



Sustainable Business Investor - Europe

Delivering returns on investment in sustainable businesses

From environmental
protection to
sustainability

Ulrich Lehner, CEO of Henkel



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From environmental protection to sustainability

In a special case study commissioned by SBIE, Ulrich Lehner, CEO of Henkel, describes Henkel's transition from environmental awareness to true sustainability

Securing the future viability of a company is the overriding goal of management. This demands an inherent readiness to change and to improve continuously.

The viability of companies depends on the viability of markets. The globalisation of companies and markets goes hand in hand with a globalisation of social problems and the emergence of global approaches to solving these problems. As early as 1987, the UN commission for Environment and Development formulated the notion of sustainable development. As a term, sustainable development became internationally established through the Earth Summit in Rio in 1992.

Even before Rio, Henkel had committed itself to this principle as defined in the Business Charter for Sustainable Development of the International Chamber of Commerce (ICC). There were two reasons for this. Firstly, we had already been directly confronted many years previously – through our consumer products – with environmental issues, and had therefore begun early to take a systematic approach to these topics. Secondly, because sustainability, viability and continuity have always been characteristic features of Henkel's identity.

Henkel's sustainability strategy has continuously evolved. The starting point was ensuring the ecological safety of our products and production. Today, Henkel's sustainability strategy encompasses

world-wide management systems for safety, health, environment and quality, as well as a code of business ethics that is binding for all employees. The Company therefore actively practises social responsibility. For our shareholders, this strategy yields benefits through the translation of innovative products into competitive advantages, the optimisation of business processes, and the safeguarding of Henkel's reputation for high standards.

Developing a sustainability strategy

In the 1950s, German rivers were choked by mountains of foam caused by a new generation of detergents and household cleaners. These products contained synthetic surfactants with poor and incomplete biodegradability. The general public saw the foam, but – strange as it may seem today – took little notice of it.

For the detergents industry and the producers of its raw materials, the foam on the rivers acted as a spur to develop and use readily and completely biodegradable surfactants. The environmental problem was solved after only a few years. For Henkel, however, these events triggered a process that was to have far-reaching effects. Even then, when the term 'environmental protection' was not as familiar as it is today, Henkel

departments began deliberating how they could avoid detrimental effects on the environment at source by modifying the formulations of their products. The principle of preventive environmental care took root at Henkel in product development. The first visible sign of this was the establishment in 1953 of the Ecology department. Its brief was to develop laboratory test methods to assess the environmental behaviour of products. Many of the methods developed by Henkel have since become standardised test methods accepted nationally and internationally by experts in the field. In 1959 Henkel started subjecting its products to regular ecological quality checks.

The market success of eco-compatible products in the early 1970s led Henkel to take a comprehensive approach to environmental compatibility. Since then, Henkel's strategy has remained essentially the same: high performance, environmentally compatible products and processes translate into market advantages.

It rapidly became apparent that the implementation of this strategy demanded clear corporate objectives. In 1982 these were published as 'Principles of Environmental and Consumer Protection in the Henkel Group' with

world-wide applicability. Environmental protection ultimately became anchored in our corporate policy in 1987.

In 1991 Henkel was one of the first companies to sign the Business Charter for Sustainable Development of the International Chamber of Commerce. The Henkel Group thus openly declared its belief in the principles of sustainable development. The Company's corporate mission, last revised in 1994, contains as one of its ten principles the statement: "Henkel is the ecological leader in the chemical industry." In 1997 the Management Board decided to establish a safety, health, environment and quality management system that would be mandatory for all Group companies. With the publication of its internationally binding corporate business ethics in the year 2000, Henkel established a code of conduct for its employees world-wide that integrates the economic, ecological and social aspects of sustainable development.

Milestones of sustainability orientation at Henkel

- 1959 Introduction of regular ecological quality checks for detergents and household cleaners
- 1971 Setting up of the central department for environmental and consumer protection
- 1982 Principles of Environmental and Consumer Protection in the Henkel Group
- 1983 Market launch of the first phosphate-free laundry detergent
- 1991 Signing of the Business Charter for Sustainable Development
- 1997 Introduction of integrated management systems and start of world-wide safety, health and environmental audits
- 2000 Establishment of binding business ethics for all employees.

Henkel's stand on environmental protection and sustainable development strategy has frequently been endorsed. In August 1999 Henkel came top of the list in a world-wide eco-ranking study carried out by the Hamburg Environment Institute (HUI) and Manager Magazin, a German business magazine. In June 2000, Henkel was

awarded 1st prize for 'Environmentally Oriented Business Management' by the Confederation of German Industry. The coupling of social responsibility with business success has also resulted in Henkel being listed in various investment funds focusing on sustainable development as well as in the Dow Jones Sustainability Group stock index.

Resource conservation through integrated environmental protection

The development of environmental protection in production started by remedying existing environmental damage. Compliance with statutory regulations often resulted in investments and operating costs for the necessary decontamination and disposal equipment. Today, progressive companies tackle the problem by avoiding pollutants at source. Integrated environmental protection concepts are increasingly taking the place of costly investment programmes. These are often coupled with resource conservation and optimisation of production processes.

Henkel takes steps to conserve resources and avoid pollutants as early as the planning and operation of plant and equipment. In many cases this makes it possible to avoid expenditure on end-of-pipe environmental protection technologies. If a production process requires the use of problem substances, these are processed in closed circuits and thus do not come into contact with the environment. Production-integrated environmental protection helps to improve occupational and process safety as well as to reduce the consumption of resources and to cut costs.

Market growth through innovative products

Essential to sustainable development is the comprehensive, market-focused management of innovative products. The translation of ecological achievement into competitive advantage is most likely when customers can perceive the environmental advantages as personal benefits.

However, experience has shown that it is seldom possible to recoup all the costs involved by raising consumer prices. The logical consequence of this is a strategy that increases market shares through environmentally innovative product optimisations. This is directly linked with shareholder value orientation: Henkel pursues a strategy of profitable growth.

Its market positions are essential to achieving this goal.

Henkel succeeds particularly well at translating innovative product developments into market potential by offering products that are both ecologically optimised and technologically superior. This is based on the fact that environmental compatibility is given the same priority as performance in the development objectives for new or revised product concepts. At Henkel, this policy resulted in the development of a phosphate substitute for laundry detergents more than two decades ago. Researchers looked for a substance that would have the same effect as phosphate, but would be more environmentally compatible. As the German market leader, Henkel produced and actively promoted the first ever phosphate-free detergent in the mid 1980s. The consistently high quality generated widespread demand among consumers and forced competitors to emulate Henkel with their products. By the early 1990s, the detergents market in Germany and in many other European countries had switched completely to phosphate-free alternatives.

Current examples of successful marketing of innovative, environmentally compatible products are:

- solvent-free packaging adhesives
- low-emission flooring adhesives
- skin-friendly and readily biodegradable surfactants based 100% on vegetable raw materials
- environmentally compatible stainless steel pickling agents
- energy- and water-saving cleaning systems for commercial laundries
- products in tablet form that save raw materials and reduce the amount of packaging.

Innovative products will succeed on the market when they offer perceptible advantages in use over and above their environmental benefits. For consumers, easy and safe handling is often the top priority. For industrial customers, improved occupational safety and the avoidance of environmental burdens in production processes is a decided plus.

At Henkel, this strategy is implemented through close collaboration between the operative business sectors and central research functions. The business sectors take account of customer

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|--|--|
| 1 Commitment to safety, health and environmental protection | 9 Training |
| 2 Management and resources | 10 Emergency preparedness and response |
| 3 Communication | 11 Suppliers and contractors |
| 4 Manufacturing | 12 Acquisitions and divestments |
| 5 Workplace | 13 Reporting on performance |
| 6 Resource consumption and releases | 14 Regulatory and other external requirements |
| 7 Products | 15 Verification |
| 8 Distribution | |

SHE Standards of the Henkel Group

wishes and costs when formulating their product policy. Once this has been established, they enter into an intensive dialogue with the central research departments and jointly develop the products and processes. Since ecological aspects are an overriding development priority, these are systematically integrated from the outset.

Process optimisation and risk minimisation through integrated management

Recognising the growing complexity of requirements, Henkel decided in 1996 to establish integrated management systems for quality, safety, health and environment. Quality management systems based on the international ISO 9000 family of standards had already been put in place by all business sectors in the early 1990s.

In order to be able to control both products and production processes efficiently and in harmony with its ecological goals, Henkel has formulated 15 corporate SHE standards. These standards and the resulting guidelines and documented procedures are a binding yardstick for safety, health and environment at all Henkel companies world-wide. The Company thus makes an important contribution to risk minimisation.

The implementation of these world-wide standards is ensured by regular internal SHE audits as well as by external certification according to internationally accepted environmental management standards. The benefit to the Company lies in the high standard of safety for

employees, neighbouring communities and the environment, but also in cost savings at the various sites – for example through a reduction in the number of accidents and production downtimes.

High standards of conduct in business relationships

To be economically successful, international companies must be flexible and innovative in the allocation of resources and the development of their activities in different parts of the world. Employees and management staff are subject to a variety of cultures, local laws and regulations in operating their diverse and international businesses. They must ensure that their business practices are compatible with the economic, social and ecological priorities of the local environment in which they operate. Within the companies, corporate business ethics set standards of conduct to be respected by all employees.

Industrial enterprises can be judged by the way that they act in their relationships with shareholders, employees, customers, suppliers, competitors, neighbours, government representatives and the community. The good reputation of a company is crucial to its long-term continuity and profitability.

With this in mind, Henkel has formulated a code of conduct that is binding on all its employees. The business ethics anchored in this code represent an important foundation for the implementation of sustainable development. They integrate the economic, ecological and social aspects of sustainable development.

Henkel Group code of conduct

- meet our customers' needs
- realise a high return for our shareholders
- challenge, develop and reward our employees
- demand appropriate business conduct from suppliers and service providers
- comply with law and the rules of society
- take responsibility for safety, health and environment
- avoid conflicts of interest
- respect individual diversity
- be fair in competition
- protect confidential information and company assets.

Besides economic alignment to customers' requirements and shareholders' expectations, Henkel's corporate business ethics comprise various basic rules for conducting its business activities. These include the respect of human rights, the prohibition of undue influencing in our dealings with customers and suppliers, responsibility for the environment, and a spirit of mutual respect in our daily working environment. The code of conduct is binding on all companies and employees of the Henkel Group and is intended to assist in making decisions that will avoid any personal conflict of interest and will stand up to critical scrutiny by the public.

Permanent challenge

Companies must conduct a continuous and open dialogue with the community about past achievements and future priorities on the road to sustainability. This is the only way to harmonise the needs of business and society in the long term. In each case, a specific solution must be sought. For individual companies, the practical implementation of sustainable development results from the interaction of the political framework, societal needs and market opportunities. One single 'reconciliation' of interests cannot achieve sustainable development and a sustainable society; it demands continuous reassessment and readjustment. Henkel meets this permanent challenge with a sustainability strategy that focuses on enhancing competitiveness and sees this as a clear 'win-win' situation for shareholders, employees and the environment alike. Sustainability equals future viability. ■