



## **Sustainable corporate governance: taking responsibility for society and the environment**

Businesses all over the world are playing an increasingly important role in the context of politics, the environment and society. As part of the globalisation process, they engage in international investment, source raw materials and other products on the global markets, run their manufacturing operations via subsidiaries in other countries, and supply the goods and services on which our consumption and lifestyles depend.

The private sector has a key role to play in achieving the United Nations' Sustainable Development Goals as well. SDG 8, for example, calls for sustainable economic growth and decent work for all. However, multinationals often cause damage to the environment, disrespect human rights or apply unethical business practices, particularly in contexts where governance or legislation is weak or poorly enforced.

And yet many companies operating in today's globalised economy are willing to assume social and corporate responsibility and are committed to sustainability, following the broader social trend.

### **Sustainable corporate governance – what is it all about?**

Shareholders, investors, business partners, civil society and, not least, customers themselves increasingly expect companies to take responsibility for their actions. Various terms are used by practitioners and academics to describe this concept, including corporate social responsibility (CSR), responsible business conduct, and corporate citizenship.

The term “sustainable corporate governance” is being used increasingly: this reflects a broader approach that encompasses the three dimensions – economic, social and environmental – of sustainability. Corporate responsibility thus covers every aspect of a company's commercial operations and demands much more than voluntary engagement alone.

### **Understanding the impacts of corporate action**

A key focus of the Oeko-Institut's work consists of analysing and assessing the impacts of corporate operations on people and the environment. This includes conducting life-cycle and product assessments and applying integrated approaches to risk identification and analysis.

For example, Oeko-Institut researchers working on the regGEM:digital project looked at the contribution made by regional digital platform systems to food and mobility. Among other things, the project team analysed the economic, environmental and social impacts of these business models. In the food sector, they found that these platforms have potential to boost sustainability in agriculture by offering local small businesses an alternative channel for the marketing and distribution of their products.

[Project website: regGEM:digital – Effects of regional value creation and sustainability of digital platform systems for future public services in the fields of food and mobility, by the Oeko-Institut, Fraunhofer IAO and the University of Stuttgart on behalf of the German Federal Ministry of Education and Research BMBF](#)

## **Establishing a binding framework**

Some companies are already making efforts to establish sustainable business models. Our economic system as a whole is still far from sustainable, however. Many German companies not only tolerate low environmental and social standards in their operations in countries of the Global South but actually build their business models around them. For years, the Oeko-Institut has therefore been demanding a legally binding framework for corporate sustainability. It has become apparent, over the past few decades, that voluntary commitments will not suffice.

When domestic companies are engaged in international operations, their home states should establish a legal framework to address any abuses that may occur worldwide. This would also minimise competitive disadvantages for businesses that operate sustainably. Clear rules are already in place in one particular sector, namely the use and imports of hazardous chemicals. Human rights and environmental due diligence should be no less of a priority and is now noticeably gaining in importance.

As part of a study funded by the German Environment Agency (UBA) and conducted in partnership with lawyers at Kanzlei Geulen & Klinger, researchers at the Oeko-Institut have developed a concept showing what a German due diligence law could, and should, look like.

[Environmental and human rights due diligence as a means to strengthen sustainable business conduct: Interim report by the Oeko-Institut on behalf of the UBA](#)

[\*Von der menschenrechtlichen zur umweltbezogenen Sorgfaltspflicht – Aspekte zur Integration von Umweltbelangen in ein Gesetz für globale Wertschöpfungsketten\*](#) [From human rights to environmental due diligence – Integrating the environmental dimension into a global supply chains law]: Study by the Oeko-Institut and Kanzlei Geulen & Klinger on behalf of the German Environment Agency UBA

## **Action by companies: establishing appropriate management processes**

In order to identify and address impacts on people and the environment, companies need to have established appropriate management systems. For the company concerned, this means identifying key areas of action, setting goals and putting appropriate measures (or countermeasures) in place. The company's targets and measures should be regularly reviewed, with transparent external communication.

There is no need for companies to set up entirely new processes. Much can be learned from existing risk management methods. Various standardised systems are already available, such as the familiar environmental management or certification schemes.

These systems, along with multi-stakeholder and sector initiatives and other voluntary efforts, have an important role to play, as many of the challenges that companies face worldwide cannot be solved through a go-it-alone approach. Partnership-based solutions are required, entailing the pooling of resources, with diverse stakeholders bringing their influence to bear.

The Oeko-Institut is engaged in various projects to investigate the effectiveness of management processes and voluntary measures. It also advises policy-makers and companies, including the Partnership for Sustainable Textiles and the Green Button scheme, on establishing and using these systems.

### **Small and medium-sized enterprises need special support**

While larger companies are increasingly setting up departments or appointing designated staff to deal with corporate sustainability issues, smaller businesses still need guidance and support. They often lack the human and financial resources required to develop and implement strategic measures on energy efficiency, sustainable procurement or the promotion of a new corporate ethos.

In collaboration with the University of Freiburg, researchers from the Oeko-Institut have therefore published a guide on sustainability in companies and regions, with recommendations based on the CIAM method developed as part of the IMPACT project.

The guide includes a list of actions that companies can take in a few simple steps and with minimal preparation to ascertain which particular topics are most relevant to their operations, how their own actions can have an impact, where there is an urgent need for action, and how they can define, achieve and communicate their goals.

[Wegweiser „Nachhaltiges Handeln in Unternehmen und Regionen“](#) [Sustainable Action in Enterprises and Regions]: Guide by the Oeko-Institut, the Centre for the Renewable Energy at the University of Freiburg, and Kreis Steinfurt (Steinfurt district authority)

### **Further information**

[CSR – Background and recommendations: Results of IMPACT – An EU research project led by the Oeko-Institut on behalf of the European Commission](#)

[CSR impact – Practitioners Handbook](#)

[Case study on the governance of labour standards in Bangladesh’s garment industry: Working paper by the Oeko-Institut as part of the EU’s Global Value project](#)

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