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Why we need sustainable corporate management?
Future viability as a condition of economic success

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– The spoken word is binding –

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A. Brief introduction to the topic

Ladies and Gentlemen,

Rarely has a word had such a steep career as that of “sustainability”: What was originally a term from forestry and then a keyword in describing central problems of our time has subsequently become one of the most popular terms in marketing. Today, it can be found in almost all areas of life, from A for “sustainable architecture” to Z for “sustainable zoning”, and there is practically nothing to which it is not applied. Anyone who wants to say that he has firstly recognised the signs of the times and secondly has the best of intentions, calls his activity “sustainable”.

This inflationary use of what remains a rather clumsy and increasingly moralistic term, the “S” word, in my view makes it a matter of urgency to find one’s way back to the core of its meaning, in particular as nowadays each interest group itself is keen to define what the term precisely means. Today, the connotation is one of criticism of or even hostility towards the economy: The effects of economic growth cannot per se be sustainable and therefore cannot be good for our planet. I assume this originates from the old ideas of the Club of Rome which some 40 years ago warned of the “limits to growth”.

25 years ago – on the occasion of the presentation of the so-called Brundtland Report by a “Global Commission for the Environment and Development” – things had already advanced much further: Economic, ecological and social aims were not played off against each other here, but put in a larger context. This was called “sustainable development”, which did not refer to a morality of abstinence, but to the permanent improvement of global living conditions, without endangering the needs of future generations.

Positions with a claim to absolute authority, which at the end of the day do not serve mankind, are remote from this idea, for good reason: As unpleasant it would be to maximise economic success to the detriment of an ecologically dooming world, it would be equally absurd to de-industrialise our society for the sake of the environment and to call this “development”. People

have and will always cultivate nature, because they wish to live in it. At the same time, the biggest leaps in profits benefit no-one if mankind's habitat is destroyed by this.

Against the backdrop of the Brundtland Report, a development can only be "sustainable" if the economic consequences of ecological action are included in our calculations as much as are the ecological consequences of economic action. If, in our efforts to make the world an "even better" place, we always take a holistic view, one that includes all the consequences of our activity, also and precisely for mankind: then, however different these economic, ecological and social aims are, they are related to each other, even co-determine each other and each decisively influences the success of the others. We can only achieve them jointly, or not at all.

Ladies and Gentlemen,

If at this point I say "we", I mean all of us – as inhabitants of this planet – and I make the assumption that we all want to achieve the goals I have mentioned. Now, what does this mean – and this brings me to my subject for today – for our companies?

The fact is: Our companies too are facing the challenge of acting sustainably. However, this claim by no means derives from social requirements alone, and this fact is important to note! Because it lies – and this is decisive for our corporate management – quite simply in the well understood self-interest of companies. From their perspective, according to Brundtland, a harmony of interests can be useful for them, but attempting to achieve it is not their primary task. Why this is so, under what conditions sustainable corporate governance succeeds, how it functions and, above all, what the advantage is – for the company and for society – is what I would now like to discuss in the form of five theses.

B. Five theses for sustainable corporate management

1. My first thesis concerns the prerequisites. It is that:

Sustainable corporate management needs economic growth.

Since Brundtland at the latest, there has been no doubt: The three dimensions of sustainability belong together. To run a business sustainably, we must not and cannot abstain from growth – because the means for securing the basis of any sustainable development do not come out of the blue. No state and no law can create them from nothing. The basis first has to be generated from profitable businesses. It is not profits that are problematic, but losses. “The worst crime against working people is committed by a company which fails to operate at a profit”, said the US trade unionist Samuel Gompers. He is right.

Only profitable companies can also be social companies: Only they can offer people work for a long time, only they can pay salaries at market rates, only they make it possible for taxes to be collected and contribute to the common welfare. Opportunities for education and promotion for as many as possible, social protection for the weak and old through health, unemployment and pension insurance, our whole welfare state – all of this is only possible if and as long as companies achieve economic success. One would think that these are commonplaces, and basically they are. It is only that they are quite often forgotten! Those who, as entrepreneurs, make – sometimes large – profits are today generally not admired, but come under pressure to justify themselves. (A few years ago, a representative survey was conducted in Germany regarding a company’s tasks – profit-making was to be found there as an “also ran”. But profits are basically nothing more than proof that the goods and services offered are obviously used or at least wanted – most likely also by the majority of those who took part in the survey!).

What applies to the social also applies to the ecological pattern: Economic growth is not per se damaging to the environment, but is the prerequisite for effective environmental protection. A society whose elementary needs are not yet satisfied will scarcely be willing to accept economic disadvantages in order to comply with stringent environmental standards. It is only through growth that the material prerequisites are created, with which environmental protec-

tion can be financed. Moreover, growth is associated with technical progress, which ultimately makes more environmentally friendly production processes possible.

At the company level too, the economic ability to act and economic success ensure the inclusion of ecological aspects. I will give you an example from the K+S Group: We mine crude salts underground and produce mineral fertilizers and a wide range of salt products from them. However, we thus intervene in nature, but we give most of these vital minerals, which we all require for sustainable growth, back to it and to mankind: With our fertilizers, we ensure better yields in agriculture, and with our minerals potash and salt we supply the basic materials for many products and applications that are important to life or enrich it.

Ladies and Gentlemen,

All of this would not be possible if we were unable to produce competitively. In clear words: If we would not generate any profits we then could not operate the business sustainably – then we would not be able to operate the business at all!

But the reverse is also true.

2. That brings me to my second thesis:

Sustainable corporate management secures economic success.

Let us remain with our mining activities: We think long term and continually further develop our processes. We invest in environmental protection, cut our emissions and constantly increase our resource efficiency. While this also serves ecological interests and should therefore actually increase acceptance of our industry, these measures are also purposeful from the economic perspective: They improve the long-term framework conditions for economically successful production and thus contribute to securing the future viability of our sites.

Those who run their businesses sustainably open up economic potential, even though this cannot always be calculated exactly – because sustainable business management also means dealing efficiently with shortages. The identification of market opportunities to reduce

shortages is a core economic question that demands answers from the market economy. If the right answers are found, this can mean, inter alia, the saving of production factors and optimised business operating, but also better business relationships and higher employee motivation. Over the long term, this results in higher quality, process and product innovations as well as increasing competitiveness, which can in turn be expressed in profits, a better reputation, a higher enterprise value and a better access to the capital market.

Those who, by contrast, do not include ecological and social aspects in their entrepreneurial action, put their future viability at risk and jeopardise the foundations of their businesses over time. Operating conditions are constantly changing, and very often differ even from region to region, from country to country. Those who do not follow this change may risk the withdrawal of their production permits, and those who do not develop, train and motivate their employees may be threatened by the self-inflicted loss of them and a lack of specialist personnel. This applies in particular against the background of the demographic development.

In recent years, numerous companies have already had to learn the hard way, because they ignored the world around them for too long. This is shown, for example, by the recall actions by toy manufacturers, who implemented harmful materials delivered by obscure low-cost suppliers, and by the devastating boycotts by shoppers at large clothing chains which manufactured in Asia in part under inhumane conditions, all of which we still recall vividly. Even less dramatic examples demonstrate sufficiently that for economic reasons alone it is not worth ignoring sustainability issues.

Therefore, I would like to point out once again: Sustainable corporate management pays off, it opens up opportunities and prevents risks. A company can only be economically successful in the long term if it takes note of more than just itself and the current needs of its customers: It also has to look to the right and the left and, above all, ahead: How are political and social framework conditions changing? Which megatrends characterise the global development? What do the stakeholders want, what do they expect? Whoever takes these questions seriously and links them to his commercial goals will win in the end.

Ladies and Gentlemen,

The significance of the fact that those who are aware of more than just themselves can and must generate benefits for themselves is worth another thesis.

3. My third thesis is:

Sustainable corporate management needs credibility.

Credibility is earned through the fulfilment of justified expectations of trust: Those who hold to what they promise are credible. Those who promise more than they can deliver eventually lose people's trust. In the economy too, credibility is a high asset: Those who enjoy no trust, lose or do not find customers, employees, investors and suppliers. Thus, their social acceptance decreases, costs rise and the economic success declines.

When are sustainable corporate actions credible? The answer is actually simple: When it is not claimed that one only thinks of "the others". But rather precisely when one's own intentions – for example, gaining employees' loyalty through voluntary social benefits or securing sites by reducing emissions into the environment – are openly announced and rendered understandable! However, not a few companies do not do this: They are happy to keep the benefits for themselves under hand, but deny them in their public announcements. But a company which promises a strict profit orientation at a balance sheet press conference and on other occasions takes pride in its selflessness is doing its best to lose credibility: Because the public expects speech and action to be consistent! This is only achieved when sustainably operating companies commit themselves openly to a "win-win", to a "double dividend".

Quite often the "hide and seek" surrounding the motives for sustainable corporate management has a background, the perception of a certain view of ethics: Morality is only authentic if it is selfless: You yourself may not benefit – the good cause is everything. Advantages to oneself would compromise the action, because they would indicate that the person or entity taking the action is not concerned with true morality. It has to be the common good, justice and sustainability for its own sake.

Even though this understanding of ethics is widespread, it is also erroneous. Because it is inapplicable to everyday life: A company which sets aside its own goals would soon no longer be competitive. When it makes decisions, it always has to consider whether they are harmful or useful to itself. Sustainability for altruistic reasons is therefore not an option for a company. It cannot be “good” out of pure charity like an individual can.

Incidentally, most stakeholders have no problem at all with this. Because they do not expect “goodness” from a company, but credibility – in other words comprehensible decisions and promises that are kept. Whoever promises not to act to his own advantage makes himself no longer credible. Only investment in mutual benefit – which can also be recognised as such – for the company and for society is credible.

Ladies and Gentlemen,

If companies credibly operate sustainably, they contribute to stabilising society’s trust in the economy and, where this has already been lost, to restoring it. This is what their responsibility consists in. In recent years, confidence in our economic system has, in part, suffered considerably. Companies have often not been entirely innocent in this decline in confidence.

A key word in this connection is “greenwashing”: Under increasing external pressure to give themselves a “sustainable profile”, some companies have sought ecological fig leaves to hide behind. Small acts are exaggerated in communication with the public, such as the promotion of urban flowerbeds in front of the company headquarters or the – in any case due – replacement of a power generator emitting comparatively large volumes of CO₂ at a production site.

Sustainable corporate management, which is suitable to ensure the trust of society in the economy or restore it, demands more: Taking account of the need to disclose “sustainable measures” and the motives behind them, ultimately it is not a question of PR, but of integrating ecological and social issues into the navigation system of corporate management. Only if sustainability is not a show, but a way of running the core business, would it also be possible to maintain in PR activities, that the company is pursuing its original economic goals in a way that is characterised by responsibility: Not only for the company and therefore for its own em-

employees and shareholders, but also by taking into consideration the social and ecological aspects, to the extent that they are affected by corporate action.

Convinced that companies bear such responsibility, I have signed the “Code of Responsible Conduct for Business” of the Wittenberg Center for Global Ethics for K+S (as did nearly 50 other groups and organisations). “Global ethics” sounds like a rather noble claim. However, the founders of the Center, including Hans-Dietrich Genscher and many other reputable prominent figures from politics, the economy, academia, the churches and civil society, were not intending at the end of the 1990s to award the economy a “halo of a saint” in the age of globalisation. Rather, in view of the rising complexity in the economy and society, they wanted principally to again convey an ethical orientation. The mission statement presented by the Wittenberg Center about two years ago meet this claim in a practical way: It does not contain any abstract ideals, but formulates basic ethical standards, which every company can fill with life under the respectively predominant conditions.

Let me give you an example: The mission statement demands that companies exercise “responsible corporate management” in their efforts to generate profits. What is meant by that is that the heart of the matter is [quotation:] “both to increase the long-term enterprise value as well as to maintain and strengthen the prerequisites necessary for this” [end of quotation]. These prerequisites include taken-for-granted rules for action in the free market economy, but also [quotation:] “social cohesion within society, an environment worth living in and the trust of society in the economy” [end of quotation]. According to this understanding, orientation towards success and responsibility are two sides of the same coin. The underlying insight of the authors of the mission statement is that [quotation:] “A successful economy is not based on law and legislation alone; it always also requires the basic trust of the people” [end of quotation]. Not only, but also this is a question of sustainable, responsible corporate management.

“Responsible corporate management – Responsible leadership”. That is one, perhaps even the core term of the Wittenberg mission statement, to which we commit ourselves. But another term cannot be found there: “CSR – corporate social responsibility” – and, in my opinion, this is for a good reason: Firstly, the expectation of responsible corporate management relates to the overall picture of action, whose social component is just one among others. And secondly, the term “corporate social responsibility” is also problematic, because its wording,

but especially the widespread understanding of the term, addresses an area which goes beyond the responsibility for the company and can, moreover, be (mis)understood as a basis beyond the law requirements made against a company: Those who claim to be responsible for something can also be taken at their word! So please allow me to shy away from CSR and rather regard myself as a responsible head of a company committed to sustainability.

Ladies and Gentlemen,

How does this work in practice? How do companies manage to assess the relevance of their sustainable initiatives for corporate success, and thus indirectly also for their stakeholders?

4. These questions lead me to my fourth thesis. It is that:

Sustainable corporate management needs focus.

Nowadays, almost every company wants to prove that it takes responsibility for the environment and society, and wants to show everybody how comprehensively it does so: The communications department brings together what its company undertakes in the sphere of sustainable corporate management, and then sticks the corresponding label onto it. But those who stick on a lot of labels run the risk of getting bogged down: Suddenly, many things seem very important, and above all: everything appears to be equally useful and valuable. Generally, the truth looks somewhat different: There are measures which really achieve something and others which are only adopted out of habit or in order to be part of the mainstream. The more useless projects distract from the important ones, the greater the harm caused by them.

Therefore, at the beginning of every professional “sustainability management” there has to be a farewell. A farewell from the impression that the success of sustainable corporate management depends on the sum of its operative parts and therefore on the highest possible number of measures and initiatives. This is all the more the case when the benefit generated by individual projects is identifiable neither for the company nor for third parties.

At the same time it must be clear, with regard to the “sustainability expectations” of stakeholders, that 100 per cent goal achievement is neither possible nor desirable from the per-

spective of the company. A company like K+S, for example, which carries out mining and extracts raw materials, will in particular always be in a kind of conflict with environmental campaigners in highly sensitive regions such as Germany. But other sectors too have their specific issues: The textile sector has to justify production in low-wage countries, banks have to demonstrate the sustainability of their investments, the automotive industry is criticised for the high fleet consumption of its vehicles and the energy sector for power generation that allegedly harms the climate. And even solar cell producers are required to cut the enormous energy consumption in their manufacturing processes.

The focus of sustainable corporate management can therefore only be on filtering the feasible out of what is considered to be desirable and on exhausting potential within a reference framework given with the purpose of the company: K+S simply cannot reduce the emissions related to its production to zero, both for technical and commercial reasons, but can, in quotation marks, “only” continue to work on reducing them. And we cannot support social aid projects where nobody knows us, but only where they also make it possible for us to show the company to be a good corporate citizen and thus improve its public reputation or achieve other advantages, including indirect ones.

Therefore, if a company employs resources for a sustainable project, it then has to have the reasonable expectation – in order to avoid arbitrariness and not wasting potential – that the measures will really create a benefit. The closer this previously defined minimum benefit is associated with the business purpose of the company, the greater the possible effect on the success of the company can be. Two things are required in order to find out which measures these might be:

- Firstly, a systematic monitoring of issues relevant to sustainability is necessary to identify social, ecological and also economic trends at an early stage; stakeholder dialogues with politicians, suppliers, customers and environmental groups too are especially important in this context.

- And secondly, chance and risk management is needed, which incorporates the identified topics and trends into the management processes in a way that promotes the existing business, seizes new opportunities and minimises risks – in short, so that the proverbial “sustainable” competitive advantages can be created.

Ladies and Gentlemen,

This is without doubt a demanding task. And we at K+S too are surely still making our way along the path towards integrated “sustainability management”. However, it is a long-term task and one where the goal can probably never be quite reached. But one thing is already completely clear to us: For us, “sustainable corporate management” does not mean currying favour to those embracing the “Zeitgeist”, but securing our future viability. We ourselves therefore decide why, to what extent and in what form we incorporate sustainable aspects in our actions.

5. And this brings me to my fifth and final thesis. It is that:

Sustainable corporate management needs voluntariness.

Why do I emphasise this?

Well over a year ago, the European Commission presented its new “Strategy for the Social Responsibility of Companies”. Quite aside from the aforementioned dubious approach embodied in “social responsibility”: In the choice of means, the Commission focuses more on regulation and statutory reporting obligations regarding social and ecological information than on individual entrepreneurial freedom of action. In Europe, there are about 23 million small and medium-sized companies and approximately 42,000 major companies which would be impacted by the effects.

The motif that has prompted the politics to such a paradigm change is clear: Owing to the emerging financial limits for state actions, companies are expected to play an even stronger role in co-shaping social progress. Even though this motif is understandable from the political

viewpoint, corporate activities in the sphere of so-called corporate social responsibility cannot and must not simply replace the responsibility of the community. This is all the more the case considering that companies are already obligated to participate in promoting the common good – namely through taxes and duties, whose level is determined by democratically elected parliaments in a transparent legislative process. Companies should therefore not be dragged subtly into holding responsibility for the welfare and happiness of more and more interest groups far removed from the original corporate goals.

Those who intend to do this fail to recognise that the primary goal of any company must be and must remain achieving success in its core business and securing its own economic efficiency vis-à-vis its competitors over the long term. This success is, as I have already explained, the basis for all sustainable corporate management and thus also for well-being and employment in our national economies. Responsible profit-making is thus also in the interests of society, because sustainable values are created for the stakeholders too.

The different contributions of companies to meeting social challenges should be acknowledged and encouraged by the political sphere. However, it should in no way standardise them through legal regulations or even counteract them through reporting obligations. The effort involved would be wholly disproportionate to the benefits. Freedom is thus necessary for self-defining responsibility in sustainable corporate management. Social and ecological commitment beyond the legal obligations definitely has to remain voluntary – a company must still be able to say “no”.

Ladies and Gentlemen,

This was, so to speak, my political message for today. Nevertheless: My primary aim was, transcending the political debates of the day, to offer you a few basic ideas regarding the purpose and essence of sustainable corporate management. Without wishing to bore you with long repetitions at the end of my speech, I will briefly summarise it:

C. Summary and conclusion

- Firstly: Sustainable corporate management and economic growth can only succeed hand in hand: Without economic growth, there can be no sustainable corporate management, and without sustainable corporate management the long-term economic success of the company would be jeopardised.
- Secondly: Sustainable corporate management is of benefit both to the company and society. This “dual benefit” is not improper, but constitutive for responsible corporate activity, which also knows about the values of credibility and trust for the acceptance of the market economy in society.
- And thirdly: Sustainable corporate management is not a musical request programme, but a long-term observation horizon requiring a clear focus and, in the interests of the intended goals, helping to distinguish between the important and unimportant, the feasible and the illusory.

Slowly but surely, Ladies and Gentlemen, it is being recognised nationally and internationally that sustainable corporate management is not an additional activity but – and now I shall repeat myself a little – a way of running the core business successfully. A way that is profit-oriented and as environmentally friendly and socially acceptable as possible.

We at K+S believe in this:

- on principle,
- out of conviction
- and – above all – for good reasons!