



# ► Sustainability— A Key Factor for Success

Why sustainability is becoming an imperative for all

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# INSIGHTS

## //01

Sustainability will be the indicator for future economic success

## //02

Credibility only arises from anchoring sustainable action in the company's vision, reflected in objectives, and if the results are convincing

## //03

Integrating economic success and growth with environmentally conscious action and social responsibility is an indispensable competitive factor

## //04

Becoming sustainable is a transformation along six milestones

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# Transforming into a sustainable company

## Why business needs to change

The Covid-19 pandemic has clearly shown that sustainability in the form of stable value chains and social responsibility is a decisive corporate success factor. Sustainable action influences a company's reputation and has a positive effect on the company value. Social responsibility, environmental and climate protection must be reconciled with economic success in order to master the challenges of our time.

"Sustainability"—almost everyone talks about it today. The term has established itself over the years and has almost become overused by now. This is due in part to the enormous focus on climate and environmental protection in the media. Although climate protection is often equated with sustainability, it is only one of sustainability's three dimensions. Companies that adopt a sustainable approach combine environmental, social, and economic actions into a single whole. Many players in the business world currently feel caught between conflicting moral and performance-based priorities. Dealing with this apparent conflict requires a paradigm shift and a comprehensive transformation—away from purely linear business management with its primary aims of boosting profit and growth, and toward integrating responsible action vis-à-vis both the environment and society with economic success.

### Sustainability as a global challenge

In a globalized economy with worldwide supply chains, it is an enormous challenge just to attempt to achieve seamless transparency about ensuring fair and environmentally compatible conditions. It requires the combined efforts of everyone involved from a number of different industries. New technologies like blockchain systems, big data analytics, and artificial intelligence can help. And anyone can be a driver of the necessary change—customers with their purchasing behavior, manufacturers as well as raw material suppliers, financial investors, trade associations, and states.

In the future, the traditional focus on economic optimization and growth will no longer be sufficient to be competitive and successful. Environmental and social aspects must be given equal consideration—this is what more and more interest groups are demanding, from customers and employees to financial investors and society. In conjunction with global changes in the areas of technology (e.g., digitalization, e-mobility), society (e.g., urbanization) and the economy (e.g., trade wars, tightening of financing criteria), the factor of sustainability increases in complexity. In order to achieve the triad of environmental concerns, social responsibility, and economic efficiency in the company, its products and services, a holistic transformation is required—beyond company boundaries as well.

### Sustainability as a paradigm shift

A clear positioning and commitment to holistic sustainability must be anchored at all strategic and operational levels of a company. This also applies to products and corporate culture. It is important that all three dimensions of sustainability are given equal consideration.

Climate protection, for example through the reduction of CO<sub>2</sub> emissions, is a current topic and a potential starting point for change. However, climate protection initially aims only at the environmental dimension, not at social or economic aspects. This includes initiatives that affect the reduction of resource consumption, ensure compli-

ance with human rights, or guarantee fair working conditions in the supply chain. By promoting diversity and by offering educational and training opportunities for people from disadvantaged backgrounds, a company can also

become involved as a “partner for society.” For a long time, many of these issues were more in the background of entrepreneurial activities. This is currently changing, leading to a paradigm shift:

## Paradigm Shift



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Fig. 1 Paradigm shift in corporate culture and employees

To transform into a sustainable company, it is not enough to take individual measures. Nor is the aim achieved simply by compiling a sustainability report. Rather, it is about real, visible results and credibility. Companies must demonstrate the impact of their sustainability measures to all stakeholders—from customers, employees, or investors to society—in a transparent and comprehensible manner. Special features come into play: financial investors, for example, also see responsible corporate management as an important indicator of a good sustainability organization and governance structure.

One example of a company that has successfully put a sustainability strategy into practice is VAUDE, the producer of outdoor gear and clothing. Each of its production sites worldwide is closely inspected and independently audited according to social and environmental criteria. The com-

pany's own Green Shape Label identifies environmentally friendly products made of sustainable materials in compliance with fair manufacturing conditions. All the company's processes and its entire organization are aligned toward this aim, and its personnel trained accordingly. Its goal is to have climate-neutral production worldwide<sup>1</sup>.

### Sustainability in six milestones

The recipe for success on the way to a sustainable company is a clearly structured approach. In addition to defining a general position and specifying a vision for the future, this means developing a sustainability strategy, putting it into practice in all areas of the company, and producing measurable results. Key factors for success include establishing an effective leadership process and instilling enthusiasm in leaders and employees alike for a continuous process of change and becoming more sustainable every day.

### Sustainability – differentiation from the competition

With an effective, credible sustainability strategy and demonstrable results, companies are already securing their future viability and generating an unassailable competitive edge. They establish themselves as first movers and score points with sustainable exclusive products and business models in customer perception, employee recruitment and retention, but also in capital procurement and market valuation. This is demonstrated above all by companies that have already recognized the need for a rethink and

are successfully driving the transformation toward greater sustainability as pioneers. They generate increasing sales with sustainable products (e.g. in the consumer goods industry), create new industry standards (e.g. supplier evaluation in the automotive industry), and establish alternative business models by combining environmental goals with social aspects and the pursuit of profitability (e.g. use of ocean plastics in the sporting goods industry). They send important signals to their customers, employees and society, and prove earlier than their competitors that rethinking is necessary and possible.

<sup>1</sup> von Dewitz, VAUDE's sustainable approach: A question of culture, strategy and determination

# The road to sustainability

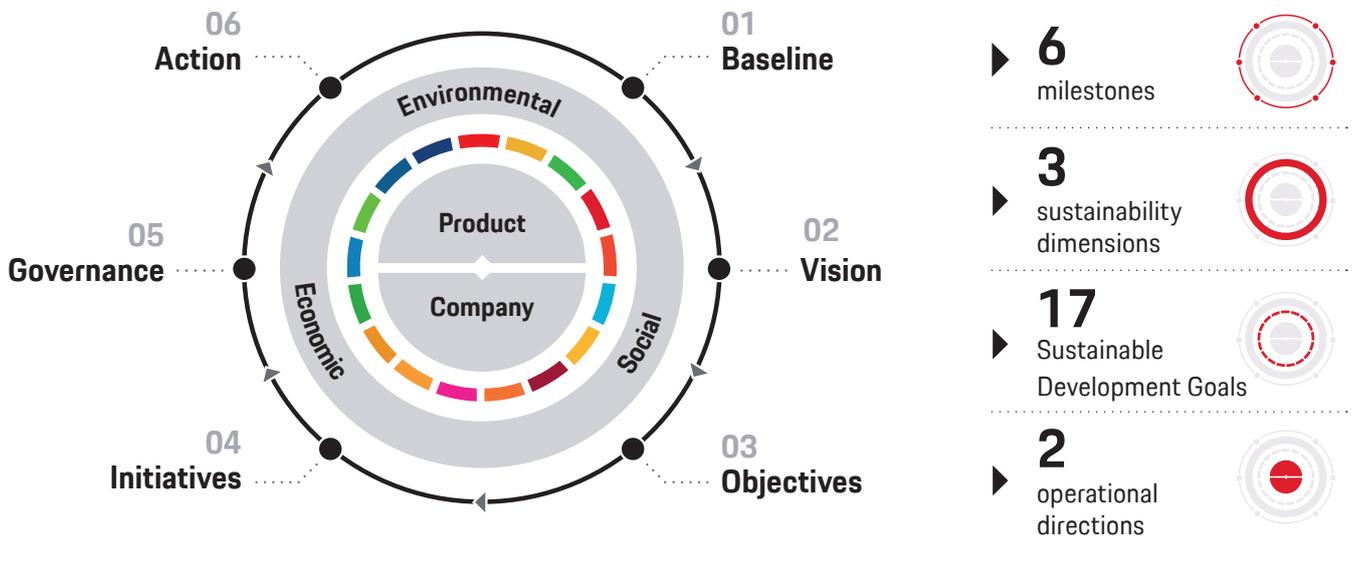
## Designing companies, values, and products for a better future

A successful sustainability strategy is based on the integration of structures, processes, and culture. Three key elements set the stage for companies to undergo successful transformation to sustainability:

- ▶ **6 Milestones**
- ▶ **3 sustainability dimensions**
- ▶ **17 Sustainable Development Goals (SDG)**
- ▶ **2 operational directions**

This process is structured by six milestones. The starting point is (1) a determination of position and the definition of the strategic framework with the (2) corporate vision. This

is put into concrete terms by deriving (3) objectives and (4) the associated initiatives and measures (e.g., reducing CO<sub>2</sub> emissions by 45 percent at all plants by 2035, achieving 20 percent product recyclability, increasing biodiversity in a factory by 70 percent by 2025). Establishing (5) suitable structures and framework conditions at the company and designing a company-wide control and management process enable the initiatives to be put into practice and the transformation to proceed on a continuous basis. Ultimately, (6) establishing a sustainability culture is an essential factor for success, in combination with comprehensive change management, intensive employee engagement, and a new culture of leadership WEadership\*.



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**Fig. 2** Transformational approach to corporate sustainability along the three dimensions of sustainability based on the United Nations' 17 Sustainable Development Goals (SDGs)

\*WEadership refers to the close involvement of employees by managers in sustainability activities—instead of setting top-down guidelines, the management process refers more to social aspects in order to be able to use employee motivation and commitment in a goal-oriented manner. Acceptance, willingness to change and co-determination rights are important drivers in sustainability transformation.

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# 01 Baseline

## Where is my company today in terms of sustainability?

Determining the baseline is essential for shaping the transformation to a sustainable company. It provides information on where a company is positioned in comparison to its competitors and where it needs to develop.

### Baseline—Starting the transformation

Three steps go into analyzing the baseline. The most important goal is to ensure a systematic and comprehensive consideration of all market participants and regulatory factors.

#### 1.1 | Internal company analysis

#### 1.2 | Competitor and environment analysis

#### 1.3 | Defining a position

#### 1.1 | Internal company analysis

The first step is to evaluate the current situation and the orientation of the company. This is an important prerequisite for the second step of comparing the company with other market players and identifying fields of action with regard to the sustainability strategy or goals. Answering the following questions helps in the company analysis: Is sustainability considered in the vision? Is there a sustainability strategy? What sustainability goals does the company pursue? Are there explicit sustainability initiatives? What percentage of sales is achieved with sustainable products today? What is the budget for investing in sustainability? Has the company been awarded or has its products already been awarded for sustainability? How is sustainability embedded in the organization, processes and management principles?

#### 1.2 | Competitor and environment analysis

The competitor and environment analysis complements the internal company analysis by considering exogenous factors that influence the company. Questions here could include:

What regulatory requirements will be relevant over the coming years (e.g., the EU's Circular Economy Action Plan)? What requirements come from investors (e.g., ESG ratings), customers (e.g., climate-neutral products), and employees (e.g., fair working conditions, diversity)? What positions are competitors taking? What conditions are in place for acquiring capital or funding?

In addition, a systematic analysis of competitors and other market players will also give an indication of how the industry will develop and what the other companies' objectives are for the future. It is also worth taking a look at other industries to get a holistic picture of global trends and developments. There are several ways of analyzing competitors. Here is a selection thereof:

#### ▶ Environmental and sustainability reports

A specific look at the goals and activities of competitors and other market players

#### ▶ Reporting standards and indicators

Standardized—in other words, comparable—sector-specific and overarching indicators from the Global Reporting Initiative (GRI standards) or the ESG framework

#### ▶ Company ratings and rankings

Regular evaluations of companies in different sectors performed by institutes, e.g., based on ESG indicators

#### ▶ Topic-specific certifications

Certifications as e.g., a CO<sub>2</sub>-neutral company, or evaluations of climate strategies through the SBTi (Science-Based Target initiative)

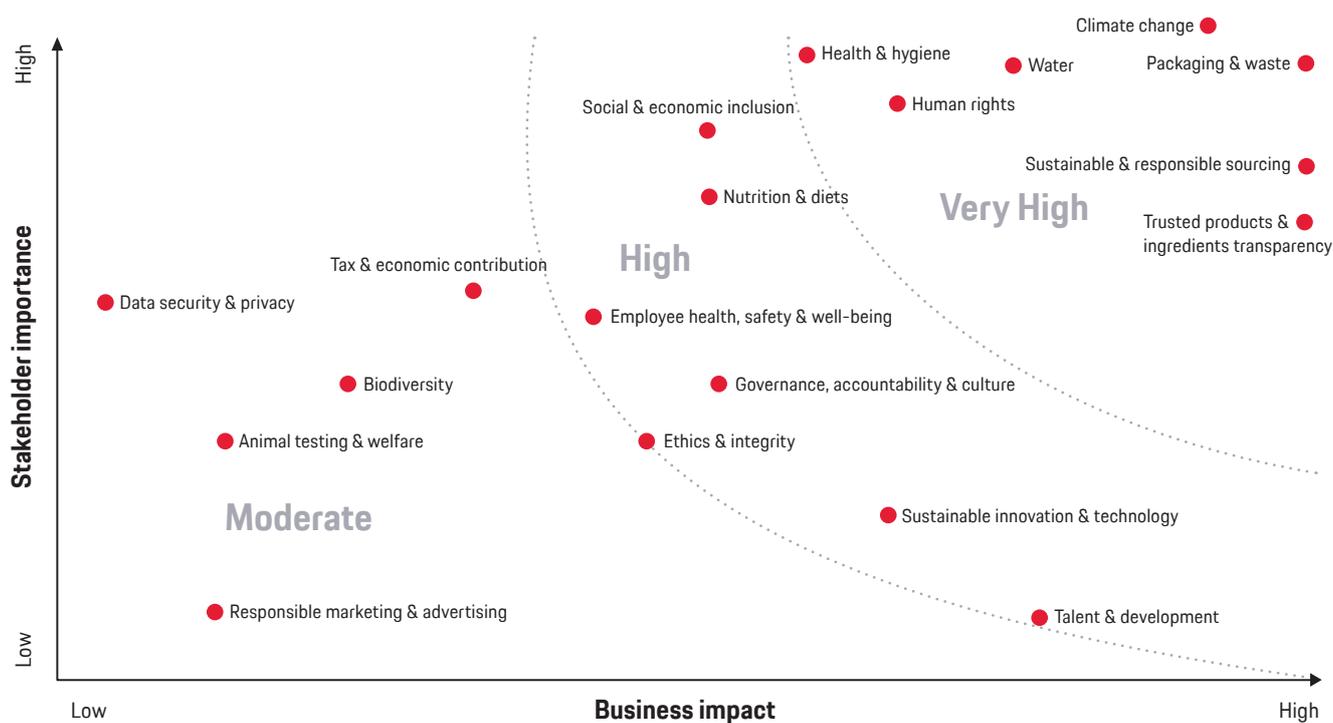
### 1.3 | Defining a position

The baseline analysis is completed by comparing the company's own situation with the results of the competitor and environment analysis. The aim is to identify gaps and weaknesses in the company's strategy, and then derive concrete needs for action.

In a materiality analysis, both the internal view and the expectations of the various interest groups are brought into relation with each other. The materiality analysis is thus an important input for the derivation and prioritization of goals, measures and key figures.

In addition, a materiality analysis will show the relationship between internal views and the expectations of different external interest groups. This analysis generates transparency, identifies the priorities of different interest groups, and shows in two-dimensional form which sustainability topics are priorities for the company; to what degree they match the expectations of interest groups; and where conflicting interests might arise.

In addition to surveying interest groups, an independent and interdisciplinary sustainability council or sustainability advisory board can help to critically examine strategic decisions and support the company in an advisory capacity.



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Fig. 3 Materiality analysis using Unilever as an example | Source: Unilever<sup>2</sup>

### Conclusion

Defining the baseline is a milestone in the transformation to becoming a sustainable company. A systematic analytical approach enables a complete picture of the company's current situation, identification of trends and developments, and derivation of requisite changes.

<sup>2</sup> <https://www.unilever.com/sustainable-living/our-approach-to-reporting/defining-our-material-issues/>

## 02 Vision

### What makes a good vision for the future?

The vision describes the long-term goal of a company and provides managers and employees with orientation in the transformation process towards a sustainable company as a central guiding principle.

#### The vision shows the way

A vision provides orientation in the change process and sets the direction in which the company should go. Especially when it comes to sustainability, it is important to give employees a goal and a purpose to strive for something better so that this can be linked to their work.

A vision that includes an ambitious and overarching sustainability goal has a motivating and inspiring effect on the workforce. It conveys the corporate values to the managers and generates a sense of "we're in this together." That in turn increases the sense of solidarity among employees. And that is not all: the vision also plays an important role vis-à-vis customers and other external interest groups. Studies show that many employees want their employers to assume more responsibility for the environment and social issues. Customers are also eager for their purchases to support environmental protection and human rights. As a result, they are turning increasingly to products from sustainable companies.

#### The importance of sustainability in company visions

If companies are to establish credibility in the eyes of employees, customers, and other interest groups, they need to make a clear commitment to sustainability. Its formulation is an essential component of their strategic orientation. In the process of transformation to a sustainable organization, it must be ensured that the central aspects of sustainability are considered.

It has been shown that companies with reputations for sustainability and top positions in the relevant rankings include their sustainability objectives in their corporate

visions. They demonstrate that economic success can be compatible with commitments to society and the environment.

Ørsted<sup>3</sup> is one example of a company with a clear vision. One of Europe's most CO<sub>2</sub>-intensive energy companies seeks to become the world's most sustainable company. "Our vision is a world that runs entirely on green energy. It is deeply rooted in what we do, and who we are as a company. We want to be a company that provides real, tangible solutions to one of the world's most difficult and urgent problems."

Caterpillar<sup>4</sup> has also prioritized sustainability. "Our vision is a world in which all people's basic needs—such as shelter, clean water, sanitation, food and reliable power—are fulfilled in an environmentally sustainable way and a company that improves the quality of the environment and the communities where we live and work."

The vision of EATON<sup>5</sup> as an energy management company is therefore based on an ESG framework, i.e., on environmental, social, and governance criteria, as well as on five SDGs and fifteen fields of action (e.g., climate, ethics, health, supply chains).

In short, when designing a credible sustainability vision, it is important that it matches the company, the purpose of its business, and its culture. In addition, it has to be achievable.

<sup>3</sup> <https://orsted.de/ueber-uns/visionen-werte/nachhaltigstes-unternehmen-2020>

<sup>4</sup> <https://www.caterpillar.com/en/company/sustainability.html>

<sup>5</sup> <https://www.eaton.com/us/en-us/company/about-us/vision-goals.html>

### Communication as key

Communication is an integral part of a corporate vision. Unambiguous communications ensure the transmission of core information and messages to target groups. They

take both internal and external interest groups into account. The way a vision is communicated reflects a company's commitment on how it desires to be judged in the future.

### Conclusion

A sustainability vision is an effective instrument on the road to becoming a sustainable company. With the right tone, it solicits agreement and support from all relevant interest groups.

## 03 Objectives

### How do I derive measurable goals in line with my corporate vision?

Sustainability goals are visible milestones in the transformation to a sustainable company. They must be selected in such a way that they can be achieved through one's own actions and with one's own business model – along the upstream and downstream stages of the value chain.

#### Sustainability as the highest corporate goal

When defining goals one should make sure they follow the SMART principle, i.e., they are specific, measurable, attractive, realistic, and timely. Strategic goals that fit a sustainability vision are more than a simple to-do list. They build on the baseline, and convey in concrete terms what should be accomplished in which period. In addition, they need to be achievable.

Achieving the defined sustainability goals has a direct effect on the company, leads to an increased company value and results in higher company ratings of investors.

Consuming fewer resources, reducing harmful emissions at production sites and in supply chains, and increasing efficiency (e.g., by using residual heat) are results that have positive effects on costs and profitability. Social actions, such as promoting education and training opportunities, can enhance quality and also increase both employee and customer loyalty.

When deriving corporate goals, a three-step process has proved effective:

**3.1 | Defining goals based on UN SDGs**

**3.2 | Specifying targets within UN SDGs**

**3.3 | Setting measurable target values**

### 3.1 | Defining goals based on UN SDGs

The United Nations' 17 Sustainable Development Goals (SDGs) can lay the foundation for selecting and defining company-specific sustainability goals. The SDGs cover all three pillars of sustainability and are defined with the help of concrete targets. It is important to determine which SDGs the company can contribute to, and then to select and prioritize them appropriately.

When defining goals, two perspectives should be considered and combined:

#### Inside-Out

In which dimensions and how can the company's business model or its business purpose and value creation process contribute to achieving goals?

#### Outside-In

Which goals from the perspective of external interest groups can influence the company as a whole or its business model? And help improve its sustainability performance?

#### Excursus: Sustainable Development Goals

The United Nations SDGs do not only consider environmental aspects: 17 overarching goals have been set in the area of social affairs to improve social inequality, overcome poverty and expand the infrastructure of health and education. In the economic sphere, they focus on growth and innovation, and in the environmental sphere on climate, water, and environmental protection (Fig. 4).



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Fig. 4 Sustainable Development Goals (SDG) | Source: United Nations

### 3.2 | Specifying targets within UN SDGs

For each of the 17 SDGs, the UN offers a concretization in the form of sub-goals and starting points. For example, goal no. 12 "Sustainable Consumption and Production" is de-

scribed with a total of 11 sub-goals and a target horizon by 2030—whereby responsibility is also demanded beyond the boundaries of the company itself.

#### //12.1

Implement the ten-year sustainable consumption and production framework

#### //12.2

Sustainable management and use of natural resources

#### //12.3

Halve global per capita food waste

#### //12.4

Responsible management of chemicals and waste

#### //12.5

Substantially reduce waste generation

#### //12.6

Encourage companies to adopt sustainable practices and sustainability reporting

#### //12.7

Promote sustainable public procurement practices

#### //12.8

Promote universal understanding of sustainable lifestyles

#### //12.A

Support developing countries' scientific and technological capacity for sustainable consumption and production

#### //12.B

Develop and implement tools to monitor sustainable tourism

#### //12.C

Remove market distortions that encourage wasteful consumption

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Source: <https://www.un.org/sustainabledevelopment/sustainable-consumption-production/>

### 3.3 | Determining concrete target values

After selecting suitable goals and sub-goals, a clear definition of the target state is required. This is where the systematic approach of goal definition according to the SMART principle comes into play again. Without precise formulations and timelines, it will not be possible to guide progress toward the respective targets.

Volkswagen, for example, has formulated the following goals to reduce CO<sub>2</sub> emissions:

// By 2020 the company wants to reduce emissions from its new passenger cars in Europe from 123g CO<sub>2</sub>/km in 2018 to 99g CO<sub>2</sub>/km.

// By 2025 its plants plan to reduce CO<sub>2</sub> emissions per car produced by 45 percent over the level in 2010.

// By 2030 the Volkswagen Group wants to reduce emissions from its new passenger cars in Europe to 74g CO<sub>2</sub>/km<sup>6</sup>.

#### Conclusion

The derivation of corporate goals is essential for operationalizing targets. It is important to formulate them in concrete terms not only on the general company level but also for individual functional levels. This is the only way to make sure they can be implemented.

<sup>6</sup> [https://www.volkswagenag.com/presence/nachhaltigkeit/documents/sustainability-report/2019/Nichtfinanzieller\\_Bericht\\_2019\\_d.pdf](https://www.volkswagenag.com/presence/nachhaltigkeit/documents/sustainability-report/2019/Nichtfinanzieller_Bericht_2019_d.pdf)

# 04 Initiatives

## How do I select effective and credible initiatives?

Selecting initiatives is a crucial factor for success in how companies and their performance are perceived in terms of sustainability. The initiatives must be prioritized to make the greatest possible contribution to achieving goals.

### Many effective initiatives

The agreed-upon goals can only be achieved through appropriate initiatives. It is important, among other things, that lighthouse projects of initiatives that can be implemented in the short term in particular increase employee motivation and generate a positive signal effect. This is an important prerequisite, especially when defining initiatives in the area of "sustainability," in order to achieve acceptance both within the company among employees and outside with customers.

Compiling a portfolio of sustainability initiatives is an ambitious task. It is not only a matter of identifying initiatives with a high impact potential, but also of checking which capacities, budgets, or additional resources (e.g., external partners for innovative solutions in the "circular economy") are required. Furthermore, initiatives can always be directly assigned to one or more overarching objectives and thus also reflect the underlying SDGs.

The division into individual measures and the definition of deadlines and milestones make it possible to structure and control the initiatives. A clear road map defines the tasks and the necessary capacities and enables targeted planning of activities and their adjustment, for example in case of deviations. This ultimately serves the company as a control instrument and generates orientation.

### Challenges in defining initiatives

Many companies still base their selection of initiatives largely on goals such as reducing CO<sub>2</sub> emissions or protecting the environment. However, it is advisable to consider not only environmental issues, but also other possible approaches such as social commitment or the development of new sustainable business models. Here, an attractive, feasible and effective portfolio of sustainability measures is available. Ideally, initiatives at the company level should span all three dimensions, while initiatives at the product level should be more oriented towards the value chain (see example below in Fig. 5).

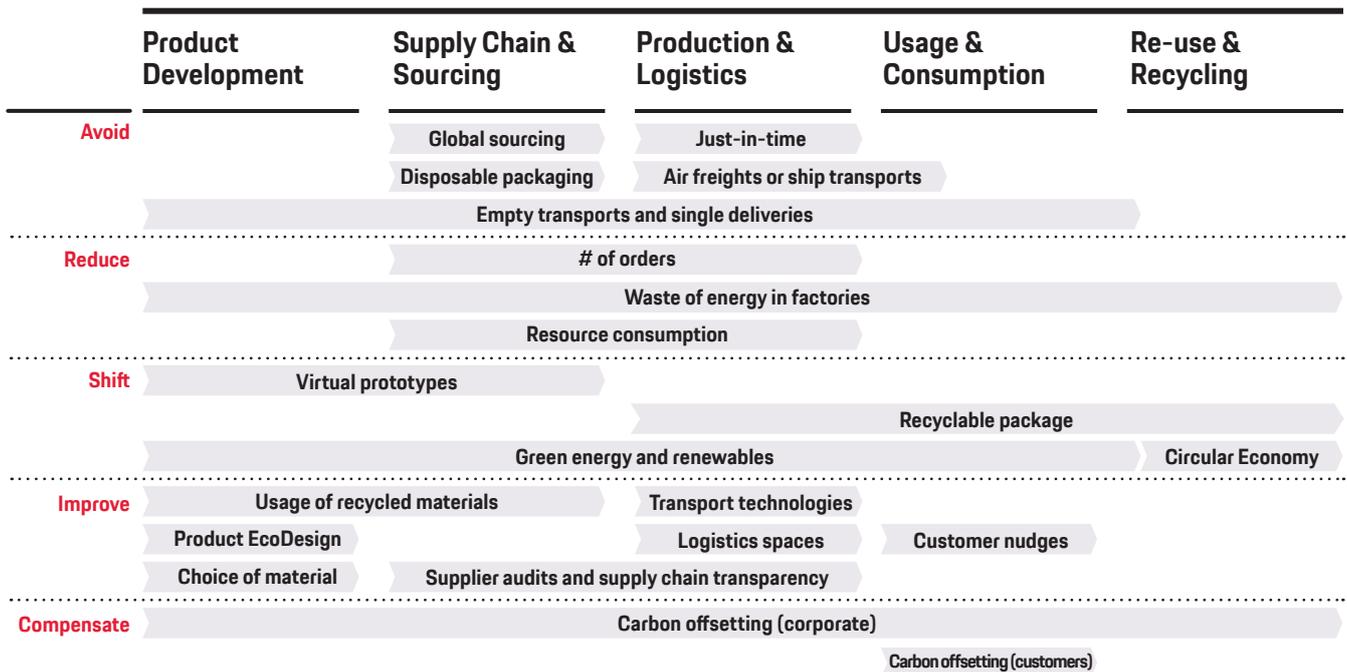
## Company

Environmental	Social	Economic
<ul style="list-style-type: none"><li>▶ Commitment in the area of "Environment &amp; Climate" (e.g., increasing biodiversity, use of photovoltaic systems on roofs)</li><li>▶ Reduction of materials and waste as well as efficient use of water and fresh water treatment</li></ul>	<ul style="list-style-type: none"><li>▶ Promotion of women in management positions</li><li>▶ Increase of internationality and international experience</li><li>▶ CSR sponsorship for "Sport &amp; Culture"</li><li>▶ Voluntary work for employees in other companies</li></ul>	<ul style="list-style-type: none"><li>▶ ESG Rating &amp; Audits</li><li>▶ Compliance Training</li><li>▶ Transparent reporting standards (e.g., in accordance with the GRI)</li><li>▶ Competitive and fair compensation</li></ul>

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Fig. 5 Portfolio of sustainability measures at company and product level

# Product



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Fig. 6 Portfolio of sustainability measures at company and product level

## Example of defining measures for the “Reducing CO<sub>2</sub> emissions” initiative

Taking the “Reducing CO<sub>2</sub> emissions” initiative as an example, measures can be effectively derived and assigned based on CO<sub>2</sub> hot spots in the supply chain, product life-cycle assessments, and/or scope 1-3 emissions sources. Existing frameworks such as “avoid—reduce—compensate” also help guide the process of prioritizing the right measures. This triad can be supplemented by a fourth and fifth focus: “shift” and “improve.” The “shift” focus applies to e.g., moving from physical to virtual prototypes. The “improve” focus tends to indicate more efficient use of resources or materials, greater

use of logistics capacities, and/or efforts to optimize sustainability ratings for the company’s top suppliers.

But one thing is clear: these measures focus selectively on the goal of avoiding, reducing, compensating, or shifting CO<sub>2</sub> emissions. It is therefore also important to ensure full transparency in the supply chain, to establish clear environmental and social standards, and to work with early warning systems that alert companies to risks in certain countries or regions. The overarching corporate strategy and vision are also relevant here, containing sustainability focuses already defined precisely for this purpose.

### Conclusion

A comprehensive, feasible, and effective portfolio of sustainability measures covers both company and product levels, and not only addresses environmental goals but also integrates social commitment and corporate responsibility in equal measure with economic success and growth. Clear and measurable targets, timeline and dedicated resources are further prerequisites for the successful implementation.

## 05 Governance

### What foundations should be laid for a successful transformation?

Existing management structures and instruments of control are often not suitable for effecting a successful paradigm shift. Adjustments are often needed to lay the foundations for making sustainable action a matter of course.

#### Focus on sustainability management

All the activities revolve around connecting the sustainability strategy with its implementation in practice. This is the decisive interface for whether the commitment to sustainable action remains mere lip service or whether a company can boost its credibility with effective results.

**If we do it right, sustainability is not a cost factor but an investment in making our company viable for the future.**

Ralf Pfitzner,  
Head of Sustainability of the Volkswagen Group<sup>7</sup>

To anchor sustainability, companies need to focus on the control processes and required structures. Well-structured sustainability management that extends vertically, horizontally, and cross-functionally throughout the entire organization plays the major role. Prerequisites here include a solid organizational structure with clearly defined areas of expertise and responsibilities (on company and functional levels), targeted processes, decisional criteria based on sustainability considerations, reporting systems and intensive dialogue with interest groups and sustainability advisory bodies.

Sustainability management has four essential dimensions:

- 5.1 | Commit**
- 5.2 | Guide**
- 5.3 | Measure**
- 5.4 | Communicate**

What are the most important prerequisites for putting a sustainability strategy into operation? Goals and initiatives (commit) must be instituted, and binding norms and directives for controlling the organization need to be stipulated.

In addition, a clear and comprehensible road map (guide) needs to be developed. An independent advisory body such as a sustainability council can support these efforts and provide fresh input. It also helps a company to act more credibly towards stakeholders of all kinds. For the operational implementation and control of all activities, road maps, dedicated indicators (measure), and clear rules are needed in the event of deviations.

Solid internal and external communications for all interest groups (communicate) are charged with reporting in transparent form on progress, obstacles, and results in order to build trust.

<sup>7</sup> Source: <https://www.volkswagenag.com/de/news/stories/2018/06/our-customers-expect-sustainability.html>

## 5.1 | Full support:

### All employees stand behind the goals (Commit)

Motivation and commitment arise when employees are closely involved in defining goals, deriving initiatives, and putting them into practice. The right selection of goals is important here, including how they fit in with the sustainability vision and how this vision is understood. Company executives and leadership personnel need to endorse these goals, clearly commit to them, and ideally also have their performance measured in relation to them. They lead by example in the process of transformation. Employee involvement and the purpose of company activities also need to be connected in credible ways with the anticipated results. Instead of pushing through changes on a top-down basis, the leadership process should reference social concerns to encourage employees to actively help put the sustainability strategy into practice. Acceptance, the desire for change, and the opportunity to help shape the process can all drive the transformation toward sustainability.

## 5.2 | Guidelines and road maps:

### Structuring the implementation process (Guide)

Binding directives and a comprehensive code of conduct form a framework for action and define the responsibilities and degrees of freedom for managers and employees. This enables everyone to know how they should adapt their behavior and actions to the principles of sustainability, and actively participate in putting them into practice. It also helps prevent counterproductive behavior. For example, clear compliance rules should be binding for all the company's employees. They cover data protection, environmental management systems, competition regulations, and anti-corruption measures, as well as matters such as human rights and occupational safety.

## 5.3 | Indicators and reports:

### Sustainability is measurable (Measure)

Not every aspect of sustainability can be expressed in financial figures. But sustainability is measurable and the progress can be visualized and communicated. In Europe, companies and financial institutions in the capital market

have been required to produce sustainability reports based on CSR (corporate social responsibility) guidelines since 2017. The aim is to increase transparency with respect to environmental and social issues. The reports should provide information about environmental, social, and labor concerns, about upholding human rights, and about combating corruption and extortion. The directive was sharpened in 2019 with respect to climate and environmental issues.

In addition to these mandatory reports, there are other systems of indicators and measurement criteria. They include the ESG framework with hundreds of criteria (some of which are industry-specific), the Global Reporting Initiative (GRI), which aims for transparent, standardized, and comparable reporting, and Science-Based Target initiatives (SBTi), which measures progress in protecting the climate and reducing CO<sub>2</sub> emissions. Company-specific internal indicators for guiding relevant activities, which reflect individual requirements and progress, are also an option.

For example, Dr. Ing. h.c. F. Porsche AG developed its own sustainability index<sup>8</sup>, which applies specific criteria to measure and control its sustainability performance. Nine indicators are grouped into three focal areas, which cover all three sustainability pillars:

- ▶ **Innovative Mobility** (innovative power, financial performance, value for customer)
- ▶ **Reliable Partner** (transparent supply chain, attractive employer, social commitment)
- ▶ **Go to Zero** (CO<sub>2</sub> emissions in the supply chain, products, and company)

<sup>8</sup> Source: <https://newsroom.porsche.com/de/unternehmen/porsche-geschaefts-und-nachhaltigkeitsbericht-2019/nachhaltigkeitsmanagement-nachhaltigkeitsindex-2019-20210.html>

## 5.4 | Create understanding:

### Communication as a success factor (Communicate)

Regular internal and external communications with all interest groups are an integral part of the transformation process—from the sustainability vision itself to implementing the associated measures. They should ensure that everyone understands the overarching goals and activities and enable a uniform language to be established, for example by using company-wide core messages and/or motivational narratives. An ongoing series of reports

along the lines of “Do good things and talk about them” helps to bridge the vision with the implementation.

A central communications department serves as the interface for both internal and external dialogue. Informal communications within communities or in the form of regular reports on sustainability-related activities in employee newsletters, online channels, or exhibitions can also have a motivating effect and promote more responsible behavior.

### Conclusion

The implementation and transformation processes on the road to becoming a sustainable company can only succeed if internal company control systems and their structures, processes, and instruments such as indicators and reports are adapted to the specific requirements of sustainable action. Company-wide transparency on all initiatives and measures provides additional orientation and enables targeted implementation.

# 06 Action

## How can transformation succeed?

Companies at the forefront of sustainability know that it's more than a matter of goals, structures, and guidelines. Employees are the key to a successful transformation.

### Generating credibility by setting good examples

When asked about sustainability, companies often list the measures they have taken to lower CO<sub>2</sub> emissions such as switching to renewable sources of energy. They are less apt to focus on social responsibility and related measures. This is the case despite rapidly rising expectations on the part of interest groups. The transformation to sustainability is more urgent than ever before. It cannot be done without going through radical processes of change. The road is clear — away from “business as usual” and toward climate neutrality, strong fiscal management, and social responsibility, including a pronounced culture of values and ambitious sustainability goals.

What managers also need to know is that credibility can only be conveyed to the outside if it is embraced and practiced on the inside. That means the company itself. Only when sustainability is understood at all levels and is perceived as a natural part of their corporate culture can companies suc-

cessfully complete the transformation. That is when they finally present themselves credibly to the outside world.

### Focus on employees

Defining the organizational and structural framework conditions is an important part of putting a sustainability strategy successfully into practice. A large number of additional factors, many of them considered “soft,” then need to kick in for the transformation to acquire momentum and for sustainability to become part of everyday life.

The employees occupy center stage in the transformation. It can only succeed with the help of effective change management, which consists of three factors:

#### 6.1 | Leadership

#### 6.2 | Culture

#### 6.3 | Qualification

## 6.1 | Leadership

In processes of change, leadership personnel, including the highest levels of management, assume the role of visionaries and set good examples. Managers with clear standards of conduct, ethically correct values, and ambitious aims are viewed as inspiring and enjoy the trust and respect of their employees.

A “command and control” style of leadership will not succeed in involving employees early on, getting them on board, and encouraging them to actively promote change. Instead, what is needed is an “engage and empower” style, or a switch from “leadership” to “WEadership.”

## 6.2 | Culture

A company's culture is often referred to as its DNA. It reflects its shared values, norms, and attitudes. If a company is to anchor a philosophy of sustainability in the minds of its employees, it needs to define comprehensible values and norms—and show visible results. These generate pride in employees, and help them change their way of thinking.

A culture can only change if its attitudes and approaches are critically examined on an ongoing basis. This can be done by means of incentivizing implementation, or by what are called nudges.

## 6.3 | Qualification

Qualification is geared towards the employees in your own company and can apply beyond the company boundaries, for example to customers or employees. This is extremely beneficial, as qualified employees have a comprehensive understanding of the need for sustainability and are better able to translate the responsibility assigned to them into measurable results. We can distinguish between two different types:

### ► Qualification on the topic

Goal: To create understanding and enthusiasm for the topic and to provide it with sustainability for achieving results

### ► Qualification in the topic

Goal: Training to achieve independent sustainable action and to achieve changes or results

One option is to establish a multi-stage training program leading up to the level of “sustainability champion,” and embedding it throughout the company by means of communities and opportunities for further training.

## Conclusion

Sustainability will only succeed if the entire organization is involved. This is not possible if the only approach is top-down. All leadership personnel and employees need to have the same appreciation of necessity, to grasp the reasons for change, and to agree with the overarching goals. Ideally, the employees themselves should drive the transformation with their own intrinsic motivation and dedication. Leaders should ensure transparency by clearly communicating goals, guidelines, and directives. They should use openness to create a sense of solidarity among the employees. Experience shows that implementation can then succeed on an all-encompassing basis.

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# IN BRIEF

## Five success-based key questions for your company

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- 01** Does your company face the risk of competitors using sustainability as a strategic advantage?

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- 02** What is your level of transparency regarding potential environmental and social action, and what importance do you assign to these two pillars?

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- 03** Are there clearly scheduled road maps at the company and product level on which effective initiatives are prioritized for the next 5 years?

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- 04** Has your company anchored its sustainability strategy in a way that ensures initiatives will be implemented and goals will be achieved?

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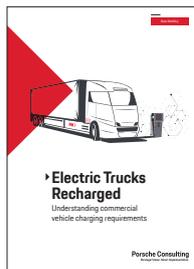
- 05** To what extent are your internal and external communications set up to effectively publicize goals, results, and successes?

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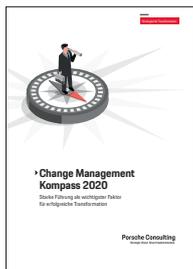
## Further reading



White Paper  
**Transform and Perform**



Strategy Paper  
**Charging of Commercial Vehicles**



Strategy Paper  
**Change Management**



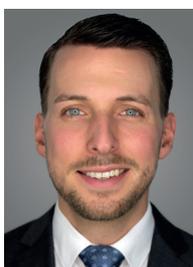
Article  
**Sustainability – Now more than ever**

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## Authors



Birgit  
Engler  
Partner



Tim  
Becker  
Manager



Florian  
Gauer  
Manager

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## Contact

+ 49 170 911 - 38 68

[birgit.engler@porsche-consulting.com](mailto:birgit.engler@porsche-consulting.com)

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