

Implementing and demonstrating sustainable management: What is coming up for medium-sized businesses?

“The promotion of sustainable development is the guiding principle of the German federal government's policy. Economic performance, protection of the natural basis of life and social responsibility must go hand in hand so that developments are sustainable in the long term. The economy is an important player and multiplier for more sustainability.” This is what the Federal Government writes at the top of the homepage of the Federal Ministry for Economic Affairs and Climate Protection. This is followed by a series of measures how the government wants to support medium-sized companies in particular in implementing the transformation. But the tightening legislative initiatives at EU level, which mean additional challenges and **pressure to change** for many entrepreneurs, are difficult to find and are at the bottom! What legal changes will the German **medium-sized agricultural and food industry** face?

Politics and society worldwide are putting pressure on to implement **sustainable business practices**. The 17 goals for sustainable development (**Social Development Goals** = SDGs) adopted by the UN in 2015 are now making a noticeable impact on legislation in Europe and Germany. The strategy concept of the European Union's **Green Deal**, which was on everyone's lips in 2020/21, is now slowly being implemented through directives and regulations. The German federal government updated its sustainability strategy in 2021 and after the start of the new coalition under chancellor Olaf Scholz, the first concrete legislative projects are appearing, which will also challenge economic activity, especially in the agricultural and food industry.

From 2023 and then increasingly in the following years, entrepreneurial activity will be turned upside down bit by bit, especially in medium-sized companies. The **transformation of companies** to “real” sustainable management is almost forced. What do entrepreneurs have to prepare for?

Already in 2021, the "Act on Corporate **Due Diligence in Supply Chains**" was a significant challenge for at least those companies that have more than 3,000 employees in Germany. From 2024 the number of employees will drop to 1,000 employees and among the approx. 2,900 companies of this size there will also be a few other companies in the **agricultural and food industry**. The "**Supply Chain Law**" essentially focuses on human rights violations (the social and economic pillar of sustainability). The companies are only obliged to check the direct suppliers. The other pillar of sustainability, namely ecology and thus the control of compliance with environmental standards are not (yet!) considered in this law.

The new EU guideline for CSR reporting "Non-Financial Reporting Directive" (NFRD) ensures that more and more smaller companies are additionally burdened. This guideline is expected to be adopted in October and is to be implemented in German law by the end of 2022. So far, only large capital market-oriented companies have been obliged to publish a **sustainability report**. NGOs and institutions such as the "World Benchmarking Alliance" have published ranking lists based on these reports, which can

also affect share prices on the stock exchanges. The tightening that is now being implemented will significantly expand the circle of companies. You become a reporting entity when you meet two of the following three criteria:

- from 250 employees on average over the year
- Total assets of over 20 million euros
- Turnover of over 40 million euros

All capital market-oriented small and medium-sized companies, apart from micro-enterprises, have a reporting obligation regardless of the above criteria.

In addition, with the NFRD, reporting must be based on a fixed standard in the future, which is certified by accredited auditing companies, as is the case with financial statements. There should be a comprehensive **European reporting standard**, which will be based on existing international standards (e.g. GRI standard = Global Reporting Initiative), but should be even stricter. The aim is that companies that are required to report can no longer practice "greenwashing" but are almost forced by the reporting standard to convert their business activities to sustainable management.

It has been decided that corporations that have previously been required to report will have to report and be audited based on the standard for the first time for the business year 2023. From 2025, all reporting companies (large companies) will have to be audited. The large auditing houses are happy and are already ready to offer their customers new audits, advice and fees.

It can also become difficult for the smaller companies and **farming businesses** that don't have **supply chain control obligations** or **sustainability reporting obligations**. Many of the buyers and customers have these new obligations as a result of these laws and must demand sustainable management from their upstream suppliers in accordance with the standards. A new wave of certifications and obligations for smaller companies and farms from retailers and the food industry must be expected.

The first standards are beginning to establish themselves. For example, the **ZNU standard** was developed to provide evidence of "real" sustainable management in Germany (ZNU - Center for Sustainable Corporate Management of the Faculty of Economics and Society at the University of Witten/Herdecke). In food retailing, this standard is particularly supported by Lidl. Many suppliers have already been certified according to the ZNU standard. Thus it is not a standard for reporting, but direct proof of **sustainability**.

All these measures will result in further significant pressure to change over the next few months, especially on small and medium-sized companies in the **agricultural and food industry**. Many years of successful business activity are being called into question and turned upside down. Entrepreneurs and employees need to rethink and change the way they work. This often results in stress and a great deal of mental strain.

Develop strategies for converting your company to sustainable management that involve employees and, if possible, business partners. With the impulses of an external

companion, you will develop the most important implementation measures for your company change. The pressure from politics and society on people in the **agribusiness** is making more and more entrepreneurs lose their motivation to continue the business. Business coaching, which is not yet widespread in the agricultural and food industry, could be a means of making the really right decisions for yourself.

Use my systematic approach and experience in your development of **change strategies**. As a **certified coach**, I support you and your employees in overcoming the challenges as a person. Feel free to arrange a non-binding consultation with me.