

## Aligning a Company with ESG – A Practical Example

By Dr. Yorck Schmidt

“Who Cares Wins” is the title of the first document that, in 2004, recommended Environmental, Social, and Governance (ESG) as a meaningful tool to measure a company’s sustainability. In the meantime, the EU ESG Taxonomy adopted in 2020 is the central focus of the management board: Not only is the impact of the strategic company alignment and its benefit for the environment considered, but also the holistic effect on an ecological, social, and internal level.

The topic of ESG (Environmental, Social und Governance) has become increasingly important over the past couple of years. The drivers for the significant growth are increasing regulation and the prevailing political climate, particularly in the field of climate-neutrality and CO<sub>2</sub> reduction. And yet there are challenges alongside CO<sub>2</sub> reduction and the United Nations’ Social Development Goals (SDGs) where ESG activities make a positive contribution. The demographic transition is forcing every company to assign a high level of priority to the protection of expertise. Even access to lines of credit and financial costs is increasingly tied to ESG criteria and thus has a relevant influence on a sustainable corporate policy and the foci of investment derived from it. In 2021, AVL List GmbH already generated almost 50% of sales in conformity with ESG. This enabled it to conclude an ESG-linked consortium credit contract for corporate financing in Summer 2022. The process to further strengthen the ESG alignment in the company requires active participation. In the first step, the current status is evaluated with a view towards potential ESG activities related to the company’s existing business model. Once the most important action fields have been identified, the next step is to define target values. Finally, the targets are implemented via clearly defined actions that are transparently communicated in the internal management process and the implementation is monitored. The implementation at AVL resulted in one major insight: less is more – but then totally focussed and with engagement! AVL is active with measures in all three of the ESG taxonomy requirements.

### Environmental: Innovation for sustainable mobility

AVL List GmbH is one of the world’s leading mobility technology companies for development, simulation, and testing in the automotive industry and other sectors. Drawing on its pioneering spirit, the company provides

concepts, solutions and methodologies for a greener, safer and better world of mobility. To achieve the vision of climate-neutral mobility, AVL drives innovative and affordable solutions for all applications – from traditional to hybrid to battery and fuel cell electric technologies. AVL constantly expands its portfolio of high-end methodologies and technologies in the areas of vehicle development and testing. With a holistic approach – from ideation phase to serial production – the company covers vehicle architectures and platform solutions including the impact of new propulsion systems and energy carriers. In short, AVL is making a major contribution to the reduction of the global CO<sub>2</sub> footprint. AVL shares many attributes that you would normally find in mechanical and plant engineering. The focus is increasingly on emissions output of operational plant and also in customer’s production. In the short term, the goal is to have a sustainability report in hand that provides medium-term information on CO<sub>2</sub> emissions and contains long-term methods for the measurement of energy consumption and CO<sub>2</sub> output.

### Social: The focus is on people

A family-run business such as AVL has the concept of socially responsible action deeply ingrained in its corporate culture. In the social field, we continuously strive to improve conditions for our employees. One of our core guiding principles is putting people in the center of all creativity and innovation. This is why we work towards creating a working atmosphere that enables new working models and simultaneously supports our pioneering spirit. AVL was a forerunner when it came to introducing a flexible working mode with regard to organising remote working. Nowadays, we actively continue to support young families with a proprietary Kindergarten. This year we were awarded with the State Prize “Family and Profession” which enables agile and self-responsible working. In addition, AVL employees are entitled to five

days of training per year and those in management to an average of seven days. Generally speaking, special importance is given to the leadership training if working models and the working atmosphere are to be rendered attractive and balanced. The third important topic in the social domain is the preservation of the expertise. It has turned out that competence and experience gained in the field of traditional combustion engines can be very well applied to new fields: product-specific attributes can be quickly learned; tools, methods and serial production experience can be transferred or adapted. This helps to accelerate the transition.

### Corporate Governance: Effective and responsible leadership

Corporate Governance – these are the structures and processes that determine the management and steering in a company. The ESG taxonomy makes companies more accountable and more transparent, while simultaneously setting clear requirements to the company’s management. AVL has already implemented crucial requirements in the field of governance within the scope of management structures and their systems, as well as reporting. One challenge here is establishing an effective interaction between financial and non-financial controlling information. This is how we communicate our ESG guiding principles while achieving commitment in reaching goals. Change can be successfully implemented if the necessary information is available to the employees, if they understand why measures have been taken, and if all affected people have the possibility to participate. The active implementation of such change is a task for strategic corporate development.

### The Author



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