



Case Study

# FKT GmbH (automotive industry)

## *Sustainability as an innovation driver in supply chains*

### 1 Key messages

- A high internal real net output ratio and regional supply chains have helped improve the resilience of FKT GmbH (hereinafter referred to as: FKT).
- As the company operates as a direct supplier for car manufacturers, the queries it receives on the topic of sustainability provide a ‘trend barometer’ and help drive innovations at the firm.



- If certain raw materials from a customer company are identified as potential risk raw materials and included in due diligence measures, FKT incorporates this assessment in its own sustainability management.
- In the ideal scenario, trend topics communicated by customers help drive innovation at FKT and have a positive impact on the firm’s competitive standing.
- The added value is clearly demonstrated in the ongoing dialogue and partnerships with customers and suppliers, often in monetary terms in customer relations.



Fig. 1: Wind deflector, FKT

## 2 Company introduction

FKT is a certified development and systems suppliers in the premium car sector with a global presence. It's core business lies in shading systems, cargo management systems, wind deflectors for convertible vehicles, bodypacks for accessories and injection moulding technology.

FKT employees around 200 people at its Pförring site, which is home to the development, production, administration, injection moulding and mechanical production departments.



Fig. 2:  
Moulding, FKT

FKT is part of the [Start Future Now](#) initiative launched by the Inas institute. The initiative focuses on contributing to sustainable regional development and improving regional value creation. FKT is also a signatory to the Bavarian Environmental Pact.

## 3 What does the value chain structure look like in this sector?

The value chain for the automotive sector is largely globalised and differentiated. The wide variety of parts and components required for vehicle construction means that, at first glance, an entire range of economic sectors may appear to have nothing to do with the automotive sector, but are nevertheless associated with it. This includes the electronics, chemicals and textile sectors, for instance.

FKT is a supplier for several German car manufacturers. The company has long pursued the goal of achieving a high real net output ratio through product development and in-house manufacturing. Generating energy from renewable sources, which enables the company to manufacture for relatively lower costs and offset higher production costs in Germany, is one of the key ways to achieve this.

In addition, FKT tries to select as many companies from the region, e.g. Germany, as possible when selecting new suppliers. The current supply chain crisis has confirmed the effectiveness of this strategy to the company.

## 4 Sustainable supply chain management at FKT

Companies subject to the Supply Chain Due Diligence Act are required to satisfy adequate due diligence requirements along the entire supply chain. They need to establish a due diligence system based on the core issues or human rights due diligence (incl. a mission statement and risk analyses) set out in the National Action Plan for Business and Human Rights (NAP) in its basic structure. We will now take a look at how FKT plans to implement the main requirements.

#### 4.1 How is FKT structured in terms of supply chain management?

FKT relies on a decentralised structure to manage sustainability issues. For example, sustainability issues related to suppliers are settled in the Procurement and Supplier Management departments. Supplier agreements and requirements stipulated in the Supplier Code of Conduct are reviewed and modified, if required, in compliance with the LkSG. Supply chain management is also supported by the management team and Quality Management department.

One of the key objectives of supplier management is ensuring the level of sustainability among suppliers corresponds to the level required by customers. FKT has confirmed this objective in its preparations for the LkSG and plans to further ramp up supplier training over the coming months and years.

#### 4.2 Has FKT published a mission statement? If so, what does it include?

Previous experience has demonstrated to FKT that business practices which are good for people and the environment in the long term also leads to financial success. The company lives and reinforces this philosophy in written declarations and other publications.

#### 4.3 Does FKT conduct risk analyses?

Risk analyses are based on a combination of customer inquiries and information along with internal analyses. As the company operates as a direct supplier for car manufacturers, the queries it receives on the topic of sustainability provide a 'trend barometer' and help drive innovations at the firm. For example, if certain raw materials from a customer company are identified as potential risk raw materials and included in due diligence measures, FKT incorporates this assessment in its own sustainability management.

In recent times, customer inquiries have related to topics such as handling natural rubber. As a key raw material used to produce tyres and other rubber products, natural rubber is primarily obtained from Southeast Asia. The cultivation of rubber trees can be associated with negative environmental impacts, particularly when other highly diverse ecosystems (e.g. primary rainforests) are destroyed to make space for rubber plantations. FKT systematically analyses products and components and checks material databases when processing queries: Which (upstream) products use natural rubber? Which (upstream) suppliers are part of the value chain? In addition, alternatives for critical components are already specified during the inquiry process to ensure due diligence requirements are satisfied and subsequent tracking won't take place.

The handling of recycled and bio-based raw materials in terms of the circular economy is another other issue brought to FKT's attention by customer companies. In response, FKT has included this topic in its risk analysis and integrated it into supplier management. In the ideal scenario, trend topics communicated by customers help drive innovation at FKT and have a positive impact on the firm's competitive standing (see below).

Findings on the previously mentioned issues and others, including the handling of conflict minerals, are documented to ensure the risk analysis continuously evolves as a living document.

#### 4.4 Which measures have been implemented or are planned for the future?

**Supplier self-assessments:** FKT asks its direct suppliers about sustainability issues in the form of a self-assessment. The range of issues covered in the disclosure is closely linked to the company's risk analysis. For instance, if issues such as the procurement of the raw material natural rubber are brought to FKT's attention by customer companies, they are included in the self-assessment. Supplier self-assessments are reviewed by the supplier management team in the Procurement department. Sustainability criteria are directly incorporated into the supplier evaluation, meaning highly sustainable suppliers

have an advantage in this regard. A survey for the self-assessment was developed in cooperation with an external partner and has been kept deliberately short at a length of five pages. The survey is largely based on open-ended questions that give suppliers the opportunity to explain their own practices and the status of their sustainability management. It acts as an assurance and guide for the requirements described in the Supplier Code of Conduct. The survey is also broken down according to the corresponding Code of Conduct. In principle, the survey provides suppliers with an initial quick check. Following on from this, FKT conducts interviews, site visits and audits, if there are legitimate grounds for this.

When addressing suppliers, FKT emphasises the partnership-based approach of its supplier management.

*‘Please do not view this survey as a control method, but instead as a way to assure the requirements mentioned in the Code of Conduct are adhered to and provide support in this regard. We kindly ask that you complete these survey truthfully to the best of your knowledge. There is no ‘right’ or ‘wrong’. This survey was designed to facilitate an honest business relationship and partnership based on shared values and trust. In addition, we place importance on growing together and instigating improvements. That is the objective of this survey.’*

**Supplier development:** FKT aims to familiarise its suppliers with sustainability issues and has consequently taken on the role of being a partner. The idea behind this approach isn’t to penalise suppliers, but instead to implement (shared) improvements step by step. This approach is also based on the fact that it isn’t necessarily easy to switch suppliers in a highly specialised value chain and customers are highly sensitive the price.

As a supplier for car manufacturers, FKT needs to satisfy a number of concrete requirements. For example, the [BMW Group Sustainability Standards for the Supplier Network \(in German only\)](#). Among other aspects, these standards cover the topics of resource preservation, environmental protection and respecting human dignity. Only once the minimum requirements and all BMW-specific requirements are permanently met can orders be placed with reviewed suppliers. FKT met these requirements from day one.

FKT is subject to particular disclosure requirements that relate to the use of raw materials, e.g. in electrical engines. In this instance, FKT acts as a liaison between customers and suppliers at subordinate levels of the supply chain, particularly with regard to being able to systematically record and trace the use of conflict minerals such as tungsten and gold (to determine whether the raw material comes from a certified mine, for example).

**Issue-based development:** FKT also evolves in terms of certain issues in cooperation with customers. For instance, the issue of the circular economy is becoming increasingly prominent, as car manufacturers have drawn up catalogues of measures on the topic. One aspect covered by the measures is the use of recycled raw materials as secondary materials in order to reduce resource consumption. Customers now also want proof of the actual reuse of raw materials in the circular system. At FKT, maintaining an ongoing dialogue and striving for long-term partnerships with customers and suppliers has led to a number of novel product innovations, including the example below:

FKT converted a textile product manufactured for the car interior (storage compartment in the boot) to 100% recyclate for a car manufacturer. The idea for this novel approach was sparked by FKT – with the firm being ahead of the curve in this regard. The company has maintained a long partnership with a Chinese supplier, which produces exclusively for FKT. The supplier had received support from FKT for a number of years in the field of sustainability, including in relation to ISO 14001 implementation, which meant a conversion to a recyclate would be technically feasible. A cost-sharing agreement was

concluded with the car manufacturer for the extra price compared to opting for a conventional, less sustainable solution. This resulted in a win-win scenario for the customer and FKT: the customer was able to integrate the recycle solution into its product marketing, and FKT had the opportunity to expand its product portfolio to include a sustainable solution. Word of the new recycle situation soon spread around the customer's company, resulting in detailed discussions about potential new orders.

For FKT, getting ahead of the curve had proven its worth in terms of working hours (including working with suppliers and development costs), as the development led to an innovative product – in partnership with a supplier and with input from the customer. Ultimately, it gave FKT a tangible competitive edge.

**Partnerships and memberships:** As it is subject to strict quality requirements and wants to take a deeper look into the topic of the circular economy, FKT is involved in several initiatives and projects. This includes a research project within the scope of the previously mentioned Start Future Now initiative, which forms part of the ForCYCLE II project and involves a number of business partners, including the Technische Hochschule Ingolstadt. The goal behind this partnership is to establish specific KPIs that enable the company to compare its performance to others within a specific industry in terms of waste generation.

#### **4.5 What methods of communication and reporting are in place at FKT?**

FKT is currently preparing its first sustainability report in partnership with an external partner. This report will also help the company map out its sustainability profile and define key issues.

It will likewise be used to familiarise employees with the topic. A survey is currently being conducted among the management team on the relevance of sustainability issues and their prioritisation, which will be followed by a broad employee survey.

#### **4.6 How does the grievance mechanism work?**

FKT employees and business partners can contact the compliance officer by email to report any violations of the Code of Conduct or applicable laws. This process is anonymous. The grievance mechanism is explained on the [company website](#) and designed on the basis of customer requirements.

### **5 Summary: Long-term commitments pay off**

FKT has found that companies shouldn't expect changes to occur right away once sustainability management is introduced in the supply chain. As a result, companies should start by establishing a detailed dialogue with customers and suppliers – based on a clear and long-term plan for continuous improvement.

## **6 Sources**

Interview with Manuel Karrer, Head of Procurement and Michael Dussman, Supply Chain Management Employee at FKT GmbH (conducted on 25/11/2021).

FKT: Sustainability survey for business partners, suppliers and providers to query compliance with FKT sustainability requirements (version: 25/11/2021).



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