BASF Value-to-Society and the Economy for the Common Good balance for BASF

Gerd Hofielen, Humanistic Management Practices gGmbH

Berlin, May 2020

ECONOMY FOR THE COMMON GOOD	HUMAN DIGNITY	SOLIDARITY AND SOCIAL JUSTICE	ENVIRONMENTAL SUSTAINABILITY	TRANSPARENCY AND STAKEHOLDER CO-DETERMINATION
SUPPLIERS	Human dignity in the supply chain A1	Solidarity and social justice in the supply chain A2	Environmental sustainability in the supply chain A3	Transparency and co-determination in the supply chain A4
OWNERS, EQUITY- AND FINANCIAL SERVICE PROVIDERS	Ethical position in relation to financial resources B1	Social position in relation to financial resources B2	Use of funds in relation to social and environmental impacts B3	Ownership and co-determination B4
EMPLOYEES, INCLUDING CO-WORKING EMPLOYERS	Human dignity in the workplace and working environment C1	Self-determined working arrangements C2	Environmentally-friendly behaviour of staff C3	Co-determination and transparency within the organisation C4
CUSTOMERS AND OTHER COMPANIES	Ethical customer relations D1	Cooperation and solidarity with other companies D2	Impact on the environment of the use and disposal of products and services D3	Customer participation and product transparency D4
SOCIAL ENVIRONMENT	Purpose of products and services and their effects on society E1	Contribution to the community E2	Reduction of environmental impact E3	Social co-determination and transparency E4

Sustainability experts at BASF have developed a new approach to showcase sustainability performance: Value-to-Society. This approach presents the value chain from suppliers to the effects on customers in monetary terms. This is a good method for demonstrating the economic impact of a company. However, the sustainability performance is only partially captured with this approach and, omitting essential social aspects, is ultimately only depicted in fragments. Therefore, it is interesting to examine BASF's sustainability performance using the „ethical accounting" framework of the Economy for the Common Good. Firstly, this makes BASF's business contours much more visible; and secondly, provides information concerning the omissions of the Value-to-Society method.

How did the idea for an Economy for the Common Good balance sheet for BASF come about?

Wolfgang Strengmann-Kuhn, member of the Bundestag for Bündnis90/Die Grünen, asked at a hearing of the Greens in the Bundestag: "Would you prepare a public interest balance sheet for BASF?" The question was addressed to Saori Dubourg, member of the Board of Executive Directors of BASF with responsibility for sustainability. The answer was, "I don't know about that, but we can start a conversation." After attempts to initiate a conversation failed to produce any results, the author of this article decided to embark on his own initiative to create a Economy for the Common Good (ECG) balance sheet for BASF. He was supported in his efforts by Michael Schnitzlein, who had examined the sustainability performance of companies listed in the C-DAX in his bachelor's thesis.

Preparing an ECG balance sheet from the outside is an unusual procedure, because it is usually the companies themselves that prepare the ECG balance sheet. They are in possession of their data and can therefore best prepare the balance sheet. Normally, ECG balances are completely checked by external auditors and only then are they published.

In contrast, BASF's ECG balance sheet, which is discussed here, was prepared using only the published information that could be found in the BASF Sustainability Report for 2018. In addition, the sustainability ranking analysis of the agency ISS-oekom was also taken into consideration. These rankings are not made available to the public but must be purchased and are used by investors such as family offices, banks and investment funds to provide information when they are deciding on investments.

The available information from these two sources was entered into the sustainability accounting method of ECG in order to produce the Common Good Balance for BASF. The gaps in the available data meant that it was decided not to use the ECG points scoring system in the case.

Structure of the article

BASF presented its Value-to-Society approach at the subject-specific hearing in the German Bundestag, an approach that claims to be a new, meaningful way of reporting on BASF's sustainability performance. The results are apparently used internally at BASF to make decisions on the future of the product portfolio. BASF has now convinced other corporations to improve the method and apply it to their business environment.

Because of this increased importance of the new approach, full attention will first be paid to it and then - building on the discussion of Value-to-Society - the Common Good balance sheet and its possible insights will be discussed.

What does Value-to-Society want to accomplish?

BASF recognizes that companies have an obligation to society to publicly account for their use of resources and presents an overview of the value added from suppliers to its own company and all the way to customers. It is presented in monetary units, in euros.

"BASF's Value-to-Society approach supports our understanding and monitoring of our contribution to a sustainable future by quantifying and valuing impacts on society in monetary terms."

BASF Value-to-Society Method Paper, page 1

At the same time, the company takes precautions against the possibility that any liability issues or claims of a legal nature could be derived from the reports.

"BASF Value-to-Society results do not create any liabilities, implied costs or any rights to offset any amounts of contain therein, nor does it trigger any provisions and neither does it result in any off balance sheet commitments."

page 13, ibid.

This is the admission that the reported facts may influence or impair the legitimate interests of the general public to a considerable extent. For this reason, most companies have so far refused to submit substantiated reports. If reliable statements are made about damage to common goods or the commons, it is only natural that those responsible for the damage should also be called to account and demanded compensation (polluter pays).

Even if the information only covers what can be assessed in a reasonably serious monetary way, the Value-to-Society approach is still very valuable and a real step forward compared to the established practice of sustainability reports, which only provide partial information and not a holistic view of a company's real social and environmental impact.

However, the choice of method of capturing everything that has a monetary value and omitting what cannot be valued in monetary terms leads to considerable reporting gaps.

"The boundaries for the calculation along the value chain are defined based on the relevance of the value chain step, the availability of data and methodologies, and the feasibility of the calculation approach at each level of our business."

page 3, ibid.

Many topics that are fundamental to the wider discussion of sustainability and corporate responsibility do not appear at all in a purely monetary presentation. Working conditions, human rights and human rights violations, the co-determination of employees and other stakeholder groups, ethical diligence in the selection of suppliers, honesty in tax payments, handling of donations to political parties etc. are not included in the monetary evaluation, admit the authors of the Value-to-Society approach.

"Some material impacts, such as human and labor rights, are not yet included in BASF's Value-to-Society due to maturity concerns around data availability and the absence of widely accepted quantification and valuation methods."

page 5 ibid.

What is being captured by Value-to-Society?

The claim to show the effects in the value chain is extended to all suppliers and customers reached by BASF's economic activities. The value flows to capital, employees and society are recorded, as is the use of the main environmental resources insofar as they have a quantifiable monetary value.

"The baseline model includes the following impact categories

- *Economic (EBIDA): Profits (incl. interests), amortization and depreciation*
- *Social: Taxes, wages and benefits, human capital (for own operations only), health and safety*
- *Environmental: Air pollution, greenhouse gases (GHGs), land use, water use, water pollution, and solid waste."*

page 4 ibid.

Does BASF have an ethical motivation?

„We strive to improve our positive contribution to society and minimize our negative effects."

page 1 ibid.

The Value-to-Society approach includes suppliers and customers. This is an important step towards reflecting the responsibility of a company. It shows the extent to which purchasing policies and product development decisions can influence the market. This is particularly true when a company has the economic clout of a transnational corporation.

This approach also shows that if the company wanted to apply an ethical lens to upstream and downstream companies and opted for more ethical business practices, it could indeed increase the holistic value to society of the business system of which it is a part and which it has an influence on.

What could be regarded as the ethical obligation of a company? The Non-Financial Reporting Law of the German government, which was prompted by an EU Directive, lists five concerns: environment, employees, social affairs, human rights and prevention of corruption. In each of these concerns, the law requires, according to the dual materiality principle, that business relevance (for the business interests of the company) and external impact relevance (the effect on other stakeholders) be addressed.

The ethical due diligence could lead to questions such as:

- How are suppliers selected who, for their part, practice responsible management of employees, ecological resources and the social environment?
- How does the company deal with the risk of human rights violations by suppliers and their sub-suppliers?
- What rights of participation and co-determination do the company's employees have?
- What goals does the company set itself to improve its own ecological footprint and the ecological effects of products in their life cycle?
- To what extent does the company cooperate with competitors and is this fully reported?
- What practices does the company adopt in determining its own tax liabilities?
- When dividends are being distributed, is the necessary investment expenditure to ensure future viability taken into account?

These questions cannot be answered in a yes-no formula, but require a description of the practices and methods used in dealing with these issues. The interests of the respective stakeholder groups must be weighed up and the conflicts and risks must be addressed. Those familiar with the sustainability discussion know that there is hardly anything that constitutes agreed practice yet; everything is work-in-progress and this should be reflected in the reports. However, there is no room for these considerations in a purely monetary presentation.

What is the essence of Value-to-Society?

“According to our analysis, our value contribution to society has been net positive from 2013 to 2016, and the results show a stable distribution of economic, social, and environmental impacts. In each step of the value chain, the benefits of our business activities substantially exceed the costs to society. Economic impacts are positive along with taxes, wages and benefits, human capital. Negative impacts are health and safety incidents as well as impacts on the environment. ”

page 5 ibid.

All right? So full speed ahead? There are no significant risks? We can continue as before? If this is the main message and purpose of Value-to-Society, it would do a grave disservice to the concerns of sustainability reporting and corporate responsibility.

The rough calculations presented by BASF Executive Board member Saori Dubourg at the expert hearing in the German Bundestag were – only for the business segment of BASF – in the year 2018

- Value added for capital 60 billion Euros,
- the added value for people and society 40 billion Euros,
- the extraction of value from nature was estimated at 30 billion Euros.

The conclusion is obvious: if BASF had had to pay for the extraction of value from nature, the so-called externalities, or had to provide compensation for damage, the flow to capital would have shrunk to EUR 30 billion. Or: for a monetary added value of 70 billion euros for capital, people and society, 30 billion euros of ecological damages would have been incurred.

BASF's Value-to-Society remains within the realm of conventional business thinking and monetarizes precisely the business model that causes damage to nature and society. Instead of referring to levers that are suitable for transforming the company into a sustainable business model, it simply monetarizes the pain.

And yes, BASF deserves high praise for its courage to demonstrate the harmful effects in detail, even if it is only a partial responsibility.

What is still missing is the will to go beyond the threshold of profit maximisation and pay for the restoration of the environment and human damage. For example, with the initiative to recover plastic from the oceans and recycle it. Now that the company can quantify the damage, it could use resources for restoration - and convince other players in the industry to follow suit. Another forward-looking step would be to reduce or eliminate environmentally harmful business activities. This consideration is supported by the valuable set of figures provided by Value-to-Society.

The great illusion of a monetization approach, however, is that the services of nature are limitless. Humanity has learned in the last few years of climate crises that this is not the case. A company needs different methods to introduce hard stops to pollution, such as a scientifically based reporting system and clear goals to significantly reduce pollution in the coming years, supported by stringent planning and self-imposed alarms if goals are missed. This attitude is not promoted or demanded by Value-to-Society.

In view of the findings to be acknowledged and the lamentable gaps in Value-to-Society reporting, BASF's business model was considered using the sustainability reporting method of Economy for the Common Good (ECG).

The attempted ECG balance for BASF

No detailed presentation of the ECG ethical accounting method is given here. For more information, please refer to an article in the magazine Ökologisches Wirtschaften 2-2019, which elaborates on the distinctive aspects of the ECG method, which be found at

https://www.hm-practices.org/forschung/nachhaltigkeitsberichte-mit-biss-zum-potential-von-gemeinwohl-bilanzen (in German only) or follow the link to *https://www.ecogood.org/apply-ecg*

The differences from an ECG balance prepared by the company itself were already pointed out at the beginning. The ECG balance sheet presented here provides just an initial impression, with the different coloured cells having the following interpretation:

- which topics of the ECG balance are not reported by BASF at all or about which no statements were found in the oekom ISS rating – the grey fields;
- on which topics statements were found that comply with legal requirements or European business practices – the yellow fields;
- the topics on which the statements could permit a positive assessment, because the practices are ethically better than the legal or usual level – the green fields;
- the topics for which the ECG assessment would lead to negative assessments due to the harmful effects – the red fields.

	HUMAN DIGNITY	SOLIDARITY AND SOCIAL JUSTICE	ENVIRONMENTAL SUSTAINABILITY	TRANSPARENCY AND STAKEHOLDER CO-DETERMINATION
SUPPLIERS	**A1 Human dignity in the supply chain** **A1.1 Working conditions and social impact in the supply chain** *Supplier standard as binding agreement (not regulated by law)* **A1.2 Negative aspect: violation of human dignity in the supply chain** *Alleged failure to respect the right to an adequate standard of living* *BASF has operations in countries/disputed territories classified as 'Not Free' or 'Partly Free' by Freedom House (e.g. United Arab Emirates)*	**A2 Solidarity and social justice in the supply chain** **A2.1 Fair business practices towards direct suppliers** *BASF uses the Together for Sustainability audit process to interact directly with their supply chain concerning sustainability* **A2.2 Exercising a positive influence on solidarity and social justice throughout the supply chain** *There is no valid information* **A2.3 Negative aspect: abuse of market power against suppliers** *There is no valid information*	**A3 Environmental sustainability in the supply chain** **A3.1 Environmental impact throughout the supply chain** *First steps: EcoVadis method is used as a CSR-Rating-System to identify risks in the supply chain* *Supplier standard implemented* *No presumption that this standard is binding* **A3.2 Negative aspect: disproportionate environmental impact within the supply chain** *BASF receives raw materials from critical countries with very low environmental regulations like e.g. Bangladesch, China, Hongkong, India, Indonesia, Malaysia, Pakistan* *Raw material portfolio broken down by nation should be published*	**A4 Transparency and co-determination in the supply chain** **A4.1 Transparency towards suppliers and their right to co-determination** *Business code of ethics is implemented* *No valid information that employees are required to confirm in written form that they have read and understood the code* **A4.2 Positive influence on transparency and co-determination throughout the supply chain** *There is only few valid information*
OWNERS, EQUITY- AND FINANCIAL SERVICE PROVIDERS	**B1 Ethical position in relation to financial resources** **B1.1 Financial independence through equity financing** *There is no valid information* **B1.2 Common Good-orientated borrowing** *There is no valid information* **B1.3 Ethical position of external financial partners** *There is no valid information*	**B2 Social position in relation to financial resources** **B2.1 Solidarity- and Common Good-orientated use of funds** *There is no valid information* **B2.2 Negative aspect: unfair distribution of funds** *No valid information why employees have been affected by job-cuts*	**B3 Use of funds in relation to social and environmental impacts** **B3.1 Environmental quality of investments** *There is no valid information* **B3.2 Common Good-orientated investment** *There is no valid information* **B3.3 Negative aspect: reliance on environmentally unsafe resources** *There is no valid information*	**B4 Ownership and co-determination** **B4.1 Common Good-orientated ownership structure** *Legal structure of BASF is suitable for comprehensive participation* **B4.2 Negative aspect: hostile takeover** *There is no valid information*
EMPLOYEES, INCLUDING CO-WORKING EMPLOYERS	**C1 Human dignity in the workplace and working environment** **C1.1 Employee-focused organisational culture** *Freedom of association and collective bargaining are guaranteed, at least in Germany* *No indication that this also applies to other countries* **C1.2 Health promotion and occupational health and safety** *First steps to enhance employees safety are implemented* *Accident rate is on a common industry level* *Some fatal accidents in recent years* **C1.3 Diversity and equal opportunities** *No shift towards more diversity recognizable* *BASF simply fulfills statutory requirements* **C1.4 Negative aspect: unfit working conditions** *No information about their oil and gas operations with unsafe working conditions is published* *There are operations in critical countries* *Fatal accidents were found in recent years*	**C2 Self-determined working arrangements** **C2.1 Pay structure** *Internal pay gaps not disclosed* *Women to men pay ratio not disclosed* **C2.2 Structuring working time** *BASF strives for fair working conditions for employees* **C2.3 Employment structure and work-life balance** *There is no relevant information published* **C2.4 Negative aspect: unfair employment contracts** *There is no relevant information published*	**C3 Environmentally-friendly behaviour of staff** **C3.1 Food during working hours** *There is no information published* **C3.2 Travel to work** *There is no information published* **C3.3 Organisational culture, cultivating awareness for an environmentally-friendly approach** *BASF just fulfills legal standard* **C3.4 Negative aspect: guidance on waste/ environmentally damaging practices** *There is no information published*	**C4 Co-determination and transparency within the organisation** **C4.1 Transparency within the organisation** *There is no information published* **C4.2 Legitimation of the management** *There is no information published* **C4.3 Employee co-determination** *There is little information published* **C4.4 Negative aspect: obstruction of works councils** *There is no information published*
CUSTOMERS AND OTHER COMPANIES	**D1 Ethical customer relations** **D1.1 Respect for human dignity in communication with customers** *There is no information published* **D1.2 Barrier-free access** *There is no information published* **D1.3 Negative aspect: unethical advertising** *There is no information published*	**D2 Cooperation and solidarity with other companies** **D2.1 Cooperation with other companies** *There is no information published* **D2.2 Solidarity with other companies** *There is no information published* **D2.3 Negative aspect: abuse of market power to the detriment of other companies** *There is no information published*	**D3 Impact on the environment of the use and disposal of products and services** **D3.1 Environmental cost-benefit ratio of products and services (efficiency and consistency)** *BASF is already partially addressing environmental risks of products* *Some environmentally friendly products are part of the product portfolio* **D3.2 Moderate use of products and services (sufficiency)** *There is no information published* **D3.3 Negative aspect: wilful disregard of dis-proportionate environmental impacts** *BASF accepts serious environmental impacts of products if financially profitable* *Product portfolio includes pesticides that lead to depletion of biodiversity* *Using Fracking to produce fossil energy is environmentally highly damaging*	**D4 Customer participation and product transparency** **D4.1 Customer participation, joint product development and market research** *BASF is taking the first steps to ensure responsible handling of its products on the customer side, e.g. providing safety data sheets, training, hotlines and global customer emergency support.* **D4.2 Product transparency** *There is no information published* **D4.3 Negative aspect: non-disclosure of hazardous substances** *There is no information published*
SOCIAL ENVIRONMENT	**E1 Purpose of products and services and their effects on society** **E1.1 Products and services should cover basic needs and contribute to a good life** *There is no information published* **E1.2 Social impact of products and services** *BASF reduces animal testing and replaces it with other methods.* **E1.3 Negative aspect: unethical and unfit products and services** *Percentage of unethical products (live harming, ecologically harmful etc.) is more than 10% (rather 15, 20 or more)* *Including GMOs, pesticides, chlorinated hydrocarbons, alcohol, products based on animal testing and fossil fuels gained by critical methods like hydraulic fracturing.*	**E2 Contribution to the community** **E2.1 Tax and social security contributions** *Total monetary value of social commitment, broken down by some relevant sub-categories such as countries is published* **E2.2 Voluntary contributions that strengthen society** *Total monetary value is published* **E2.3 Negative aspect: inappropriate non-payment of tax** *Complex tax-planning strategies to reduce tax obligations amounting to almost €923m in several countries (November 2016)* *Minimising tax obligations by shifting profits to low-tax subsidiaries in Puerto Rico and Switzerland* *International financial transactions are not reported transparently* **E2.4 Negative aspect: no anti-corruption policy** *Clear anti-corruption standard applicable for the entire company is established. Whistle-blowers are protected* *Group-wide code of ethics and procedures to ensure compliance* *Clear rules on anti-corruption, insider trading, gifts, etc.* *Company does not disclose information about political influence exercised*	**E3 Reduction of environmental impact** **E3.1 Absolute impact and management strategy** *Some structures and measures for risk management have been implemented. Detailed information on relevant environmental indicators is published. However, most business activities only meet legal standards..* **E3.2 Relative impact** *A good and comprehensive knowledge of environmental impacts and environmental consequences of business activities is available. Reduction and improvement targets are not clear* **E3.3 Negative aspect: infringement of environmental regulations and disproportionate environmental pollution** *Large-volume hydraulic fracking was performed in Argentina (December 2017)* *Plaintiffs complained that the company had sold a defective product to farmers despite numerous reports that it could damage neighboring crops (January 2018)* *Products may be legal in the countries where the incidents occurred, but not in the country of the company headquarters (Germany). (BASF is taking part in pollution export)*	**E4 Social co-determination and transparency** **E4.1 Transparency** *Detailed CSR-report is published* *Information is readily accessible* *CSR-report contains many reliable information (e.g. economic and ecological indicators etc.)* *Information about social aspects, absolute environmental impact is not detailed* *Report has not been audited by an independent body* **E4.2 Social participation** *Communication channels on its own initiative to integrate the social environment into its business concept are established* **E4.3 Negative aspect: lack of transparency and wilful misinformation** *There is no information published*

ECONOMY FOR THE COMMON GOOD

Harmful effects | Industry and legal standards | Ethically positive impact | No usable information

The findings of this ECG balance accomplished with a view from outside and with publicly available data allow some important insights.

First, on the Economy for the Common Good method:

- The ECG method places corporate practice in a more complete responsibility framework than the Sustainability Report presented by BASF. This is shown by the many gray areas in the ECG balance sheet. By referring to basic values of democratic constitutions, the ECG matrix measures corporate practice against the standards of modern societies.
- Effects harmful to the common good (see below in the societal domain) are easily recognizable in the ECG balance sheet, because they are evaluated with negative points and the ECG balance sheet shows the negative evaluations in a format which is recognizable at first glance. In BASF's CSR report, interested parties would have to invest considerable time and effort in studying to find this information or they would have to buy the ISS-oekom Ranking.

Secondly, on BASF's sustainability performance:

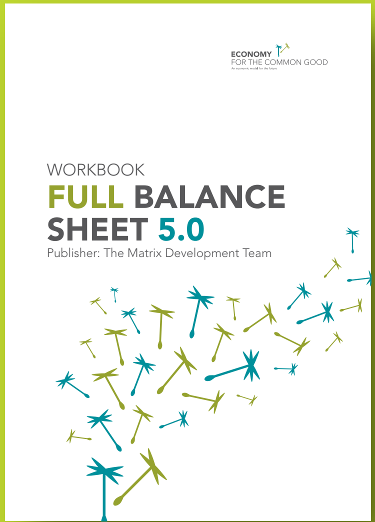
- In its dealings with suppliers, BASF adheres to the minimum conditions that are usually observed in European corporations and cooperates with suppliers for better environmental and social standards. When dealing with suppliers from countries with weak or non-sanctioned environmental and social protection laws, BASF does not fully clarify the risks.
- The ethical quality of the use of financial resources (equity capital, borrowed capital, ecological investments) could not be elucidated due to a lack of information. This is very noticeable in an economic system in which so much revolves around financial resources.
- The corporate culture meets the standards in Europe, and in some cases goes over and beyond them (Code of Ethics, freedom of association, health and safety at work, despite some fatal accidents, especially with subcontractors).
- No information is provided about pay differentials between directors and other employees nor about the opportunities provided to managers and other employees to participate in decision making.
- There is no meaningful information on conduct towards customers or on cooperation with other companies.
- The topic of sufficiency and how customers could be encouraged to use BASF products sparingly is not mentioned.
- The environmental impacts of products are addressed. There is a lot of information on this. However, the ECG assessment would also be negative here because products with harmful environmental impacts are manufactured and sold (pesticides, fracking).
- The effects in the social environment are strikingly inconsistent. Positive aspects are the reduction of animal experiments, detailed information on tax payments and voluntary benefits for society in various countries. Measures are in place to prevent corruption and insider trading, and the ecological effects of production are reported in detail, but BASF does not set any ambitious reduction targets. The CSR Report provides a certain degree of transparency, but is not externally audited.
- The negative effects are on the one hand the result of harmful and controversial products and production methods: genetically modified organisms, pesticides, chlorinated hydrocarbons, alcohol, products from animal experiments and fossil fuels obtained by critical methods such as hydraulic fracking. On the other hand, BASF's tax avoidance strategies would lead to negative assessments (complex tax planning strategies to reduce tax liabilities of almost €923 million in several countries; November 2016). Minimization of tax liabilities by shifting profits to low-tax subsidiaries in Puerto Rico and Switzerland. International financial transactions are not reported transparently.

Conclusion

BASF's claim quoted above “We strive to improve our positive contribution to society and minimize our negative effects“ is probably true and not a sham claim. However, the chosen new reporting method of Value-to-Society does not really allow for the identification of key decision points and ethical conflicts. It is also not suitable for presenting the social and ecological footprint in a balanced way.

In order to improve the positive contribution, it is essential to report in full on the adverse societal and environmental impacts and to present and discuss many of the issues that would become visible in a review using the ECG balance method. The transformation to a sustainable, future-worthy enterprise requires courageous and ethically sound reflections. 'Ethical' is used here with the meaning of avoiding negative effects on those involved in value creation and strengthening positive value creation for all stakeholders. For this reason, the company should be prepared to overcome or question the ways of thinking and acting within the current primarily finance focused logic.

More about the topic



Design | Lutz Dudek, werkzwei.de

Humanistic Management Practices gGmbH
Gerd Hofielen
Matterhornstraße 47
14129 Berlin

Contact
+49 (0) 178 23 68 814
gerd.hofielen@hm-practices.org

ECONOMY
FOR THE COMMON GOOD
Company with Balance
and Audit

Humanistic Management Practices