address the importance of leadership and commitment from the top management – nearly all of the sustainability managers surveyed find it most important. Additionally, 86% of the frameworks consider sustainability reporting very important, in contrast to the majority of sustainability managers. We assume this is due to the majority of experienced companies in the survey. When the first sustainability reports are written, the information gathering and internal discussions help spur internal learning processes. Over the years, however, these processes provide diminishing returns on lessons learned, so the benefits for the management system decrease.



Preparatory Tasks

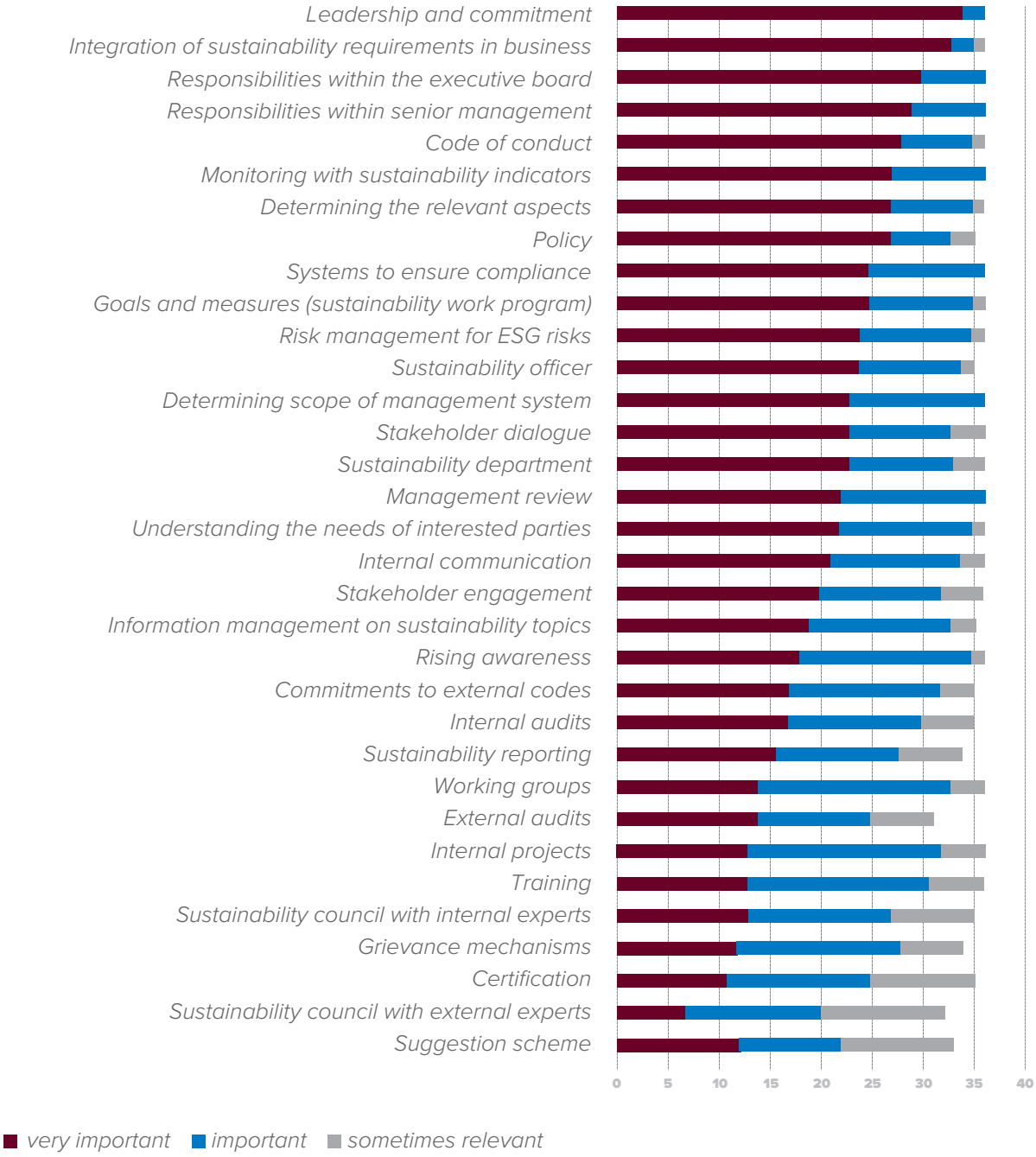
While frameworks emphasize that companies need to determine which aspects are relevant to them, related issues such as understanding the needs of interested parties and the scope of the management system are not mentioned in many of them. In contrast, company experts find all these aspects almost equally important, thus providing some extra information on important preparatory tasks.



[2] Of the 40 experts who took part in the survey, 36 work in companies which have an environmental or sustainability management system implemented. Only their responses were taken into account here.

[3] EMAS stands for the European Eco-Management and Audit Scheme. It is worldwide applicable. Today the management system required is nearly identical to ISO 14001. For achieving certification EMAS requires public reporting and legal compliance. In contrast to ISO 14001, the EMAS certification system is managed in partnership between industry and the public sector. Among other things, there are national registers providing for details of certified companies and their reports (e.g. for Germany www.EMAS-Register.de with English information).

Importance of the management system elements from the perspective of the experts



Publications

This guidance is one of several publications prepared during the project “Advancing Sustainability Management in Latin American Companies” supported by the German Ministry for the Environment, Nature Conservation and Nuclear Safety.

Overview of the publications prepared:

Study	**A Sustainability Management System that meets all Standards** The scientific study documents the scientific work including the empirical results. It is targeting academics in particular. It is also addressed at organizations seeking to create or improve frameworks and at sustainability managers who want to see the results of the expert survey.
Practical guide (this publication)	**Practical Guide for Companies Developing a Sustainability Management System** A practical guide summarizing the business-relevant results. It is designed according to the needs of companies. There is a Spanish and an English edition real-life examples.
Real-life examples	**Real-life Examples for Management Elements of Sustainability Management** A collection of real-life examples from leading Chilean, Mexican and German companies. This collection illustrates how the essential management elements are designed in practice. The Latin American examples are described in Spanish, the German examples are in English language.
Relevant frameworks	**Frameworks for Sustainability Management briefly described** Brief descriptions of relevant frameworks and guidelines for sustainability management and reporting.

The publications are available on the websites www.wec.org and www.4sustainability.de.

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