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Company report review

Volkswagen

Sustainability Report 2005/06 – ‘Moving generations’

Presented by: the Ethical Insight team at  
Maplecroft

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### Note

This review is based on information contained in the PDF download version of Volkswagen's Sustainability Report 2005/06. The report is available at <http://www.volkswagen-sustainability.com>. This review is intended as a summary only and does not provide full and complete discussion of all the issues contained in the report.

## 1 Company background

Volkswagen unites eight automobile brands, a large number of services and sales companies, and companies in the financial sector. Based in Wolfsburg (Germany), the company operates 44 production plants in 19 countries throughout the world and employs 342,000 people.

In the fiscal year 2004, the Volkswagen Group sold a total of 5,142,759 vehicles, increasing sales revenue by 4.9%. However, profit after tax showed a year-on-year fall of more than one quarter. A cost-cutting programme initiated in early 2004 is ongoing.

The present report is Volkswagen's first Sustainability Report, to be followed up in two years time. The report sets out an exceptionally clear understanding and vision of the company's role in achieving what it describes as 'sustainable mobility'. This is namely, 'a form of mobility that takes account not only of its impact on society and the environment, but also of the growing mobility needs of people around the world.' The report goes on to identify the principles on which Volkswagen considers sustainability to be founded, including balance of the economic, environmental and social systems, taking responsibility and transparent communications.

## 2 Reporting practices

### 2.1 Materiality

The report addresses material issues more directly and comprehensively than most sustainability reports. This can probably be attributed to the existence of a whole department within the company – the so-called Future Research function – dedicated to identifying and evaluating trends that may affect the business. One of the report's four main sections explores key challenges the company is facing in the areas of safety and health; climate and energy; demographic change and employment; and globalisation and local responsibility. The report's explicit discussion of 'conflicting goals' is also worthy of note. Volkswagen establishes credibility in its open admission of the inevitability of conflicting goals arising from the impossibility of satisfying the demands and requirements of different stakeholders. A number of examples illustrate the business implications of efforts to balance competing stakeholder interests, ultimately demonstrating that 'the final say lies with the customer'.

### 2.2 Transparency

Volkswagen identifies transparent communications as a principle underpinning sustainability, and this is reflected in its report. Key challenges are addressed directly and thoroughly. The report includes a good range of environmental and social indicators which are not only clearly defined, but accompanied by commentary and analysis of trends.

Importantly, the report does not shy away from difficult or sensitive issues. Notably, it includes a special article on the Volkswagen corruption affair which has appeared in recent media. The report also includes a postscript from the Works Council and an independent review statement. More comprehensive coverage of critical dialogue with NGOs and political lobbying activities is needed to create understanding of the company's approach and establish even greater credibility with its stakeholders.

### 2.3 Comparability

The report includes a Global Reporting Initiative Index, providing a useful framework for inter-company comparisons on economic, environmental and social performance. In future, Volkswagen should aim to report 'in accordance with' the GRI guidelines though it does not appear to be far off. An adequate range of environmental, social and financial indicators have been established, with data presented over multiple years to allow comparison over time. The range of indicators could, however, be extended further, particularly with regards economic impact. In some instances, indicators could be broken down further. It would be interesting, for example, to see the gender ratio at different levels of the company.

## 2.4 Assurance and verification

An independent review of the report focusing on 'completeness, strengths, weaknesses and consistency' was carried out and a brief statement is included in the report. Usefully, the review identifies four items of information to be missing, and makes three recommendations. A more detailed critique, with an expanded discussion of findings and recommendations would be of interest in future reports and helpful in ensuring continuous improvement. Volkswagen should also consider including its response to points made in the review, and any planned actions.

Volkswagen has not opted for external independent verification of its report. Although assurance can be a costly exercise, checking of the relevance and accuracy of facts and figures, as well as the systems and processes that generated them, significantly adds to the credibility and, in many cases, quality of the report.

## 3 Management structure

Through the Group Values and Sustainability Model, by signing the Global Compact, Volkswagen's Board of Management can be seen to have made a clear commitment to sustainability management and issued a directive to implement sustainability management throughout the Group. In addition, a series of policies and standards have been created which are vital in the implementation of high-level principles. Volkswagen was the only company in the automotive sector to issue a 'Declaration on Social Rights and Industrial Relations' in 2002.

In line with good practice, Volkswagen has established a cross-functional Sustainability Steering Group, supported by a Sustainability Working Group and a Sustainable Financial Markets Working Group and reporting to the Group Board of Management. An overview of the programme of work carried out during the reporting year would also be of interest in future reports. Unlike many sustainability reports, Volkswagen offers some insight into the coordination of sustainability at the different levels of the group, that is that brands and companies develop their own specific solutions through regular meetings of the sustainability and environmental officers and at regional conferences. The integration of environmental and social standards into the group's purchasing processes is highlighted as a core challenge, and this could be explored further together with other challenges of sustainability management.

## 4 Review of core issues

### 4.1 Climate and energy

#### 4.1.1 Position

Volkswagen describes climate change as 'the greatest environmental challenge of our day and age.' It believes the situation calls for a reduction in the emissions of greenhouse gases and in June 2005 signed a statement to mark the G8 Summit urging a rapid approach to climate care. The company identifies innovation processes as vital to the development of 'environmentally compatible products and production processes'.

#### 4.1.2 Programmes

All Volkswagen brands have set targets for their product development activities across a range of areas, including materials, production processes, recycling, fuel consumption, emissions, exhaust standards, soil and water pollution. Bringing down fuel consumption is identified as a primary goal, and the report documents progress in introducing fuel-efficient engines to various car models. Volkswagen's fuel strategy targets the use of different energy sources, primarily bio-mass which is CO<sub>2</sub> neutral. To this end, the company is backing the EU's Biofuel Directive which aims to raise the market share of fuels derived from renewables to 5.75% across Europe by 2010. In terms of production processes, it is noteworthy that by the end of 2006, almost all of the group's production plants will have a certified environmental management system in place (EMAS or ISO14001). Energy saving programmes have been drawn up and implemented at all the group's production plants since 2002. They are stewarded by 140 specially trained employees. Comprehensive water saving programmes have also been introduced, including employee awareness campaigns and technical measures.

#### 4.1.3 Performance

At first sight, Volkswagen's environmental performance indicators suggest a mixed performance. Energy consumption and CO<sub>2</sub> emissions have increased slightly since 2002. According to Volkswagen, however, this is because the demands placed on vehicle manufacturing are coming to entail ever more energy-intensive manufacturing processes but that these processes simultaneously result in lower vehicle fuel consumption, and their overall environmental impact is thus positive. It would nevertheless be helpful to establish targets for these vital indicators. There has also been a continuous decrease in water consumption since 2002, reflecting the positive impact of water saving programmes. Investments in environmental protection have declined significantly since 2002, in line with a fall in overall levels of investment in new models.

### 4.2 Demographic change and employment

#### 4.2.1 Position

Volkswagen is anticipating an increase in the average age of its workforce over the next few years, in line with demographic trends of population ageing and lower fertility.

#### 4.2.2 Programmes

Volkswagen is seeking to maintain workers' employability in four main ways. First, so-called 'lifelong learning' to maintain the employability of older workers. To this end, 'Job Family Development Programmes', geared to specific job families, have been created across the group. Second, the advancement of women – a Women's Advancement department has been established, and women's officers offer a range of projects including mentoring, measures to increase the proportion of female employees, and the creation of networks. Third, Volkswagen uses a number of age- and family-related working-time models, including part-time and shift-work. Employees can be released from their duties for up to an astonishing eight years with a guarantee that they will be taken on again. Finally, protecting health and safety at work is vital to maintain workers' employability. Programmes in place range from back training to cancer screening and HIV/AIDS prevention in South Africa and Brazil.

### 4.2.3 Performance

Volkswagen's social indicators do not directly show the impact of the company's preparations for demographic change and an ageing workforce which it has highlighted as a key challenge, and it is a pity that this link is not referenced in the commentary. There is no quantitative data on the take-up of age- and family-related time-models, nor on progress in the advancement of women. Indeed, the proportion of women employed in production plants remains low (12%), and this is not compared to the gender ratio at other levels.

Nevertheless, the company's low and falling rate of employee turnover (1.6% in 2004) is a good indication that the company is an attractive place to work. The number of accidents and days lost due to accidents has also fallen significantly over the last three years, thanks particularly to occupational safety programmes in China and Latin America.

## 5 Certification

Volkswagen received significant external recognition during the reporting cycle, captured in various different parts of the report's full text, and including:

- Volkswagen's Environmental Report 2003/04 was the highest scoring German report (22<sup>nd</sup> place) in SustainAbility's ranking, 'Global Reporters 2004 – International Benchmark in Sustainability Reporting'
- Inclusion in the FTSE4Good Index, though not in the Dow Jones Sustainability Index (DJSI).
- Almost all of the group's production plants will have a certified environmental management system in place (EMAS or ISO14001).

## 6 Ethical Insight's comment

3½ Star Rating: ★★☆☆

Volkswagen's reporting practices and environmental reporting emerge as the main strengths of its first sustainability report. Exceptionally, the report discusses a number of key challenges the company is facing and it is a pity that these are not followed up more directly throughout the rest of the report. Social programmes and performance, including community or development initiatives, should be covered in more depth to match the quality of environmental reporting.

### *Reporting Practices*

#### **Materiality**

The report addresses material issues more directly and comprehensively than most sustainability reports, devoting one of the report's four main sections to key challenges the company is facing in the areas of safety and health; climate and energy; demographic change and employment; and globalisation and local responsibility. The report's explicit discussion of 'conflicting goals' is also exceptional.

#### **Transparency**

Importantly, the report does not shy away from difficult or sensitive issues. Notably, it includes a special article on the Volkswagen corruption affair which has appeared in recent media, as well as statements from the Works Council and an independent review. Further disclosure of critical dialogue with NGOs and political lobbying activities is also necessary to help demonstrate responsible behaviour and would strengthen the report's credibility.

#### **Comparability**

Most of the Global Reporting Initiative indicators are included in the report, providing a useful framework for inter-company comparisons. A good range of environmental indicators is provided, but economic and social indicators could be extended, particularly in the areas of diversity and community impact. Data is presented over multiple years to allow comparison over time, and the accompanying explanation of trends is insightful.

#### **Assurance and Verification**

Volkswagen has commissioned an independent review of the report which usefully identifies a number of missing items of information, and makes general recommendations to keep up the good work. A more detailed critique, with an expanded discussion of findings and recommendations, together with the company's response and planned action, would be an improvement in future reports.

#### *Review of Core Issues*

**Climate and energy:** Volkswagen supports the reduction of greenhouse gas emissions, primarily through innovation. The report describes activities to improve performance across a broad range of environmental indicators which, helpfully, are accompanied by definitions and an explanation of trends. At first sight, energy consumption and CO<sub>2</sub> emissions appear to have increased but a plausible explanation suggests the overall environmental impact is positive, and water savings' programmes are having an impact. Time-bound targets are identified but these could be more specific and long-term in some cases.

**Demographic change and employment:** Volkswagen identifies demographic changes as a key challenge, and describes a number of measures in preparation for an increase in the average age of its workforce over the next few years. These include a programme of 'lifelong learning' to maintain the employability of older workers, a number of age- and family-related working-time models, and employee health and safety measures. Future reports should seek to identify a more comprehensive range of social indicators to demonstrate the impact of these measures, for example the take-up of age- and family-related time-models and gender ratio at different levels of the business. Nevertheless, the company's low and falling rate of employee turnover (1.6% in 2004) is a good indication that it is an attractive place to work.

## 7 Appendices

### 7.1 Maplecroft's Ethical Insight report review criteria

Maplecroft's Ethical Insight report reviews are based on a four-pillar framework, taking into account reporting practices, corporate responsibility management structure, management systems (policy, programme and performance), and certification. The review of management systems considers the company's core issues as identified by the company in its report and by Maplecroft on the basis of the company's industry sector. Maplecroft is currently developing a map of core issues by sector which will be available shortly. The report review criteria are not comprehensive, but are designed to highlight the most significant practices and performance within each company, as well as important omissions and areas for improvement in future reporting.

- **Reporting practices** are reviewed on the basis of four key reporting principles:
  - **Materiality:** Does the report cover all the key issues relevant to the sector? Does the report provide the context and relevance of each issue to the company? Has the company engaged with key stakeholders in identifying and exploring material issues?
  - **Transparency:** Does the report disclose regulatory non-compliance? Does the report make other sensitive or groundbreaking disclosures? Is there public reporting at the local level?
  - **Comparability:** Does the company report in accordance with the GRI guidelines or other external metrics? Have internal metrics and data collection/management systems been developed? Does the report clearly present key indicators and targets?
  - **Assurance and verification:** What type of assurance and verification are provided? What is the scope of assurance and verification? What are the feedback / results of the assurance and verification process?
- **Management structure** is assessed on the basis of three main criteria: Is there a board level CSR Committee (or equivalent) in place? Is there a dedicated CSR network in place? Has the company signed up to any best practice principles or external bodies?
- **Management systems** incorporate principles (governance level), policies (strategic level), procedure and guidance (executive level) and practise (operational level). For a selection of the company's core issues, Maplecroft reviews policy, programme and performance.
- **Certification** refers to the company's listing on sustainability indices, such as the FTSE4Good and Dow Jones; external certification such as SA8000 and ISO14001; and any external awards received during the reporting year.

## 7.2 Previous Ethical Insight report reviews

Ethical Insight includes a review of a company sustainability report in each fortnight's edition. These reviews, together with the original report, can be accessed from the Maplecroft website at <http://www.maplecroft.net>.

Previous Maplecroft reviews are as follows:

- ABN Amro sustainability report 2003
- Alcan corporate sustainability report 2004
- Alcatel - Sustainable Development Report 2004
- Anglo American Report to Society 2004
- BAA annual report 2003/2004
- BAE Systems corporate responsibility report 2003
- BBC Corporate Sustainability Report 2004
- BHP Billiton Sustainability Report 2005
- BP Sustainability Review 2004
- Cadbury Schweppes Corporate and Social Responsibility Report 2004
- Citigroup Citizenship Report Review 2004
- Coca-Cola's 2004 Citizenship Report
- Co-operative Group corporate responsibility report 2003
- HSBC Corporate Social Responsibility Report 2004
- Hydro corporate social responsibility annual report 2003
- Marks & Spencer Corporate Social Responsibility Report 2005
- Merck Corporate Responsibility Report 2005
- NEC CSR Report 2005
- Nike Corporate Responsibility Report 2004
- Rio Tinto 2004 Sustainable Development Review
- Royal Bank of Scotland's Corporate Responsibility Report 2004
- Royal Mail corporate responsibility report 2004
- RWE corporate responsibility report 2003
- Shell Foundation 'Enterprise solutions to poverty' Report 2005
- Standard Chartered 2004 Corporate Responsibility Report
- TPG annual report 2003
- TPG Corporate Sustainability Report 2004
- Unilever Social and Environmental Reports 2004
- Vodafone corporate social responsibility report 2003/04
- WestLB Sustainability Report 2005
- Westpac Stakeholder Impact Report 2004

### 7.3 Ethical Insight's sustainability reporting services

The Ethical Insight team at Maplecroft works with global organisations across all sectors, providing a range of specialist corporate responsibility advisory services. Further details about the wider range of Maplecroft services and the Maplecroft team are available at <http://www.maplecroft.net>.

In the area of sustainability reporting, we have considerable expertise in the full range of management systems that underlie effective social and environmental reporting, including auditing, indicators, monitoring, impact assessment and performance management. Maplecroft is also experienced in report writing, verification and assurance, having contributed substantively to several award winning reports.

The Ethical Insight team is also able to provide independent assurance and verification services of the highest standard, including in accordance with GRI and AA10000 criteria.

Maplecroft has developed a number of proprietary tools to assist companies in the reporting process. Specifically, we have developed the *Principles-plus multi-audit etool*, a practical and comprehensive auditing method that brings together a host of social and environmental standards, international best practice principles and instruments of corporate citizenship in a set of worksheets. The tool is designed to help companies assess their conformance with best practice requirements and identify the specific areas in which performance can be improved. A corrective action request form assists in the performance management process.

Maplecroft has also developed a *Human rights monitoring mechanism*, a straightforward electronic human rights survey, which can be used and adapted by companies to provide a detailed picture of human rights risk in its operations around the world. The survey assesses the human rights situation and management systems in place at the country level which, together with external country and issue specific human rights research, allow for a detailed analysis of the company's risk of complicity in human rights violations, and specific recommended action points.

The Ethical Insight team comprise fully trained and experienced SA8000 and ISO14001 auditors.

Please call us or email to discuss how our award winning Ethical Insight team might help:

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