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FROM IMPERATIVE TO ACTION: EMBEDDING SUSTAINABILITY IN ORGANIZATIONAL DESIGN

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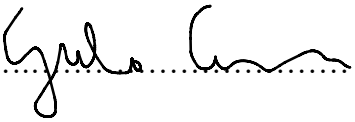
Firma (signature) ……  ……

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EXECUTIVE SUMMARY

The thesis provides an intricate analysis of the necessity for businesses to integrate sustainability into their organizational frameworks, strategies, and structure. It explores the theoretical underpinnings, strategic implications, and practical approaches to sustainability, emphasizing the need for an organizational change and cultural shift within organizations to embrace sustainable practices fully. Sustainability and environmental, social, and governance (ESG) issues affect how all companies do business, and increasingly so in recent years Companies, and their stakeholders, are recognizing sustainability as a strategic priority that involves significant business risks and opportunities. Some firms do not feel to have the right organization structure to successfully integrate sustainability (L.E.K. Consulting, 2022), so the works focus on the relevance of the organization design in order to embed sustainability in a 360-degree view. When we talk about sustainability referring to a company, it doesn't only change its perspective of strategy but also, consequently as theorized by Chandler in 1962, affect its structure. A change of perspective in the strategy, requires, as a consequence, a rethinking of the organization design with the goal to achieve in the most effective way the final target of the strategy.

Through case studies and comparative analysis, the thesis illustrates successful sustainability integration in leading firms, offering insights into overcoming challenges and leveraging sustainability for competitive advantage. This comprehensive approach highlights the complex interplay between sustainability imperatives and organizational design, offering a roadmap for businesses committed to sustainable development and long-term resilience.

Chapter 1: introduces the unsustainable nature of current economic and development systems, emphasizing the imperative for integrating sustainability within business operations. It explores how firms increasingly recognize sustainability as critical for mitigating risks and seizing growth opportunities. This chapter delves into the complex relationship between sustainability and organizational design, highlighting how strategic orientation significantly impacts a firm's approach to sustainability and its organizational structure. Key sections cover the definition and scope of sustainability, motivations for adopting sustainable practices, the impact on organizational design including structural changes, cultural shifts, and process integration, along with the strategic role in shaping organizational design and the challenges faced in embedding sustainability.

Chapter 2: explores the transformative impact of sustainability on traditional business strategies, emphasizing the integration of materiality analysis into strategic planning. It details the evolution of strategy formulation and highlights the significance of incorporating sustainability to address the dynamic and complex nature of modern business environments. The chapter advocates for a shift towards innovative, sustainable strategic thinking, incorporating environmental, social, and governance (ESG) considerations to enhance long-term competitive advantage and resilience against evolving market and regulatory landscapes.

Chapter 3: delves into the imperative for organizations to undergo transformative changes in design to effectively integrate sustainability. It outlines strategies for embedding sustainability into organizational structures, emphasizing the need for a comprehensive sustainability strategy aligned with overall vision and goals. The chapter advocates for dynamic integration across functions, governance mechanisms for sustainability, and continuous adaptation to sustainability demands. It explores organizational structures conducive to sustainability, including standalone, integrated, and embedded models, and discusses the role of the Chief Sustainability Officer (CSO) in driving sustainability initiatives within organizations. The chapter concludes with frameworks for designing sustainable organizations and the importance of continuous learning and employee empowerment in achieving sustainability objectives.

Chapter 4: examines the sustainability practices and ESG scores of Moncler and Prada within the textile and apparel industry. It outlines the significant environmental impact of the fashion sector and the need for sustainability. The chapter details Moncler's and Prada's strategic and structural approaches to sustainability, comparing their ESG scores from various agencies. It highlights Moncler's higher sustainability scores, attributed to its comprehensive sustainability strategies and initiatives. Through this comparative analysis, the chapter underscores the importance of integrating sustainability into corporate strategy for environmental impact reduction and improved long-term performance.

Chapter 1: Sustainability Imperative and its Influence on Organizational Design

1.1 Introduction

The traditional economic and development system that has been relied upon for decades has been revealed to be unsustainable. Incompatibility between the scarcity of natural resources and their growing demand, in a context where the population world continues to increase, in 2023 the Earth Overshoot Day, the calculated illustrative calendar date on which humanity's resource consumption for the year exceeds Earth's capacity to regenerate those resources felt on August 2nd ((Earth Overshoot Day, 2023), and every year this date is earlier and earlier. So, it is evident the problem of carbon emissions, which are pointed as one of the causes of global warming and pollution, that have continuously increased during the last decades (Crippa et al., 2021).

It's essential to acknowledge that numerous critical issues related to each aspect of development, be it economic, social, or environmental, have direct or indirect connections to the corporate world. Today, businesses cannot be viewed merely as entities engaged in the production of goods and services; instead, they are increasingly seen as dynamic ecosystems that actively engage with the external environment, giving rise to both adverse and beneficial impacts.

Sustainability has emerged as a critical concern for firms in the contemporary business landscape. Firms are increasingly recognizing the need to integrate sustainable practices into their operations not only to mitigate environmental and social risks but also to seize new opportunities for growth and innovation. This chapter underline the imperative of the adoption of sustainability in modern business context and explores the complex relationship between sustainability and organizational design, with a focus on how a firm's strategic orientation can significantly impact its approach to sustainability and the subsequent design of the organization.

1.2 The Concept of Sustainability in Business

Sustainability in business refers to the integration of environmental, social, and economic considerations into an organization's strategies, practices, and operations to create long-term value for both the company and society at large. It involves a commitment to conducting

business in a way that minimizes negative impacts on the environment, respects social and ethical values, and ensures economic viability.

1.2.1 Definition and Scope of Sustainability

The Bruntland Report of 1987 is one of the most frequently quoted definitions by the World Commission on Environment and Development, in the report "Our Common Future" sustainable development is defined as "development that meets the needs of the present generations without compromising the ability of future generations to meet their own needs" (United Nations General Assembly, 1987*)*.

Sustainability in the context of business refers to the integration of environmental, social, and economic considerations into a firm's strategic decision-making processes and operations. This entails a commitment to long-term viability and responsible practices that minimize negative impacts and contribute positively to society and the environment. This concept is contained in the definition of Triple Bottom Line Approach, first introduced by John Elkington in 1997, which expand the view of the traditional company's impact on the society. This approach underlines the importance not just of the economic growth, which remains fundamental for a firm, but also social and environmental performance, instead of just focusing on profits and financial results, companies using this type of attitude, assess their impact on people (social impact) and the planet (environmental impact) as well. This shift in perspective makes profits not the only measure of success and have deep effects on the way a company run its business.

The Triple Bottom Line Approach is strictly linked with the Environmental, Social and Governance (ESG) framework that is used to evaluate and measure a company's performance and impact in these three areas. Environmental criteria, or the "E" in ESG, refers to your company's energy use, waste output, resource requirements, and any subsequent effects on living things. Last but not least, E includes climate change and carbon emissions. Every business utilizes resources and energy, and every business both influences and is influenced by the environment. S, or social criteria, focuses on the connections and standing your business has among the individuals and organizations in the localities where it conducts business. S involves diversity and inclusion, as well as labour relations. Every business functions within a larger, more diversified society. G, or governance, is the internal framework of policies, checks, and balances that your business uses to manage itself, make wise decisions, abide by the law, and meet needs of external stakeholders. Every company, which is itself a legal creation, requires governance.

ESG framework has gained support in the last decades but it also has encountered doubt and criticism, the most popular objection is that it is a distraction to what business are supposed to do: “make as much money as possible while confirming to the basic rules of the society” as stated by Milton Friedman (1970), in this perspective ESG is seen more as a public-relation move, something good for the brand but not functional to company strategy. The ESG approach is also criticized by the fact that reaching the balance between the multiple stakeholder expectations is too hard, the Shareholder theory affirms that when solving for a financial return the only objective is to maximize value for the corporation and its shareholder, because business have a legal and economic obligation towards them, their interests should prevail over those of other stakeholders.

The Stakeholder theory, in contrast, states that business have a moral responsibility to consider the interest and well-being of all their stakeholders, that are any groups or individuals who can affect or be affected by the business’s activities and decisions, not just only of their shareholders. There are inside stakeholder like shareholders, managers and workforce and outside stakeholders represented by customers, suppliers, government, unions, community and general public. According to this theory business should balance the needs and expectations of their stakeholders and create value for them in a fair and sustainable way.

Nowadays it is clear how companies could not only care only about shareholder’s interests in order to legitimate their existence, so the Stakeholder theory, that is closely connected to the Triple Bottom Line approach and the ESG framework, is widely adopted by a lot of companies. Adopting this view brings more challenges than the shareholders', because it’s not easy to identify, prioritize, and manage the diverse and sometimes conflicting interests of the stakeholders; but it offers also valuable opportunities, the main is to create long-term value and competitive advantage for your business, by engaging with the stakeholders the company could build trust, loyalty, reputation, and innovation.

1.2.2 Motivations for Sustainability

Sustainability topics are influencing the economic success of companies more than ever. Sustainability has become a driver for both risks and opportunities in business. Strategic management and information management are thus challenged to take into account sustainability information. Independent of the strength of their influence, elements of sustainability can work through market or non-market processes (societal processes driven by

media or in social communities in the internet which ever more influence values and social attitudes towards companies and products) to have an effect on business success.

Firms adopt sustainability initiatives for various reasons, including:

- Regulatory compliance (35% growth in ESG-related policy instruments in 2020 compared to 2019) (PRI, 2020), on 25 September 2015, the United Nations General Assembly adopted the 2030 Agenda for Sustainable Development, which outlines the directions of activities for the next 15 years. The 17 Sustainable Development Goals that make up the 2030 Agenda represent the global action plan to eradicate poverty, protect the planet and ensure prosperity for all (Figure 1). The 17 objectives relate to different areas of social, economic and environmental development, which must be considered in an integrated manner, as well as to the processes that can accompany and support them in a sustainable way.

Figure 1. 17 Sustainable Development Goals

Source: United Nations General Assembly, 2015

- Cost reduction, saving costs due to the reduction of materials and energy in the production are expressed in the accounting systems and can obviously influence the economic performance of the company, as seen in the recent enhancement of the costs of energy mainly due to the war in Ukraine, having invested in renewable source of energy could have make saving a notable amount of expenses;
- Brand enhancement, as public opinion is more and more careful about the conduct of companies in social and environment fields, as shown by the Accenture COVID-19 Consumer Pulse Study in 2021 where 74% of consumers interviewed believe that ethical corporate practices and values are an important reason to choose a brand;

- Risk management, in order to mitigate the uncertainty of the events not under the control of the companies, the recent COVID-19 pandemic is an example, after that period Of 1,122 CEOs surveyed by the UN Global Compact in 2021, 79% said the pandemic has highlighted the need to transition to more sustainable business models because there were a change in stakeholders priorities; and the pursuit of competitive advantages through innovation and market differentiation, for example, 1 out of 4 customers according to a McKinsey & Company survey on prioritizing sustainability in the consumer sector in 2021, said that are planning to focus more on environmental issues and will pay more attention to social aspects in their shopping behaviour, so having a particular attention on these topics is likely to help companies gain a share of the market.

According to a worldwide survey conducted by Bain & Company in 2023, with increasing environmental concerns (50% of consumers said sustainability is one of their top four key purchases criteria when shopping), consumers are actively seeking eco-friendly options and are open to spending more on sustainable products (Figure 2). However, they frequently encounter obstacles in this pursuit. In the United States, consumers are willing to pay an average premium of 11% for products that have a reduced environmental footprint. Nonetheless, the average premium for products labelled as sustainable in the US is notably higher at 28%.

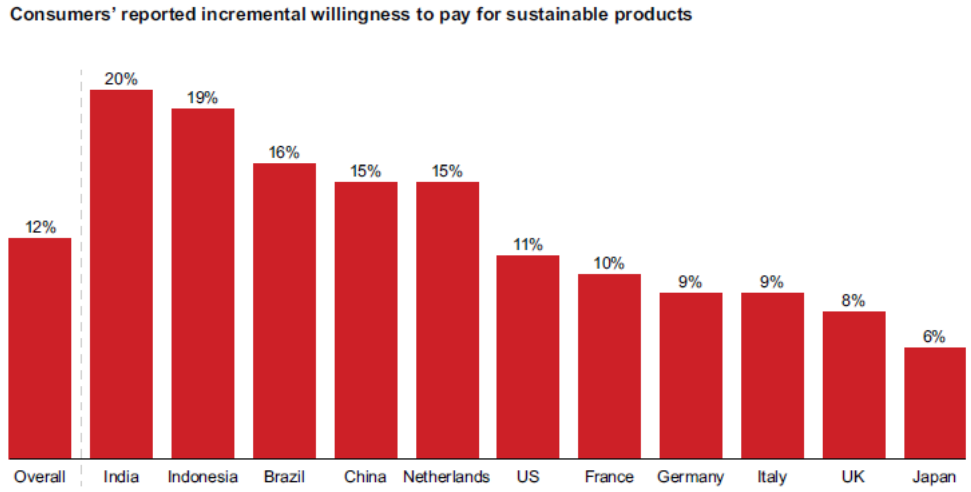

Figure 2. Consumers' reported incremental willingness to pay for sustainable products

Source:Bain Consumer Lab ESG Survey, June 2023 (n=23,374)

Business and stakeholder expectations are making ESG, more than a choice, a necessity nowadays for companies, the total amount of global sustainable investments in the five major markets (European Union, United States, Japan, Canada and Australia/New Zealand) have

reached $35,3 trillion in 2020, from $22,8 trillion in 2016 and $30,7 trillion in 2018 (Figure 3), a 15% increase in the past two years (2018-2020) and 55% increase in the past four years (2016-2020), and is expected to grow until $50 trillion by 2025, and in 2020 reached the 35,9% of the total assets under management

(Figure 4)(Global Sustainable Investment Review, for five major markets (EU, US, Japan, Canada, AU/NZ),2020). These data give the idea of how much investors are interested in ESG and how they see sustainability as an opportunity and want to invest on these types of assets more and more.

REGION	2016	2018	2020
Europe*	12,040	14,075	12,017
United States	8,723	11,995	17,081
Canada	1,086	1,699	2,423
Australasia*	516	734	906
Japan	474	2,180	2,874
Total (USD billions)	**22,839**	**30,683**	**35,301**

Figure 3. Global sustainable investing assets 2016-2018-2020

Source: Global Sustainable Investment Review, 2020

REGIONS	2016	2018	2020
Total AUM of regions	81,948	91,828	98,416
Total sustainable investments only AUM	22,872	30,683	35,301
% Sustainable investments	27.9%	33.4%	35.9%
Increase of % sustainable investments (compared to prior period)		**5.5%**	**2.5%**

Figure 4. Global assets under management 2016-2018-2020

Source: Global Sustainable Investment Review, 2020

A solid ESG proposal may protect a company's long-term success, which is why investors and executives are driving the acceleration. Other factors driving the acceleration include increased societal, governmental, and consumer emphasis on the larger impact of organizations. The size of the investment flow indicates that ESG is much more than a trend or a worthwhile endeavour.

Activists and general public want large companies to address societal issues and build an economy caring about all stakeholders, and 87% of consumers are ready to boycott if this does not happen (Compare Cards survey, 2021). Even in the labour market it is an important topic to be considered, 58% of employees consider a company's social and environmental

commitments when deciding where to work (Cone Communications, Employee Engagement Study,2016).

The overwhelming majority of gathered evidence demonstrates that value creation is not hindered by organizations that pay attention to environmental, social, and governance concerns—quite the reverse is true, as demonstrated by the results of more than 2000 studies on the impact of ESG propositions on equity returns where there is 63% share of positive findings in contrast with only 8% share of negative findings (Gunnar Friede et al.,2015). Higher stock returns are correlated, both from a tilt and momentum viewpoint, with a solid ESG proposal. lesser loan and credit default swap spreads and higher credit ratings are only two examples of how better ESG performance is associated with lesser negative risk.

ESG influences cash flow in five key areas, including promoting top-line growth through attracting B2b and B2C customers with sustainable products and achieve better access to resources with stronger community and government relations (Henisz et al., 2019); lowering expenses for example lower energy consumption and reducing water intake; minimizing legal and regulatory interventions earning subsidies and government support, in many industries, a large share of corporate profits are at stake form external engagement, the estimated share of EBITDA at stake is 50-60% for banks where provisions on capital requirements, systemic regulation and consumer protection are critical, 35-45% for energy and materials due to tariff regulation, renewable subsidies, interconnetion and access rights, 25-30% for consumer goods like obesity, sustainability, food safety, health and wellness and labelling; raising staff productivity boosting employee motivation and attract talent through greater social credibility, and maximizing capital investments and expenditures enhancing investment returns by better allocating capital for the long term (more sustainable plant and equipment) and avoid investments that may not pay off because of longer-term environmental issues. When tackling ESG possibilities, a leader should keep each of these five levers in mind, as well as the "softer," more individualized dynamics that are necessary for the levers to do their most powerful work.

In 2021 Accenture with Arabesque S-Ray (Environmental, Social and governance data provider), built and index to measure the strength of sustainability DNA of almost 4.000 companies. The analysis shows that top quartile companies outperform those in the bottom quartile by more than a fifth on both average EBITDA margin and sustainability performance (Figure 5).

Figure 5. Measure the strength of sustainability DNA

Source: Accenture analysis; Arabesque S-Ray; S&P Capital IQ, 2021

The results indicates that companies with stronger sustainability DNA are more likely to deliver financial value and a lasting positive impact on society and environment.

Sustainability in all its shades has increasingly positioned at the top of board agendas around the world, Business leaders are alert to the challenge, they understand that embedding certain values are fundamental in order to reach financial and non-financial objectives and legitimate their presence on the market and maintain their social license to operate, the ongoing acceptance of a company or industry's standard business practices and operating procedures by its employees, stakeholders, and the general public. In a 2020 study by Accenture, 73% of executives said that becoming a "truly sustainable and responsible business" was a top priority for their organization over the next three years. Fulfilling these ambitions requires significant organizational transformation, including reimagining business models, operating models and talent strategies.

It could be easy to set-up the ESG ambition but way harder to deliver it, in fact, a 55% of CEOs surveyed by McKinsey Company in 2021 consider ESG a top or top-3 priority for their company but only 53% of those who consider it a priority actually captured net value from ESG. Adopting a sustainability view without the right setting could not only not bring the expected advantages but instead damage the company, the risks rising from poor ESG execution are for example the inability to meet fiduciary duties and avoid penalties and face a higher reputational risk for the example the practice of greenwashing, defined as "a communication or marketing strategy pursued by companies, institutions, organizations that present their activities as environmentally sustainable, trying to hide the negative

environmental impact" (Enciclopedia Treccani,2021). Other risks related to a not effective adoption of ESG framework are missed opportunities like not catching the opportunity of getting a competitive advantage, increased say-do gap that refers to the discrepancy between what people or organizations say they do (or "say") and what they actually do (or "do") in terms of sustainability, this gap might be brought on by a lack of responsibility, resources, or a dedication to sustainability, and organizational inefficiency as resource management inefficiency and frustrated and unhappy ESG-conscious talent (low attraction and attrition rates).

Traditionally, not many businesses have organizational setups that regard sustainability as a significant commercial concern (De Smet et al., 2021). Instead, investor relations, public relations, and corporate social responsibility have dominated sustainability initiatives and the organizations that support them.

The management of stakeholder communications, target formulation, and reporting is the responsibility of the "sustainability organizations" (and there are many of them). Even if these duties are crucial, they are also insufficient to ensure the success of sustainable organizations. Executives who empower sustainability groups to engage strategically and hold them accountable for making measurable effects are more likely to succeed. Companies won't be able to maximize the benefits of their sustainability activities until that time (McKinsey & Company, 2021).

1.3 The Impact of Sustainability on Organizational Design

While more and more directors and executives are recognizing the significance of their financial success strategies, businesses still struggle to incorporate sustainability into their fundamental company operations and overall organizational structure. The company's structure, competencies, and culture must be compatible with the sustainability plan for it to be successful (Sampselle,2010).

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According to a survey (Mirvis, Googins, Kinnicutt,2010) published Organization Dynamics, over 75% of executives worldwide say they believe that sustainability is "important to the financial success of their companies" but only 30–40% of executives globally who claimed to believe in the importance of sustainability to their firms' financial success were actually taking steps to incorporate sustainability into their fundamental business activities.

This poll shows that these businesses continue to have difficulty comprehending and implementing the activities and changes necessary to fully use the sustainability advantages.

Many companies are facing challenges in achieving their ambitious sustainability targets, as revealed in a recent global survey of executives from large corporations (Bain & Company,2023). The survey indicates that 67% of these companies have set bold sustainability goals spanning environmental, social, and governance objectives. However, only a mere 3% feel confident about being on track to meet these targets.

A significant factor contributing to this discrepancy is the lack of alignment between sustainability ambitions and the core operations of the businesses. Many companies are setting sustainability goals without involving the business units responsible for driving

change. Consequently, the lack of ownership and engagement from these units leads to a disconnect, causing potentially impactful ideas to languish due to insufficient support, thereby impeding overall progress. Surprisingly, less than 25% of leaders believe that sustainability is effectively integrated into their businesses at present, according to the research. This misalignment likely explains why 36% of companies report falling significantly below their anticipated levels of progress on sustainability issues.

The L.E.K. Consulting Global Corporate Sustainability Survey 2022 engaged 400 C-suite and senior executives around the world, they were polled on their attitudes and ambitions around ESG. When asked "Thinking about the organizational requirements to successfully implement a strategy that achieves your sustainability goals, please say to what extent you have these capabilities in place?" only 21% of respondents feel to have most or all of the skills they need to deliver their sustainability goals and only 24% of them believe to have a flexible and agile organizational structure (Figure 6).

Figure 6. Thinking about the organizational requirements to successfully implement a strategy that achieves your sustainability goals, please say to what extent you have these capabilities in place?

Source: L.E.K. Consulting Global Corporate Sustainability Survey, 2022

In some of the earliest studies on organizational design for sustainability, Griffiths and Petrick highlighted three crucial components in traditional organizational structures of larger

organizations that are likely to make it difficult for them to meet the demands of sustainability (Griffiths and Petrick,2001). They claimed that larger corporations rely on established task routines that uphold the existing condition; that access to and the assignment of value to input from the corporation's stakeholders, all of whom are crucial actors in sustainability initiatives, are hampered by the hierarchical organizational structures used by larger corporations; and that departments operating under traditional organizational design principles do not have departments with what they described as “specialized environmentally relevant knowledge to recognize, act on, and transfer to other parts of the organization”.

It could seems that moving to a corporation with a focus on sustainability is too hard, mainly for large traditionally-organized companies but it is possible. The process of shift, which is not unique for all companies, because it depends on variable factors like the size of the company or the market in which it operates, is not easy and requires structural and cultural changes but is necessary to embrace the potential competitive advantages.

An example of how challenging is a transaction to sustainability from a big company come form Wallmart. The world's largest retailer, has indeed implemented various sustainability initiatives aimed at reducing its environmental impact. Some of these initiatives include the use of sustainability scorecards to assess its suppliers in key environmental metrics. While Walmart has set ambitious environmental goals, such as sourcing 100% of its energy from renewable sources and achieving zero waste, it has encountered varying levels of success in different areas (Ward, 2014).

One of Walmart's sustainability initiatives is the Sustainability Index, which assesses the environmental and social performance of its products and suppliers. This initiative aims to promote more sustainable practices throughout its supply chain.

Walmart has also made efforts in renewable energy, including the installation of solar panels on many of its stores and distribution centers. These solar efforts have contributed to the company's progress toward its renewable energy goal.

However, it's worth noting that Walmart has faced challenges in achieving its goal of sourcing 100% of its energy from renewables. As of the information provided, nine years after setting this goal, Walmart had reached only 19% of its target. This 19% includes 6% from the company's own renewable energy projects and 13% from power purchases from the grid, suggesting that there is still significant progress to be made in this area.

Achieving ambitious sustainability goals can be a complex and time-consuming process, and companies often encounter hurdles and delays along the way. It will be important for Walmart to continue working toward its sustainability goals and exploring strategies to increase its use of renewable energy sources to meet its targets.

Walmart has made significant efforts to reduce its greenhouse gas emissions, but it has faced challenges in meeting some of its emissions reduction goals. While the company successfully achieved a 20% reduction in emissions from its stores, clubs, and distribution centers compared to 2005 levels by 2011, it did not anticipate meeting its goal of eliminating 20 million metric tons of greenhouse gas emissions by the end of 2015.

Walmart acknowledges that this goal was ambitious, and it has encountered various challenges along the way. Despite not achieving the full 20 million metric tons reduction by the specified deadline, the company has made progress in reducing emissions from its supply chain. According to Walmart, it had eliminated more than 7.6 million metric tons of emissions from its supply chain and was on track to cut 18 million metric tons by 2015.

The statement on Walmart's website "we knew this goal as an aggressive one, and we have encountered a variety of challenges along the way. When there is no predefined roadmap to success, we must rely on experimentation, trial and error, and rapid prototyping before we can scale real innovation", reflects the reality that pursuing sustainability goals, especially ambitious ones, often requires experimentation, adaptation, and continuous improvement. It highlights the importance of innovation and the willingness to try new approaches when there is no clear roadmap to success. Walmart's commitment to addressing its environmental impact and learning from its efforts is a key aspect of its sustainability journey.

1.3.1 Structural Changes

Organizational change is the process through which organizations transition from their existing state to a desired future state with the aim of enhancing their efficiency. The objective of deliberate organizational change is to discover new or enhanced methods of utilizing resources and competencies to enhance an organization's capacity to generate value and improve outcomes for its stakeholders (Beer,1980).

Firms committed to sustainability, in order to catch all the value from this strategy, should undergo structural changes to facilitate the integration of sustainability considerations. This can involve creating specialized sustainability departments, cross-functional Corporate Social Responsibility teams, or even reconfiguring the entire organizational hierarchy to prioritize sustainability goals.

Other changes with respect to the structure are making senior executives responsible, so through the performance metrics for the sustainability program they supervise they could establish processes within the units to set and track goals. Besides to support and formal

structure at the peak of the organization, other people from all over the company should be assigned sustainability roles and objectives.

1.3.2 Cultural Shifts

Sustainability initiatives require a cultural shift towards a more environmentally and socially conscious mindset. Organizations may need to promote values such as responsibility, transparency, and ethical behaviour to align with sustainability goals.

It is crucial to include training that encourages employees to "do the right thing" with discussions of the business case for the endeavour. The organization's instructors and associates who can help mobilize the workforce for sustainability programs at the grassroots level should be developed by leaders in sustainability and human resources. The need for companies to engage their workforce on fundamental problems like salary, work-life balance, and the culture of the workplace may be the most critical. Giving employees the freedom to express their worries about sustainability goals and make suggestions for enhancing the programs is a crucial component of effective participation.

In order for decisions to be made in the field more effectively and consistently, training and education should be used to make sure that employees are in agreement about the sustainability goals and how they should be reached.

Instruments like rewards and incentives are essential for motivating executives, managers, and employees aligning the personal goal of the workforce to the sustainability targets of the organization.

1.3.3 Process Integration

Sustainability considerations must be integrated into core business processes. This includes incorporating sustainability metrics into performance evaluations, supply chain management, and product design.

Asking what the organization should look like in the future and what role sustainability will continue to play should be the first step in designing and implementing organizational processes for sustainability. Companies must consider the entire consumer experience in addition to product features. Once a vision has been established, businesses should take the initiative and publish external targets that include public pledges to sustainability-focused

practices and objectively verifiable achievements. Results of the company's efforts should be communicated both internally and externally, along with a careful analysis of what went right and what can be done to make processes better. Companies were urged to utilize already developed reporting frameworks when developing a reporting mechanism, then customize their own reporting processes (i.e., metrics, measurements, peer comparison, and benchmarking) to account for the unique context, such as industry conditions.

1.4 The Role of Strategy in Shaping Organizational Design

Strategy is a set of goal-directed actions firm takes to gain and sustain superior performance relative to competitors (McGrath, 2013) or as the classical definition coined by Chandler in 1962 “strategy is the determination of the basic long-term goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out these goals”.

Strategy is strictly related to the organizational design, because there should be an alignment between the two to bring effective advantage to the company, the goal is to design an organization that allows managers to effectively translate their chosen strategy into a realized one.

In line with Chandler's ideas, the structure of an organization is a result of, or closely follows, its strategy for achieving its goals. Chandler emphasized the connection between strategy and structure, primarily focusing on the importance of organizational efficiency. He believed that strategy comes before structure in a chronological sense, as senior management first formulates relatively stable, long-term strategic goals and then adjusts the organization to efficiently achieve these objectives. This perspective is also reflected in Henry Mintzberg's (1990) concept of the design school of strategic management. The design school is one of Mintzberg's ten schools of thought in strategic management, and it sees strategy development as a process of conceptualization, with the primary challenge being to align the company's characteristics with the opportunities presented by the external environment.

Strategic management is the integrative management field that combines analysis, formulation, and implementation in the quest for competitive advantage (Rothaermel,2013). The three actions refer to analyze the external and internal environment, formulate an appropriate business and corporate strategy and implement the formulated strategy through structure, culture and controls.

Implementing a strategy often involves making changes within an organization to turn that strategy into actionable plans and business models. However, many times, the execution of a

strategy fails because managers struggle to bring about the necessary changes. This difficulty is often rooted in concerns about how these changes might impact resource allocation and the distribution of power within the organization. Strategic leaders may be cautious about disrupting the existing way of doing things. The design challenge could be illustrated by Jay Galbraith in 1994 that specifies that an organization can best achieve its strategy if the different designable elements of an organization fit with it and with each other. In other words, the design of an organization should adapt to the strategy being pursued and be flexible enough to accommodate future growth and expansion.

The primary reason CEOs are dismissed by boards of directors is their inability to effectively put a strategy into action (Bossidy et al., 2002). An example of this is evident in the case of Yahoo's co-founder and CEO, Jerry Yang, who was removed from his position in 2008 (Vascellaro et al., 2008). His removal was a direct result of his failure to implement essential strategic adjustments after Yahoo lost its competitive edge. In the two years preceding his departure, Yahoo's market value plummeted by over 75%. Jerry Yang was characterized as someone who favoured achieving consensus among his management team rather than making difficult strategic choices required to reshape Yahoo. Unfortunately, this preference resulted in internal conflicts and disputes. Yang's failure to enact the necessary alterations to Yahoo's organizational structure resulted in the loss of billions of dollars in shareholder value and the necessity for thousands of layoffs.

1.4.1 Alignment of Strategy and Sustainability

A firm's sustainability approach should align with its overall strategic objectives and when there is a change in a driver of the strategy there should be also a change in the design of the organization. For example, a firm pursuing a cost leadership strategy may focus on eco-efficiency initiatives, while a differentiation strategy may prioritize eco-innovation.

Once a company recognizes that sustainability plays a crucial role in its business and overall success, it should integrate sustainability into its corporate vision. This integration should be closely tied to the company's mission, values, corporate principles, and objectives. To ensure a comprehensive approach, companies should actively involve all employees in some aspect of their sustainability efforts. Embedding sustainability into the company's everyday business practices should be considered as important as achieving growth and profitability, and it should be reflected in the company's performance evaluation criteria.

When choosing sustainability projects, companies should prioritize leveraging their existing strengths and expertise. It's advisable to select projects that align with their core

competencies. This strategic approach makes it more feasible for companies to establish a leadership position in specific areas and gain executive support for expanding their sustainability initiatives.

1.5 Challenges and Barriers

Organizational change is often essential for a company's growth, adaptability, and competitiveness. However, it can be a complex and challenging process, fraught with various obstacles and barriers. Addressing these challenges and barriers requires careful planning, effective communication, strong leadership, and a commitment to fostering a culture of adaptability and continuous improvement within the organization.

1.5.1 Resistance to Change

Organizational change, especially when it involves significant transformations like sustainability integration, can face resistance from some forces that could lower an organization’s effectiveness and reduce its chance of successfully completing the process.

Many forces come from the inside of the organization, a structural change like adding a new professional figure focused on sustainability or set a new division to better integrate the new strategy, so particularly important for the new path of the company, could damage another division and could start a conflict between the different divisions that slow the process.

An organization that adopted a mechanistic structure, that is characterized by tall hierarchy, centralized decision making and standardization of behaviour through rules and procedure will be more reluctant to change. People who work in such an organization act in certain ways and do not develop the capacity to adjust their behaviour to changing conditions. Especially in large organizations this is a source of organizational inertia, that is the tendency of an organization to resist change and maintain the actual status.

One of the hidden enemies of achieving sustainability at scale is structure and governance (E.Farri, P.Cervini, G.Rosani, 2022). Since sustainability first entered the business lexicon, it has typically been confined to isolated departments. Consequently, it remains segregated from crucial corporate functions such as strategy and innovation and is distanced from business lines and operations. This persistent compartmentalization in most companies poses a challenge for sustainability to permeate the entire organization. Moreover, this segregation serves as an internal signal, indicating that sustainability's power and relevance are restricted within the organization, lacking traction or influence across various units. It's not surprising that managers often perceive sustainability as a nice-to-have or a marketing tool rather than a fundamental driver for profitability and sales. This misperception extends to the board level,

where there is limited familiarity with the strategic dimensions of sustainability. Although there has been some improvement in the past couple of years, a significant gap still exists between what boards profess and the actions they take.

Another source of resistance could derive from the organizational culture and leadership (E.Farri, P.Cervini, G.Rosani, 2022).. Established companies, founded in the 20th century, were not initially structured with sustainability in mind, leading to a lack of a sustainable culture in the majority of cases. There are rare exceptions, like Patagonia, the outdoor clothing company established in 1973. For most older organizations, integrating sustainability into their core purpose necessitates a profound cultural shift. It goes beyond simply adjusting the mission statement or adopting a new set of values; rather, it requires a transformation of people's beliefs and attitudes, starting with the leaders of the organization

The majority of current senior executives received their education in business schools during the 1990s and built their careers within a profit-centric paradigm, where competition was external, and internal operations were governed by strict command and control. Achieving sustainability at a significant scale demands a different approach founded on empathy, openness, collaboration, and trust. However, unlearning the deeply ingrained traditional mindset of leaders is a challenging and time-consuming process. While changing the narrative is a crucial initial step, it will only be effective if accompanied by tangible changes in leaders' actions, behaviours, and decisions concerning employees, customers, suppliers, and communities.

1.5.2 Resource Constraints

Sustainability initiatives can require substantial resources, and firms may struggle to allocate these resources effectively. The allocation of resources for sustainability refers to the strategic distribution of a company's assets, including financial, human, and natural resources, to support and advance sustainability goals and initiatives. This process is crucial for organizations seeking to incorporate sustainability into their core business strategies.

Effective resource allocation for sustainability requires a strategic and holistic approach that aligns with the organization's sustainability goals and values. It involves balancing short-term costs with long-term benefits, and it often requires commitment from top leadership to ensure that sustainability remains a priority throughout the organization.

1.5.3 Measurement and Reporting

Accurately measuring and reporting on sustainability performance can be challenging, and firms may encounter difficulties in quantifying their impact.

Measurement and reporting in sustainability are critical processes that allow organizations to assess, track, and communicate their environmental, social, and governance (ESG) performance. These processes enable transparency, accountability, and the ability to make informed decisions regarding sustainability initiatives. There are many ways to measure and report the sustainability performance that an organization could use like Key Performance Indicators, sustainable metrics and sustainability reporting frameworks.

Leaders increasingly understand the need to effectively measure the impact of ESG on their business, but many struggle to take the appropriate action (Accenture, 2022).

44% of the companies surveyed by Accenture as part of the ESG Measurement Study in 2021, cited the "inability to define/prioritize material ESG issues for disclosure" as one of the top challenges for measuring and reporting ESG performance.

Organizations use KPIs (Key Performance Indicators) to quantify and evaluate their sustainability performance. These indicators cover various aspects of sustainability, including environmental metrics (e.g., carbon emissions, energy consumption, waste generation), social metrics (e.g., employee diversity, community engagement), and governance metrics (e.g., board diversity, ethical business practices).

Sustainability metrics are specific data points used to measure sustainability performance. Metrics can be quantitative (e.g., the percentage reduction in greenhouse gas emissions) or qualitative (e.g., descriptions of social impact initiatives). Common sustainability metrics include carbon footprint, water usage, employee turnover, and social impact assessments.

Several international frameworks guide organizations in reporting their sustainability performance. The most widely recognized frameworks include the Global Reporting Initiative (GRI) an independent association born in 1997 that represents the main reference for "sustainability reporting" that allows a better valuation of the company's results not only financial but also environmental and social. The Sustainability Accounting Standards Board (SASB), a board that identifies, manages and reports those sustainability criteria that most interest investors. SASB standards are developed on the basis of feedback requested periodically from companies, investors and all other players in the financial markets. The process is variable, transparent and traceable. The Task Force on Climate-related Financial

Disclosures (TCFD), and the Carbon Disclosure Project (CDP). These frameworks provide standardized guidelines for reporting ESG information.

Effective measurement and reporting in sustainability contribute to better decision-making, stakeholder trust, risk management, and the overall success of sustainability initiatives.

1.6 Conclusion

Sustainability and organizational design are intricately linked in today's business landscape. A firm's strategic orientation plays a pivotal role in shaping its approach to sustainability and, consequently, the design of its organization. Companies that effectively align sustainability with their strategy can reap the benefits of improved performance, reduced risk, and enhanced competitiveness. However, they must also navigate the challenges of cultural change, resource allocation, and performance measurement to successfully integrate sustainability into their organizational DNA.

Chapter 2: The Transformation of Business Strategy: Impact and Integration of Sustainability

2.1.Introduction

The evolution of business strategy has been significantly influenced by the growing emphasis on sustainability. To effectively embed sustainability into organizational structure, companies need a well-defined sustainability strategy that aligns with their overall vision and goals. This strategy should be tailored to the company's unique competencies, culture, and sustainability commitments (Gutterman,2020).

This chapter explores the transformative impact of sustainability on traditional business strategies, with a specific focus on the incorporation of materiality analysis.

The integration of materiality analysis into business strategy is a crucial aspect of sustainability, enabling organizations to identify and prioritize the most relevant environmental, social, and governance issues.

2.2 Traditional Strategy Formulation

The conventional approach to strategy formulation underwent significant changes throughout the 20th century. In response to the escalating complexity of the post-war economy's expansion, various concepts such as positioning, analysis, strategic options, portfolio management, and others emerged. This period witnessed the rise of large, multinational corporations offering multiple products, eventually consolidating into global conglomerates. The surge in competition and heightened global interdependencies prompted the demand for more advanced management tools compared to the smaller, locally-focused businesses of earlier times.

2.2.1 Core Components

The conventional strategic formulation process, widely recognized and followed, typically commences with defining the business's vision and mission. Subsequently, a comprehensive internal and external analysis is conducted, culminating in the identification of strengths, weaknesses, opportunities, and threats (SWOT). Based on this analysis, various strategic options are formulated, assessed, and ultimately, one option is selected for implementation (Figure 7).

Despite the contemporary business landscape being characterized by increased volatility and unpredictability, the traditional strategy process remains largely utilized (Recklies, 2015). Its familiarity, encompassing models, and tools are widely acknowledged and favoured. A substantial body of knowledge supports it, with templates available for nearly every conceivable scenario. Consequently, this widespread recognition contributes to a high level of acceptance and credibility of the process and its outcomes within organizations.

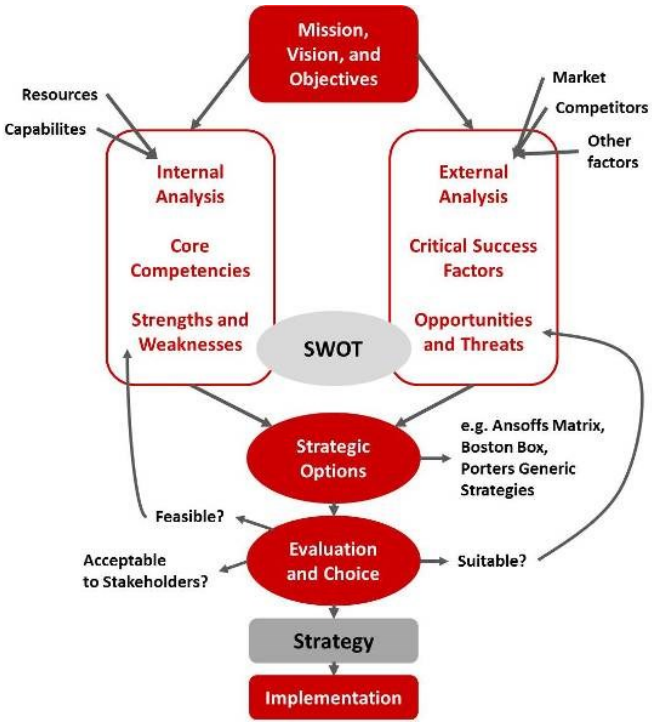

Figure 7. Basic structure of the traditional strategy process

Source: Manager.org, 2015

The strategy is often based on the vision and mission of the business, from these medium-long term goals are derived. Mission, vision and objectives give the framework and context for the strategy, the resulting strategy has to guide the business on fulfilling its vison and mission.

After having delineated a path with vision and mission, a thorough analysis is conducted, on both internal and external side. The most popular tool for summarizing analysis results is the SWOT analysis that consolidates key findings derived from assessing both external factors influencing an organization and its internal capabilities. The aim of conducting a SWOT analysis is to evaluate the extent to which the existing strategy aligns effectively with the demands and alterations in the organization's environment.

The SW portion of SWOT encompasses internal factors, specifically the strengths and weaknesses of the organization. These pertain to the competencies and resources within the

organization's control. The nature of these strengths and weaknesses can vary across different aspects and may be contingent on the current circumstances.

The OT segment of the SWOT analysis recognizes the Opportunities and Threats confronting the organization due to trends and shifts in its environment. These external factors lie beyond the organization's control or influence and have the potential to compromise the firm's competitive advantage.

Following the analysis phase, the company should possess a distinct understanding of its strengths, ideally, those that distinguish it from competitors, which it can leverage to capitalize on market opportunities or address challenges posed by external threats. The company is also cognizant of its weaknesses, which may constrain strategic choices or highlight areas requiring improvement.

Armed with this insight, the business can formulate various strategic options, ideally considering diverse future scenarios.

In order to make a strategic choice, the options have to be evaluated for suitability for the most relevant external trends, opportunities, and threats, feasibility if the firm has the necessary capabilities and resources and acceptability for the most influential stakeholders.

The conventional approach suggests that a business should commit to a single strategy before transitioning into the implementation phase but it is prudent to have one or two alternative strategies in reserve in case the external environment unfolds differently than anticipated.

The strategy, along with its implementation progress, undergoes regular reviews, often following a strategic planning cycle occurring every one or more years. Based on these reviews, adjustments to the strategy may be made, although the expectation is that these are typically minor modifications. The overarching goal is for the overall strategy to remain valid, at least for a medium-term duration.

This model operates under the assumption of a comprehensible, relatively steady, and foreseeable environment. While the external analysis does involve considerations of potential future developments, these are predominantly grounded in an extrapolation of the current circumstances.

In the traditional schools of strategic thought, strategies are perceived as tools to attain competitive advantages and a favourable market position. This occurs within a stable or predictable environment by capitalizing on the organization's competencies and resources.

2.2.2 Strengths and Limitations

An approach of this nature is more likely to garner credibility and acceptance compared to an innovative method tailored for dynamic times. It is also simpler to devise and put into action, a characteristic highly prized by many executives and strategists (Recklies, 2015). Also, because this process has been taught in business schools for decades so is well known by managers and specialists.

In certain industries and markets, the traditional strategy process may still yield reasonable outcomes, particularly in sectors not heavily influenced by disruptive changes (i.e. postal services**,** despite the rise of digital communication, the basic functions of postal services have remained intact, with incremental improvements in logistics.). However, the appearance of stability in such situations can swiftly disappear.

Ultimately, the analysis process and the SWOT model can still function as a method for compiling, analyzing, and structuring information. Businesses often grapple with a vast volume of data, information, explicit and tacit knowledge when assessing their situation. Utilizing familiar tools can aid in filtering and making sense of this information overload.

Contemporary management theory and practice acknowledge the increasing complexity and dynamism of the business environment, emphasizing the need for managers to adopt innovative thinking and approaches. Despite this recognition, many managers continue to adhere to the traditional methods of strategic positioning and planning. This established model has demonstrated its value over decades, emerging as the predominant framework for strategic thinking. Nevertheless, the evolving landscape in recent years has enlightened numerous businesses about the limitations of this approach (Toy“R”us, a major toy retailer, filed for bankruptcy in 2017 due the competition with online retailers like Amazon and the shift in consumer buying habits).

The past few decades have witnessed a significant upheaval in the external environment affecting nearly every business. What was once a relatively stable and foreseeable landscape for an extended period has transformed into a combination of dynamic, constantly evolving, and unpredictable forces. It is widely acknowledged that the traditional strategy approach, designed for a more stable environment, requires a revamp (Recklies, 2015). Despite this recognition, numerous businesses face challenges in replacing their strategy processes, encompassing internal and external analysis, with more fitting alternatives. This difficulty may stem, in part, from the limited availability of practical and effective approaches in this evolving context.

Limitations of the traditional strategy process derive from the pace of change and shrink of focus, traditional tools are no more suitable for rapidly evolving situations and the tasks of gathering information, structuring it and making sense of it are time-consuming, the analysis process may be too slow to keep the pace with the rapid changes and since the external environment is evolving more and more rapidly with increasing uncertainty, the focus is to respond as quickly as possible to near-term events.

John Hagel III (2015) challenges the conventional strategy approach, which he labels as "strategies of terrain". Traditionally, strategies were formulated based on the current position within the existing external environment. The business then aspired to identify a favourable future position where it could establish a sustainable competitive advantage.

As the external landscape became more volatile, strategists began narrowing their focus in two ways, they turned inward, concentrating on core competencies and they aimed to swiftly adapt to immediate events and changes, the so-called reactive approach.

According to John Hagel III (2015), these approaches are delivering diminishing returns at an accelerating rate. He advocates a shift toward "strategies of trajectory", emphasizing that new strategies should target the most appealing and advantageous positions in future landscapes, rather than fixating on the present terrain, where the future position is the starting point to derive actions for the present.

Contemporary management theory and practice acknowledge the increasingly complex, dynamic, and less predictable business environment. Consequently, managers are urged to cultivate innovative approaches in both thought and action.

"Playing a wait and see game in the hope that things will become clearer over time can be very dangerous. By the time you see what's happening, it may be too late to do anything about it. Fast followers in an exponential world will increasingly find that they are on a path to the grave. In times of rapid change and growing uncertainty, we actually have far more degrees of freedom to restructure entire markets and industries than in more stable times. Whatever we know today is depreciating in value at an increasing rate…. Forget about the path in front of you, no matter how familiar or well paved it might be. First, figure out where you want to be, then craft the path that will be most likely to get you there quickly" (Hagel III, 2014).

2.3 Emergence of Sustainability as a Strategic Imperative

As the business environment undergoes transformations, strategies need to adjust accordingly. Business sustainability has emerged as a highly disruptive force, affecting corporations in

diverse ways. While digital transformation posed significant challenges, sustainability strategies go a step further, fundamentally reshaping established norms. The issues span a broad spectrum, from escalating global inequality and social vulnerability to challenges like limited access to clean water, sanitation, healthcare, and education. The accelerating loss of biodiversity adds to the urgency. Prioritizing climate change is crucial to prevent surpassing critical tipping points. Therefore, organizations must develop a comprehensive, systematic perspective on business sustainability. This perspective should encompass environmental concerns, social aspects (such as quality of life, equality, diversity, social cohesion, democracy, and governance), and economic factors (in the context of industry, innovation and infrastructure, responsible production and consumption, clean energy, or economic development paths). It is essential to interconnect these elements into a cohesive framework where they mutually influence one another.

Business leaders must enhance their ability to foresee emerging trends and uncertainties within social, environmental, and business realms. It is imperative to recognize that the future is primarily shaped by sustainability considerations.

Looking forward, the task of strategic thinking and strategizing is poised to become significantly more intricate. Future business leaders must not only consider sustainability strategy from the perspectives of customers, products, and competition but also acknowledge their organization's impact on society and the environment. Deliberating, comprehending, and effectively managing business sustainability to integrate it into the core of a company’s strategy will emerge as the foremost challenge for gaining or maintaining a competitive edge. From a strategic positioning standpoint, sustainability's role in business will be defined as "a long-term corporate strategy and as a standard practice" (Ioannis Ioannou, 2019) or at the very least, as a means to ensure a business's ongoing license-to-operate.

2.3.1 Environmental Scanning for Sustainability

While business sustainability has become a strategic top priority, its diversity of topics and implications have risen into a complex system of interdependencies, each with diverse fields of actions. For business leaders, sustainability becomes a Gordian Knot that is difficult to disentangle and even more difficult to strategize for. The global business environment has already begun to see significant change. Stakeholder groups discuss what business should be about, driven by a shift in mindsets. Stakeholder capitalism is one of the top emerging trends in this regard (Grundmann et al., 2022).

The concept of stakeholder capitalism revolves around the understanding that businesses should interact with and orient themselves towards all stakeholder groups and is driven by increasing transparency on businesses' ecological impacts, and the targeting of regulations and international environmental governance, such as via the Paris Agreement in 2015. Companies are already feeling moderate to a large degree of pressure to act on climate change from many different stakeholder groups, from regulators to customers to employees.

Business leaders are confronted with a new mandate in an environment driven by sustainability. They are presented with a choice: either adhere to minimal regulatory requirements, such as reporting obligations, or actively embrace sustainability as a pivotal strategic decision. The latter approach has the potential to proactively anticipate emerging innovations, identify business opportunities, and navigate stakeholder dynamics, thus fortifying their business model for the future and integrating sustainability as a competitive advantage into the core of their strategy.

While the trajectory toward achieving a sustainable global future remains challenging and complex, global trends are increasingly influenced by the momentum towards sustainability. This impact encompasses both direct and indirect developments spanning social, technological, economic, environmental, political, legal, and security perspectives.

The introduction of sustainability introduces an additional layer of complexity to the existing market and regulatory landscape. We observe a deepening VUCA world characterized by high volatility, uncertainty, complexity, and ambiguity. With the global ecosystem nearing its limits, issues such as equitable access to scarce resources, intergenerational fairness, and qualitative growth are gaining heightened importance. It's no longer just about conducting business; the new expectation is that businesses should have an overall positive impact on society, the economy, and the environment.

Creating sustainability agendas grounded in evidence will emerge as a critical challenge for businesses. Leaders must comprehensively grasp what sustainability entails for their organization, both inwardly and outwardly (Grundmann et al., 2022).

2.3.2 Sustainable Strategy Formulation

In the face of the intricate, dynamic, and demanding business environment driven by sustainability, strategy must undergo adaptation. It should acknowledge the considerable uncertainty linked to the forthcoming mid- to long-term shifts, encompassing the drive towards decarbonization and renewable energy, economic transformations, geopolitical

challenges, and disruptions in supply chains. Furthermore, it must account for the evolving expectations of diverse stakeholders and the fundamental changes in the rules governing the business landscape.

Simultaneously, the journey towards sustainability is inherently long term. Companies engage in designing, planning, and executing actions with expectations of global outcomes materializing over the next 10–30 years. For instance, the profound decarbonization of entire sectors must be anticipated and integrated into the formulation of a strategic approach. This necessitates not only a comprehensive understanding of the business environment but also a rational and forward-thinking perspective that extends beyond a tactical, short-term planning horizon.

Strategic foresight serves as a framework to facilitate the shift in mindset required for navigating the complex business landscape. It encompasses a set of methodologies designed to gather and process information, aiming to develop valid and rational insights into the long-term future, typically spanning 5–20 years. This contrasts with traditional strategic planning, which primarily concentrates on a shorter-term, tactical horizon of 1–3 years.

The information considered in strategic foresight spans a range of factors, including social, technological, economic, environmental, political, legal, and security developments, along with their underlying dynamics. Unlike forecasting, strategic foresight does not attempt to predict a specific future state. Instead, it seeks to comprehend the future as an unfolding playing field that is only partially visible at present. The overarching goal of strategic foresight is to broaden and reframe the spectrum of plausible developments that should be taken into account, aiming to avoid static thinking or tunnel vision.

While predicting the future remains inherently uncertain, strategic foresight provides a means to thoroughly examine the external environment for influential drivers of change. By leveraging these insights, one can construct perspectives of an emerging landscape based on a logical model. This serves as a starting point to rigorously assess a company's strategic foundation, generate innovative ideas, or instigate transformative change. It's essential to note that strategic foresight itself does not prescribe a strategy or a specific path for an organization. Instead, it facilitates the formulation of strategy by contemplating diverse yet plausible futures and their strategic implications. This process serves to pose crucial questions, ones that might have been overlooked in a traditional strategic planning approach, thus revealing and challenging potentially risky assumptions or expectations embedded in a strategy.

Strategic foresight plays a crucial role in helping organizations navigate emerging risks and seize opportunities by anticipating long-term developments stemming from various

sustainability-related factors. Its contributions include identifying emerging risks and stakeholder expectations, strategic foresight serves as a valuable additional perspective for materiality assessments or market intelligence, enhancing established analyses and aiding in the identification of emerging risks and stakeholder expectations; providing a systems view of evolving dynamics, by offering a comprehensive perspective on evolving dynamics within both near and adjacent sectors, strategic foresight explores opportunities within the 5–20-year horizon. This approach prevents tunnel vision and fosters innovation by considering adjacent markets and sectors; addressing critical uncertainty, strategic foresight establishes logical frameworks that facilitate the understanding and structuring of key challenges, innovations, or disruptions in a reasonable manner, particularly in the context of sustainability where uncertainty is prevalent; enabling long-term sustainability efforts, serving as a valuable building block for stakeholder engagement, strategic foresight facilitates the holistic integration of sustainability into corporate strategy. It transforms organizations at their core, enhancing resilience in the face of future uncertainty.

Strategic foresight employs various methods, including trend and horizon scanning for identifying emerging changes, megatrend analysis, scenario planning, or strategy wind tunnelling (Figure 8). These approaches help reveal and discuss plausible and useful perspectives about the future, taking into account the exponential speed and multidimensional nature of change in a specific environment. Consequently, it is crucial not only to focus on the direct market or ecosystem of an organization but also to identify drivers of change in adjacent fields or in society at large.

A wide range of different strategic foresight methods are available, there three primary use case, sensing underlying dynamics within a specific environment; modelling potential future development paths and acting upon reasonable future perspectives at the organizational level.

Figure 8. Methods of strategic foresight

Source: Monitor Deloitte, 2022

2.3.3 Sensing

Sensing methods are designed to comprehend current and future dynamics within a specific context, aiming to identify crucial developments and assess the level of certainty surrounding them. Through structured research, sensing goes beyond mere descriptive analyses by evaluating and categorizing identified dynamics and providing a directional sense for future developments. Importantly, sensing focuses on pinpointing clusters of uncertainty.

These methods broaden the perspective of what constitutes a company's "environment" and sphere of influence, zooming out from its immediate activities. Sensing exercises, such as involving human rights organizations in interviews, can shed light on emerging developments in digital ethics or uncover human rights violations for further legal investigation.

While traditional management typically concentrates on market-related issues and influences, sustainability management extends the economic value of management by recognizing,

examining, and handling non-market aspects and processes. This approach involves identifying and addressing non-market factors in addition to market-related issues and processes. The primary objective of sustainability management is to develop methodologically sound approaches for dealing with cause-and-effect chains. Management control is one such approach that facilitates the translation of overarching corporate sustainability strategies into practical actions. Its challenge lies in pinpointing both market and non-market sustainability issues, assessing their significance for success, and assisting management in decision-making and implementation.

In addition to complementing other data sources, insights from sensing exercises, including ecosystem maps, serve as valuable inputs for materiality assessments, an integral part of contemporary sustainability strategies. Given that materiality assessments often need to cover a broad range of relevant sustainability-related topics, strategic foresight methodologies, including sensing, become particularly beneficial.

The relevance of sustainability is contingent on public perception and can change significantly over time. Regularly sensing the environment for new sustainability-related drivers of change allows materiality assessments to dynamically respond to shifts in the organization's market or regulatory environment. Given the increasing prominence of sustainability, these methods become crucial for identifying new areas of action, maintaining a company's license to operate, and averting scandals.

Modern artificial intelligence (AI)-based sensing tools, aided by natural language processing (NLP), enhance the identification of relevant sustainability-triggered topics and material issues. This enables the automated analysis of vast amounts of news articles and social media posts, streamlining traditional desk research in the sustainability domain. This approach provides a continuous, unbiased perspective on key drivers of change, guarding against behavioural biases and ensuring a comprehensive consideration of social and environmental developments, including fringe events.

Beyond informing materiality assessments, sensing serves as a valuable foundation for stakeholder engagement. Scanning the environment for influential political decision-makers, NGOs, and critical technology suppliers guides the organization in forming solution-oriented ecosystems. Forming strategic alliances is crucial for addressing systemic issues, such as challenges in public education or biodiversity loss, and creating a positive impact across the entire value chain.

2.3.4 Modelling

Modelling methods build upon insights from sensing or existing understanding of drivers of change within a specific context, aiming to develop concrete and rational hypotheses about how the future might unfold within a logical and systematic model. Given the complexity associated with sustainability-triggered challenges, especially the diversity of relevant topics and societal responses, modelling methodologies are particularly fruitful for strategic planning in this field.

One well-known methodology in this context is scenario analysis, offering a means to differentiate potential states of the world in the long-term future. Based on critical uncertainties for a specific context, scenarios capture divergent yet plausible outlooks. For instance, scenario analysis can explore what the sustainability-driven future environment of retail banking might look like in 10 years. Detailed narratives within scenarios stretch imagination, raise awareness of potential changes, and create conviction about necessary strategic moves. Scenarios provide a unified frame of reference, facilitating efficient communication about future outlooks and cultural change. Moreover, they offer a framework for developing a company's vision and strategic options.

Decarbonization of the energy system is a complex issue shaped by various drivers of change. Aggregating these drivers into meaningful scenarios provides a structured perspective on this intricate challenge and highlights specific opportunities and risks within the industry. The Task Force on Climate-related Financial Disclosures recommends scenario analysis to identify risks and opportunities associated with climate change.

Modern AI-enhanced tools allow continuous tracking and updating of unfolding scenarios. Utilizing NLP algorithms and indicating assumptions aligned with uncertainties and trends, organizations can monitor changes in response to qualitative and quantitative data, showing the level of scenario realization on a continuous basis. This is especially valuable in navigating the dynamic changes in sustainability regulation, diverse stakeholder voices in social media, and the evolving landscape of green technologies.

In addition to modelling enriched scenarios, a dedicated uncertainty analysis for crucial and uncertain topics may be required. The Delphi method, involving repeated expert surveys to predict future outcomes, can be complemented by big data analytics for additional evidence or deep dives into specific assumptions, reinforcing the process with continuous monitoring of relevant dynamics and aligning insights with expert-based assumptions.

2.3.5 Acting

After generating insights and logical models through sensing and modelling in strategic foresight, the focus shifts to taking action. This transition involves moving from an "outside-in" perspective of understanding how the environment affects the company to an "inside-out" perspective, considering the impact the company will have on its environment and the strategic choices it can make.

To avoid operational blindness and broaden the range of possible outcomes, it's crucial to distinguish the methods employed at this stage from the modelling stage. Acting methods should ideally be conducted independently of sensing and modelling.

A significant aspect of this stage is a mindset shift among business leaders. While it's one thing to envision a sustainable future and anticipate the evolution of stakeholder groups, acting involves asking the right questions based on this future and aligning relevant strategic choices, what is the sustainability agenda and winning ambition, how to manage the company's portfolio (products, customers, initiatives, etc.), what are sensible strategic initiatives, and how to implement them and how can the organization achieve and fuel its sustainability ambitions.

Business leaders, using one or multiple scenarios, can stress-test their current strategy by evaluating its effectiveness against specific scenarios. This exercise tests the company's orientation and organization under different sustainability contexts, helping identify robust strategic initiatives and potential risks.

Informed materiality assessments highlight the areas impacting society and nature that require attention, leading to the setting of dedicated targets for improvement. Long-term scenarios should guide business leaders in integrating sustainability ambitions into their corporate strategy, treating profitability and sustainability as equal considerations in market selection and product/service development.

To plan actions and reactions within a shorter time horizon, business leaders can engage in business war gaming exercises, especially in interactive, lab-based formats. This is particularly relevant for anticipating new competitive pressures arising from sustainability transformations, such as the shift toward emission-free technologies.

2.4 Materiality Assessment in Business Strategy

The integration of materiality assessment into business strategy is a crucial aspect of sustainability, enabling organizations to identify and prioritize the most relevant environmental, social, and governance issues.

2.4.1 Definition and Significance

The definitions of materiality provided by GRI and SASB, respectively, present two competing perspectives. According to the Global Reporting Initiative (GRI), material sustainability information encompasses "topics that have a direct or indirect impact on an organization's ability to create, preserve, or erode economic, environmental, and social value for itself, its stakeholders, and society at large." (GRI, 2011) (Figure 9).

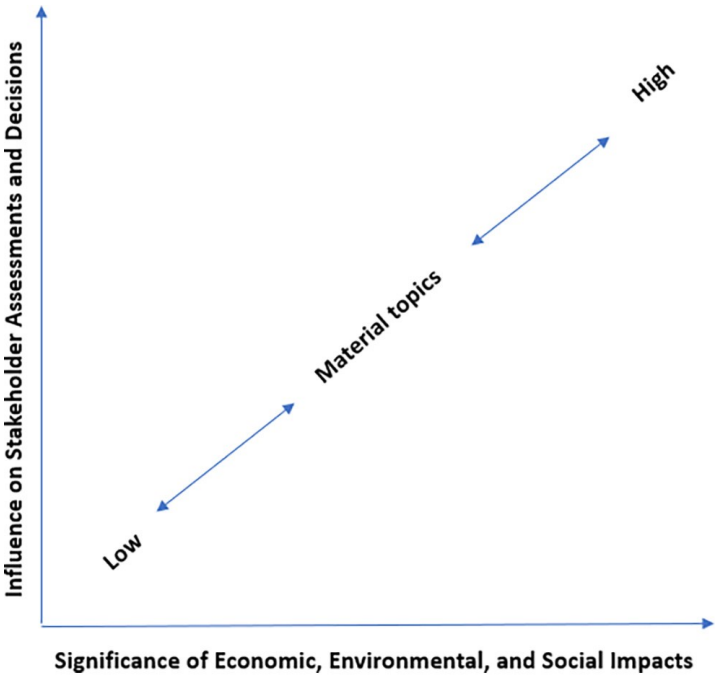

Figure 9. Materiality matrix based on GRI definition

Source: GRI, 2016

On the other hand, SASB defines material issues as those "that are likely to affect the financial condition or operating performance of companies within an industry." (SASB, 2020). The SASB approach to materiality aligns more closely with a different type of materiality matrix commonly found in sustainability reports (Figure 10).

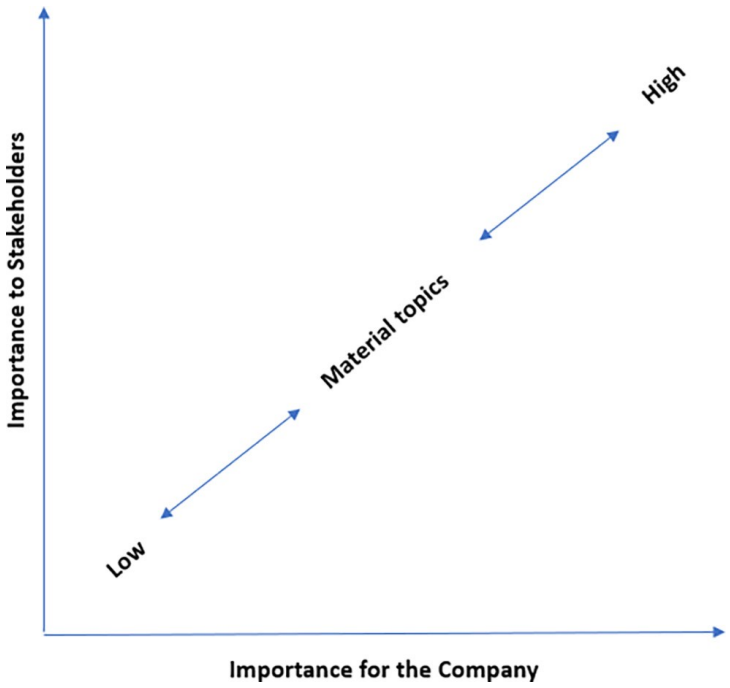

Figure 10. Materiality matrix based on SASB dimensions

Source: Jørgensen et al., 2021

Figure 4 is not used directly by SASB but it visualizes and approach to materiality that lies closer to the SASB variant. Such an approach to materiality more strictly delineates those sustainability issues that are financially material, a concept that SASB use to distinguish itself form other forms of materiality.

Companies increasingly use such materiality analyses and develop materiality matrices to analyze and visualize which sustainability issues are material to them and that therefore needs to be addressed (Jørgensen et al, 2021).

A materiality assessment is a formal process designed to involve external stakeholders in determining the importance of Environmental, Social, and Governance (ESG) issues to them. The findings from these assessments serve as valuable insights that can inform strategies and communication efforts, enabling companies to convey a more meaningful sustainable narrative to stakeholders.

In essence, a materiality assessment is a methodology that empowers companies to gain a deeper understanding of and prioritize their sustainability issues by incorporating stakeholder perspectives on their products or services. The primary aim of this assessment is to pinpoint the social and environmental areas that carry the greatest significance for the company, investors, and stakeholders.

A materiality assessment offers a multitude of advantages. It empowers companies to outline a comprehensive plan for long-term emissions reduction, assess risks, and capitalize on

available opportunities. The process not only strengthens stakeholder engagement but also enables a company to enhance its transparency, thereby elevating its reputation.

Furthermore, a materiality assessment plays a crucial role in improving sustainability reporting, facilitating progress tracking, and ensuring optimal resource allocation. A study by Jørgensen et al, in 2021 revealed that sustainability reporting could result in a 4.6% increase in market value, underscoring the economic benefits associated with the implementation of materiality assessments.

2.4.2 Methodology and Process

In order to conduct an effective materiality assessment there are some general phases that serves as a guide for managers and could help them to construct the process. The first phase is to identify key stakeholders, the materiality assessment should begin by establishing the company's purpose and strategic objectives. Clearly define what the company aims to achieve, outline related priorities or initiatives, and designate oversight responsibilities. Identify a comprehensive list of stakeholders, considering both internal (e.g., directors, executive leadership, regional managers, employees) and external contacts (e.g., customers, vendors, regulators, community members, NGOs, environmental representatives, and investors) to ensure a holistic range of perspectives. Secure support from key internal and external stakeholders, fostering participation across various divisions and functions to maintain independence and accountability in the assessment process.

The second phase is a brainstorm material issues, the company should collaborate with internal and external stakeholders to generate a list of potential material issues for the business, utilizing resources such as the SASB Materiality Map (Figure 11). The SASB Materiality Map serves as a crucial tool for businesses, aiding them in the identification and prioritization of sustainability issues directly relevant to their industry and operations.

Tailored specifically for each industry, the materiality map offers a unique attribute by providing insights into the more significant issues within that sector. It goes beyond a general overview, categorizing and quantifying these issues in a manner relevant to the industry it addresses. Notably, the map encompasses issues beyond Environmental, Social, and Governance (ESG), extending its focus to areas such as overall climate change, specific labour practices, and product safety.

By presenting this information openly, the map facilitates the establishment of priorities for businesses. It simplifies the process of identifying the most material issues, considering both financial performance and stakeholder interests.

Furthermore, the materiality map offers valuable guidance and standards for disclosure on these material issues. When companies embark on reporting in this domain, the map provides clear directives on the necessary steps and information required for comprehensive reporting.

Lastly, the map plays a crucial role in integrating sustainability with financial reporting. It emphasizes to businesses and investors alike that various sustainability factors significantly impact a company's viability and financial performance.

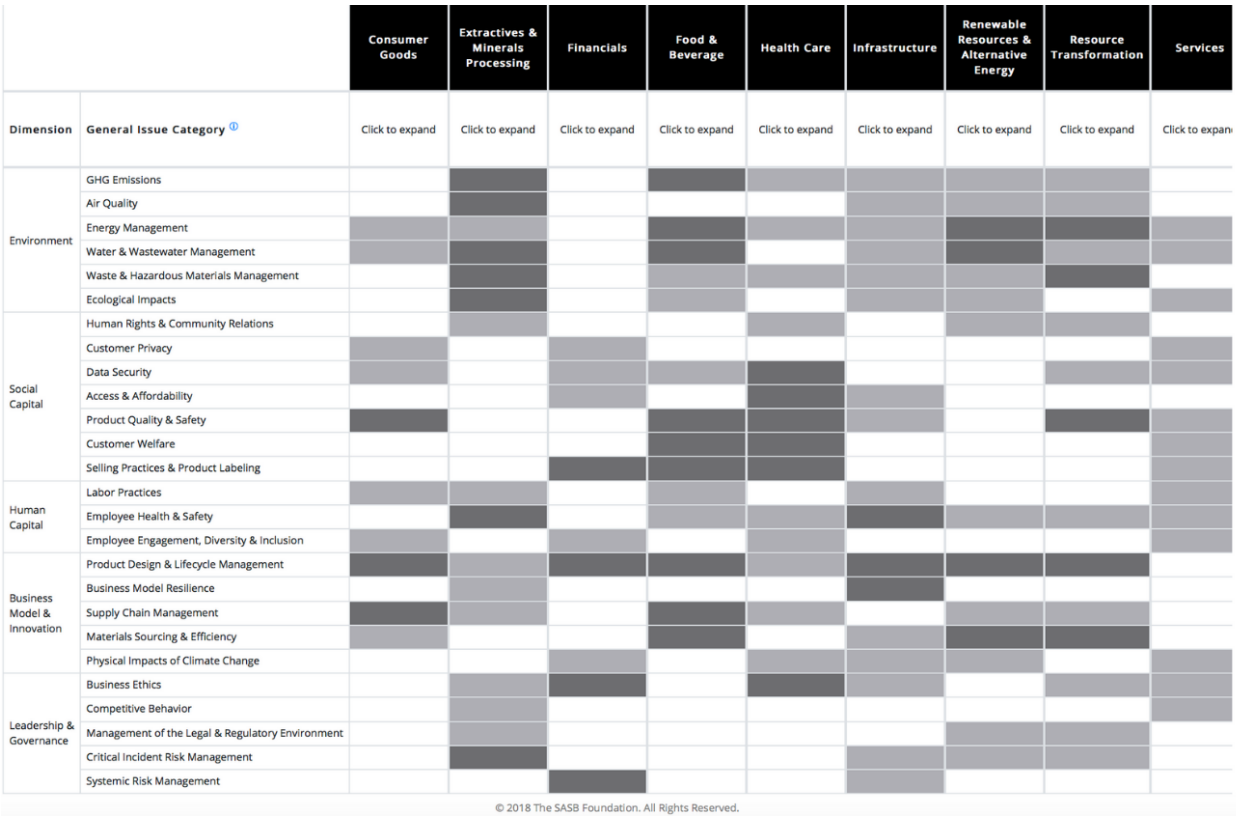

Figure 11. SASB Materiality Map example

Source: SASB.org, 2018

The next phase aims at designing and conducting a materiality survey, so develop engagement surveys that prompt key stakeholders to rank a list of material issues based on key dimensions like the impact on the business and performance and the company's current management of the topic. Hold discussions with stakeholders to delve deeper into their feedback, collectively explore areas of shortfall and ambition, discuss potential solutions, and identify priorities, carefully considering trade-offs in addressing competing stakeholder needs.

After having conducted the survey, managers should analyze survey insights, by examining survey findings to identify gaps and opportunities for ESG issues. Utilize the insights to create a materiality matrix highlighting material issues for the company, grouping risks by priority level (Figure 12). Private companies should review ESG maps of public-market peers and adjust findings for relevance to their businesses. Share results with key stakeholders and gather additional feedback. The final phase considers the Creation and Execution of an Action Plan. Utilize the materiality assessment findings to shape and launch a impactful and differentiating sustainability strategy for the company. Translate consolidated insights into actionable items, categorizing them by short-term next steps and long-term goals. Some companies align their targets with the UN's Sustainable Development Goals or integrate them directly into their broader corporate strategy. Regularly disclose progress to key stakeholders for accountability and transparency. Update the materiality assessment as needed, recognizing it as an iterative process that evolves with business growth. Updates may be necessary whenever the business or operating context undergoes substantial changes.

Following the completion of the process, it is common to generate a materiality matrix, that offers a visual depiction of the key insights. This matrix assists stakeholders in determining the subsequent actions based on the identified findings.

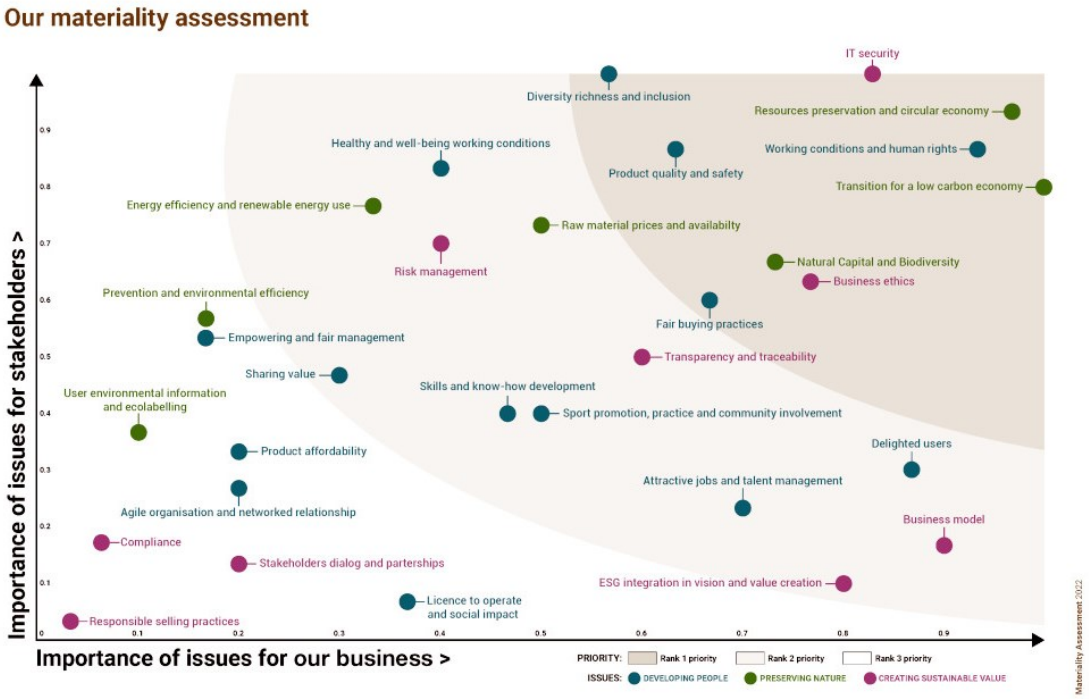

Figure 12. Example of Materiality Map Source: Sustainablebrands.com., 2023

2.4.3 Integration into Strategic Decision-Making

A materiality assessment serves as the cornerstone for companies in crafting effective sustainability strategies, gaining heightened significance as the global push for net-zero emissions intensifies. This assessment sheds light on various Environmental, Social, and Governance (ESG) challenges that could potentially impede a company's progress toward both environmental and economic prosperity.

Research (Kahn, Serafeim, Yoon, 2015) indicates that companies addressing material ESG factors relevant to their industry may enjoy a performance advantage in the long term. Conversely, there is a potential opportunity cost for businesses that emphasize immaterial factors. While it's not a direct causal relationship, a clear correlation exists between material ESG issues and financial performance, underscoring the critical role of materiality assessments.

The emergence of regulatory developments, such as the SEC (Securities and Exchange Commission) disclosure rule in the U.S. (On March 21, 2022, the SEC introduced a proposed rule aiming to improve and standardize climate disclosure obligations for publicly traded companies. The proposed regulation mandates organizations to incorporate specific climate-related disclosures in their registration statements and annual reports. These disclosures encompass metrics related to the financial consequences and expenditures associated with climate issues. Additionally, companies would need to address the influence of climate-related factors on financial estimates and assumptions in their financial statements. Importantly, these disclosures would be subject to internal financial reporting controls managed by the organization's management and external audit processes) and the Non-Financial Reporting Directive (NFRD) in Europe first proposed in 2014 and set it into force in 2016, which requires companies in scope to publish a non-financial report on their ESG performance together with their annual management report, further emphasizes the importance of materiality assessments. Companies adopting these assessments now will be better prepared to navigate future environmental regulations.

2.4.4 Reference Frameworks

In the context of ESG guidelines, the materiality assessment has expanded its frameworks and accounting standards in recent years, referring to the:

- G4 guidelines from the Global Reporting Initiative (GRI), The GRI Sustainability Reporting Guidelines, recognized as the most extensively utilized sustainability reporting framework globally, empower companies and entities to disclose their economic, environmental, social, and governance performance. Introduced in May 2013, the fourth generation of these guidelines, G4, has undergone revisions and improvements to align with significant present and future developments in sustainability reporting.
- International Integrated Reporting <IR> Framework, First published in 2013, the Integrated Reporting Framework offers a framework for companies to articulate how they navigate their reactions to the external environment and generate value for shareholders. Employing this Framework enables companies to link details concerning environmental risks and opportunities, establishing connections between this information and the data presented in financial statements.
- Sustainability Accounting Standards Board (SASB) in the United States, that is a standards-setting organization that develops industry-specific standards for disclosing sustainability risks and opportunities.

The new regulations, such as the European Directive on non-financial reporting, and the increasing stock market requirements to report environmental, social, and governance (ESG) risks are leading companies to consider which non-financial information is important and what should be reported within the materiality analysis. As a result, many organizations are seeking to review and update their assessment processes. However, despite growing awareness and maturity regarding Corporate Social Responsibility issues, many large companies understand the principles of materiality but struggle to define and implement a robust process.

There are various reference frameworks that companies use to develop an understanding of key issues on which to base materiality analysis. Each framework has a specific purpose, audience, and articulation of the concept of materiality. Some frameworks that can help companies understand which issues to focus on are, CDP (Carbon Disclosure Project) which manages the global disclosure system that allows companies, cities, states, and regions to measure and manage their environmental impacts. CDP does not emphasize materiality as much as it focuses on convincing companies to disclose key environmental data, such as carbon emissions, water usage, and so on, without considering the entire holistic sustainability spectrum. Its primary audience are investors and ESG data providers. GRI (Global Reporting Initiative) is an independent international organization for standards that helps companies, governments, and other organizations understand their impact on issues such as climate

change, human rights, and corruption, providing a global common language to communicate them. Materiality refers to the significant economic, environmental, and social impacts of an organization or issues that substantially influence stakeholder assessments and decisions. Reference audience are Sustainability professionals, stakeholders, investors and ESG data providers.

The IIRC (International Integrated Reporting Council) is a global coalition of regulators, investors, companies, standard-setters, accounting professionals, and NGOs. While primarily European and international and less widespread in the United States, the coalition promotes value creation communication as the next step in the evolution of corporate reporting. The premise is that an issue is relevant if it can substantially affect the organization's ability to create value in the short, medium, and long term. It is referred mainly to Investors.

SASB (Sustainability Accounting Standards Board) establishes industry-specific standards for corporate sustainability disclosure to ensure that disclosure is material, comparable, and useful in supporting investor decisions. SASB standards address sustainability topics that may be relevant and have a significant impact on the financial condition or operating performance of companies operating in a specific sector. The audience are Investors, Task Force on Climate-related Financial Disclosures.

The TCFD (Task Force on Climate-related Financial Disclosures) was created by the Financial Stability Board to improve and increase climate-related financial information reporting. Focused on investors, this framework asks companies to provide information on the risks that climate change can pose to business operations, encouraging companies to align information with what investors need to make their decisions, both positively and negatively.

UN Global Compact (UNGC) is referred to the United States, the Global Compact asks companies to commit to its sustainability principles regarding human rights, labour, the environment, and anti-corruption. Signatories are required to produce an annual Communication On Progress (COP) that outlines progress made in incorporating the ten principles of the UNGC at a strategic and operational level. Its primary audience are companies committed to UNGC principles, stakeholders.

These frameworks play a crucial role in helping companies assess and communicate their sustainability efforts effectively.

2.4.5 Challenges of Materiality Assessment

Materiality assessments, despite their importance, come with inherent challenges. One primary complexity involves the integration and prioritization of perspectives from all stakeholders. Additionally, a comprehensive materiality assessment requires a meticulous examination of a company's entire value chain, extending beyond its operational boundaries. Notably, another significant challenge lies in the considerable amount of time needed to conduct a thorough materiality assessment.

There is the risk that the materiality assessment process is isolated from the rest of the business, some may perceive materiality as a mandatory process aimed solely at producing a materiality matrix for inclusion in the sustainability report. However, to fully leverage the benefits of the materiality assessment, it is essential to extend beyond the sustainability team and involve individuals from all sectors of the organization.

It is very important also to ensure active involvement from senior management in the process, Securing the support of senior management or ensuring their awareness of the materiality assessment results can pose a challenge, but their active involvement can significantly improve the outcomes. Additionally, it prevents the materiality assessment from being limited to the sustainability team alone.

Modern business complexity could result to a meaningless materiality assessment, the GRI's G4 Guidelines have prompted numerous companies to expand the scope of their materiality assessments beyond operational control. This expansion involves examining the importance and impact of issues throughout the entire value chain, from upstream in the supply chain to downstream product use and disposal. For large multinational corporations, the added complexity arises from operating in multiple countries and across diverse business units with distinct supply chains, products, and customer bases. Creating a unified list of material topics that captures perspectives and interests across such diverse segments of the business may appear daunting.

Stakeholders' engagement enhance the quality and credibility of the materiality process but, mainly for large multinational firms that interact with hundreds of group each year could be a monumental task to consider their views and opinion into the process. In this case is important the company's day-to-day interactions with stakeholders. Asking external and internal stakeholders to rate the importance of the topics could give useful insights on their priorities.

Stakeholders may expect that the company treat all opinions in the same way, but there are too many views and issues that concern external and internal stakeholders, so it is necessary a

level of prioritisation. One solution could be evaluating stakeholder perspectives by assigning them a ranking of high, medium, or low based on established criteria. These criteria may include the stakeholder's capacity to substantially influence the value creation of your business, their representation of a sizable group with a valid concern rooted in the societal impact of the issue, or their ability to reasonably assess the impact of the topic, whether through quantitative or qualitative means.

2.4.6 Double and Single Materiality Assessment

Double materiality, within the realm of corporate sustainability, encompasses two interrelated viewpoints on environmental, social, and governance (ESG) impacts, one is the Outside-in or financial materiality, this perspective evaluates the influence of external ESG factors on a company's financial performance, operational dynamics, and competitive positioning. These factors, whether social, environmental, or regulatory, are deemed material based on their potential to impact the company's financial well-being. For example, shifts in climate regulations could present risks or opportunities affecting a company's long-term profitability and sustainability.

The second viewpoint is the Inside-out or impact materiality, this viewpoint centres on a company's influence on society and the environment, irrespective of immediate financial repercussions. It underscores a company's responsibilities to various stakeholders, including employees, communities, customers, and the environment. Practices such as waste management or community engagement are assessed under this perspective, even if their financial impact is not immediate.

The concept of 'double materiality' in corporate sustainability reporting, currently a focal point in new European Commission standards, extends beyond the traditional 'single' materiality approach. While single materiality focuses on the impact of sustainability issues on the firm and its future prospects, double materiality requires companies to disclose their effects on broader systems such as climate, biodiversity, and society.

While the adoption of double materiality has been gradual in the United States, where the Generally Accepted Accounting Principles (GAAP) predominantly focus on single (financial) materiality, American companies adhering to the Global Reporting Initiative (GRI) will inevitably need to transition towards defining materiality based on an understanding of real and potential impacts. Although this transformative concept is crucial in EU standards, it has

sparked discussions about its implementation in other contexts. Presently, the International Sustainability Standards Board (ISSB) does not incorporate double materiality in its international sustainability standards. However, significant market players are likely to drive its inclusion in the near future.

Despite varying perspectives, the EU plans to progressively integrate double materiality, starting in 2024, notably through the Corporate Sustainability Reporting Directive (CSRD) and EU Taxonomy. Consequently, companies under its jurisdiction must commence data collection from this year onward in preparation for this transition.

2.6 Conclusion

As traditional strategic formulation and planning is no longer suitable for the modern dynamic environment, the adoption of a strategic foresight mindset can serve as a valuable reservoir of pertinent forward-looking information within the framework of our progressively sustainability-oriented future. This future is marked by intricacy, diversity, interdependence, and uncertainty. Such a mindset enables businesses to move away from unfavourable management habits, strategic narrow-mindedness, and a myopic outlook. Instead, it encourages an appreciation for complexity through a broad and long-term perspective centred on sustainability.

A well-executed Materiality Assessment can validate the integration of social and environmental considerations into a business strategy. It offers insights into sustainable strategies for long-term success and highlights the topics most significant to stakeholders. Additionally, it aids in identifying overlooked sustainability issues and evaluating a company's position in an increasingly sustainable society.

According to a McKinsey study in 2020, companies leading in Environmental, Social, and Governance (ESG) aspects commanded a valuation premium of up to 20% and demonstrated enhanced profitability. This underscores the value of a Materiality Assessment for any company, especially as sustainability becomes a crucial element of successful businesses.

Chapter 3: The Challenge of Organizational Design for Sustainability

3.1 Introduction

This chapter delves into the imperative for transformative changes in organizational design to effectively embed sustainability. As organizations grapple with the challenges of aligning their structures with sustainable strategy as seen in the first chapter, this section sets the stage for understanding the profound shifts required for true integration.

To fully integrate sustainability, changes must also be made to the organizational/structural aspect. As we will show, a traditional hierarchical structure cannot support a sustainable company from an organizational-sustainability standpoint.

Even if there is not a unique organizational solution suitable for all companies, according to the contingency theory, we are going to analyze and compare with a common framework three models proposed by three different authors. Then an overview of the role of the Chief Sustainability Officer will be made to understand its importance and its pathway in the future. Finally, we will end the chapter by underlying the importance of engaging and motivating employees to effectively embed sustainability practices.

3.2 Organizational structures for sustainability

In today's dynamic and interconnected world, companies seeking to achieve deep sustainability purpose must break free from the constraints of traditional organizational structures, which are often designed for efficiency and control at the expense of autonomy, collaboration, and trust. These structures, which Gulati (2022) aptly refers to as the "iron cage," can stifle creativity, innovation, and the ability to respond effectively to changing market demands. Based on this thought is desirable for companies that wants to embed sustainability to move from a mechanic structure to an organic structure.

To escape the iron cage and embrace a more purpose-driven approach, companies must fundamentally rethink their organizational design and embrace a new set of principles.

Gulati challenges companies to rethink their organizational structures not as a means to achieve efficiency and control, but as a facilitator of deep purpose. By embracing autonomy, collaboration, and trust, companies can unleash the potential of their employees, foster innovation, and achieve both long-term success and a positive impact on society.

The design of a sustainable organization must strive to enhance all three bottom lines (economic, social, and environmental), and there is no one-size-fits-all solution, except for the overarching principle that the structure should seamlessly integrate with the overall company setup (De Smet et al., 2021).

Different situations faced by sustainable and non-sustainable firms, such as customer perception, industry conditions, and supply chain systems, necessitate a contingency-based approach to organizational design (De Smet et al., 2021). The principles of contingency theory, aligning information-processing capacity with demand, remain crucial (Burton et al., 2020).

The contingency theory has its roots in the early works of Burns and Stalker (1961) that argued that management patterns were related to the external environment of organizations, particularly, they carried out research on firms in United Kingdom to examine the characteristics of external environment. These characteristics were rates of change in the scientific techniques and markets. As a result, they classified two types of organizations, which were 'organic' organization and 'mechanistic' organization. These two types of organizations operated distinctly different management process and practices. The 'organic' organization practiced principles of 'human relations' school and it was more suitable for changing conditions. However, 'mechanistic' organization was highly centralized, more bureaucratic, and not flexible. This organization could be appropriate for relatively stable environment. Lawrence and Lorsch (1974) put forward 'contingency theory' as the certainty and stability of markets and technological environments influence the effectiveness of organizational structure. Specifically, in a relatively dynamic environment, the successful organization in operation was more decentralized. By contrast, those organizations in a stable environment were tended to be centralized. The 'optimum' organization form was contingent on the demands of organizational external environment.

Basing on these concepts, Ford and Slocum (1977) affirmed that organizations, when designing their structure, need to consider three main factors: Size, Technology and Environment.

In 21st century, as the economic and politic globalization trend was speeding up, contingency theory and other management theories need to be updated in order to keep up with the development of the times and answer the new questions of the times.

Burton and Obel (2018) and Burton et al. (2020) proposed a Multi-contingency theory. Multi-contingency theory goes a step further by suggesting that there are multiple contingencies that can affect organizational structure. These include:

- Environment (the degree of uncertainty and stability in the organization's environment).

- Technology (the complexity and interdependence of the organization's tasks).

- Size (the number of employees and the volume of transactions).

- Strategy (the organization's goals and objectives).

- Culture (the shared values and beliefs of the organization's members).

In the context of Multi-contingency theory, a sixth factor can be added: the sustainability maturity stage of the organization. As Miller and Serafeim (2014) argue, organizations typically go through three stages of sustainability commitment. The first is the Compliance Stage, in the initial compliance stage, organizations focus on adhering to environmental and social regulations.

The second stage is the Efficiency Stage, as organizations mature in their sustainability journey, they move into the efficiency stage.

The last one is the Innovation Stage, at the highest level of sustainability commitment, organizations reach the innovation stage.

The choice of the organizational structure depends on, in addition the environment, size and technology, the company's maturity in sustainability (the stages presented above), its sustainability goals (what it wants to achieve with its sustainability strategy like adhering at regulations or cost efficiency), and its overall organizational culture (how much sustainability is embedded in organization's members) (Farr, 2011).

Even if there is not a solution that could fit to all organizations independently, there are some guidelines that help make the integration of sustainability effective.

Designing a sustainable organization requires a shared value proposition for triple bottom line thinking, demanding agreement and alignment throughout the organization (De Smet et al., 2021). Sustainability is an ongoing process, requiring continuous adaptation and a step-by-step approach. The changing perception of sustainability, driven by initiatives like the SDGs, influences the way organizations address and integrate sustainability into their operations (De Smet et al., 2021).

Efficient and effective design of core units, structures, and processes is crucial for linking with stakeholders, addressing local and global concerns, and enabling integration across functions (Mohrman and Shani, 2011). New decision-making routines, databased frameworks, and emphasis on processes and governance rather than reporting lines are essential to manage uncertainty and risk (De Smet et al., 2021). To determine the appropriate hierarchy, formalization, and centralization, an information-processing analysis aligned with sustainable development needs and the three bottom lines is necessary.

One prominent aspect of a sustainability-focused organizational structure is its commitment to aligning the internal framework of the company with an external structure aimed at fostering direct, intensive, and continuous engagement with stakeholders. This involves ensuring that the core responsibilities for implementing sustainability programs lie within departments that maintain close connections with stakeholders and possess decision-making authority concerning program-related issues. The organizational structure should provide clear avenues for stakeholders to express concerns and ask questions, along with transparent goals for stakeholder relationships and metrics for both internal and external stakeholders to assess its performance. Regular evaluation and reporting, typically on a quarterly or bi-annual basis, should be accompanied by informal face-to-face discussions among sustainability initiative managers, their reporting employees, and members of the stakeholder constituencies they serve. Taking performance measurement and reporting seriously is crucial, with the results informing the identification and implementation of structural changes necessary as the sustainability initiative becomes more ingrained in daily operations and decision-making (Gutterman,2020). Efficient and effective design of core units, structures, and processes is crucial for linking with stakeholders, addressing local and global concerns, and enabling integration across functions (Mohrman and Shani, 2011).

De Smet et al. (2021) argue that merely adding a sustainability-focused team or unit is insufficient; a sustainable business model and strategy require top-level support and governance power but is important as well to empower employees to make decisions at the lowest possible level so to create a more responsive and adaptable organization.

Breaking down silos and fostering collaboration across different departments breaks down the boundaries that hinder information sharing and innovation. Employees from diverse backgrounds can bring their perspectives together to find creative solutions (Gulati, 2022).

In a sustainable organization, a significant degree of decentralization is preferred, contingent upon shared values, sustainability-supporting incentives, and an information system that facilitates coordination and transparency (Obel and Kallehave, 2022).

Several authors proposed different solutions for organizational structures aimed at sustainability effectiveness. Here are presented and compared the works of Farr (2011), McKinsey & Compnay (2021) and Griffiths and Petrick (2007).

3.2.1 Farr Models

According to Farr (2011), Companies can choose from three basic organizational structures for sustainability: standalone, integrated, or embedded. Every of these structures, according to the factors of that influence the choice of the organization, have their pros and cons.

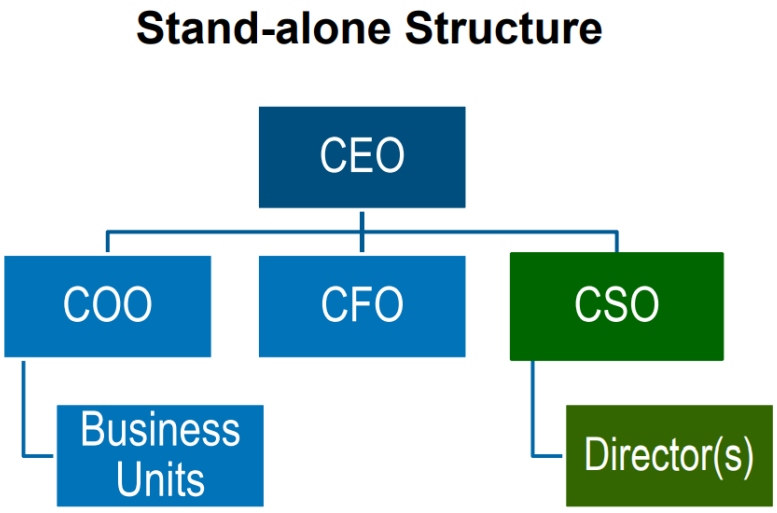

Figure 13. Stand-alone Structure

Source:Farr, 2011

In a standalone structure (Figure 13), the sustainability function is treated as a separate entity, similar to finance or marketing. A high-level executive, often called the Chief Sustainability Officer (CSO), oversees the sustainability function and reports directly to the CEO. This structure provides a dedicated team of sustainability experts but may have challenges in integrating sustainability into the rest of the organization and gaining buy-in from employees. Standalone structures are suitable for companies that are new to sustainability, so that are more focused on the compliance.

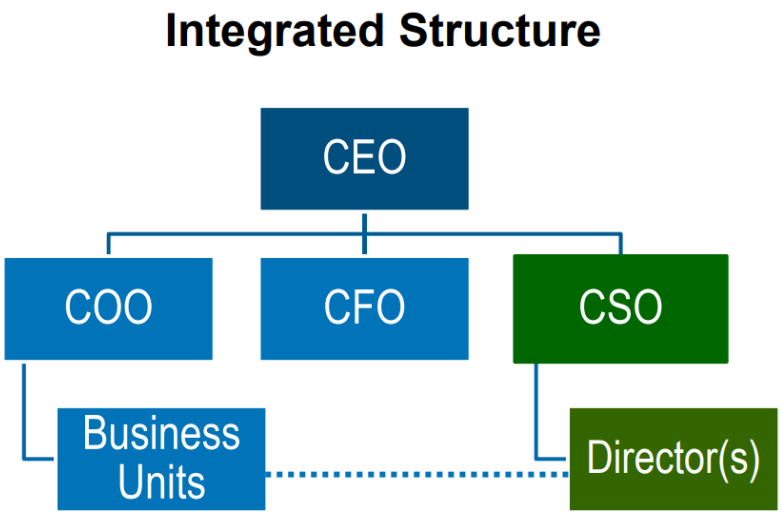

Figure 14. Integrated Structure

Source: Farr, 2011

An integrated structure (Figure 14) integrates sustainability into the overall organizational structure. Sustainability directors still primarily sit within the sustainability function, but they also have reporting relationships with business units. This allows for better communication and collaboration between sustainability experts and business units, leading to increased employee engagement. However, responsibility and accountability for sustainability may still be dispersed, and the focus of the sustainability function may remain on cost reduction rather than broader business development opportunities.

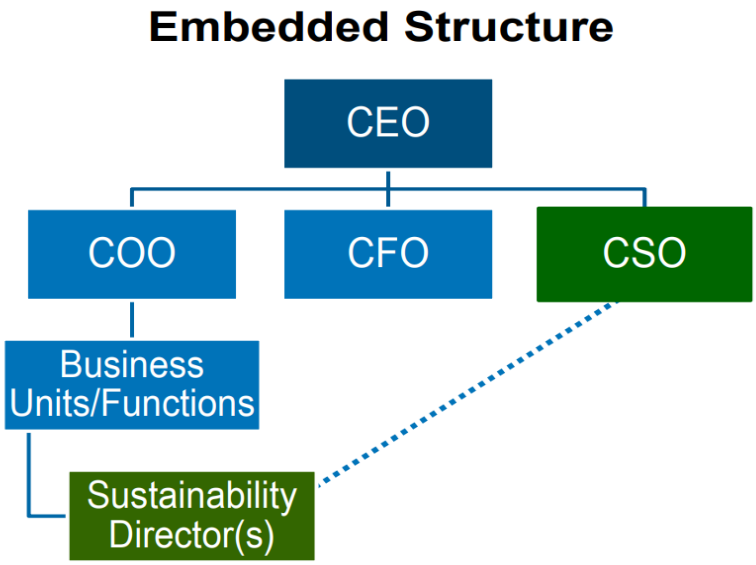

Figure 15. Embedded Structure

Source: Farr, 2011

An embedded structure (Figure 15) places sustainability directors within each business unit or function. These directors report to both the head of their respective unit or function and the CSO, creating a matrix organization. This structure allows sustainability to be deeply integrated into business operations, enabling the selection and implementation of sustainability programs that drive business value. However, it can be challenging for the CSO to coordinate sustainability efforts across the organization, and there is a risk of duplication of effort. Integrated and embedded structures are better suited for companies with more established sustainability initiatives, so at advanced sustainability maturity stages.

3.2.2 McKinsey Models

De Smet et al. (2021) on a publication on McKinsey & Company site, suggest that certain organizational models are more effective than others in making sustainability a genuine strategic priority.

In comparison to the two common models that are typical nowadays, where sustainability is either embedded in a support function, very similar to Farr's stand-alone structure, (left structure in figure 16), or fully decentralized within business units (right structure figure 16).

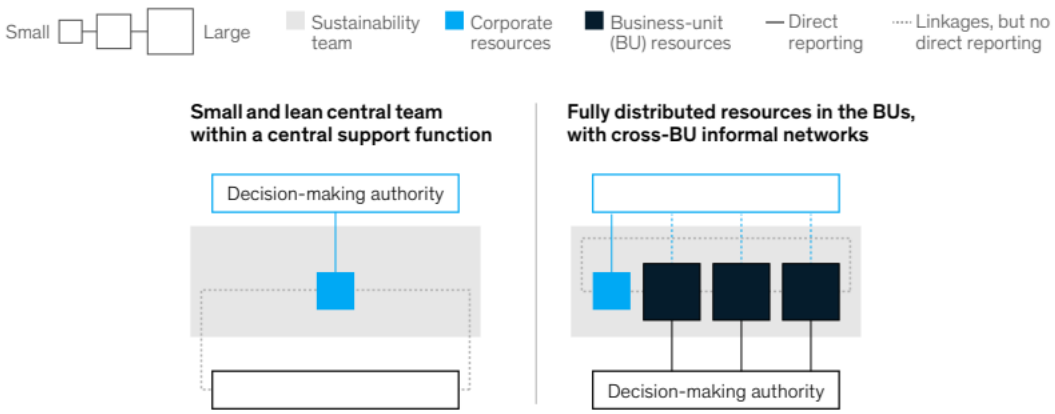

Figure 16. Common sustainability structures observed by McKinsey&Company

Source: McKinsey&Company, 2021

They identified three alternative models that enhance the connection between sustainability and overall strategy (Figure 17). These models grant elevating sustainability role in shaping the company's strategic direction.

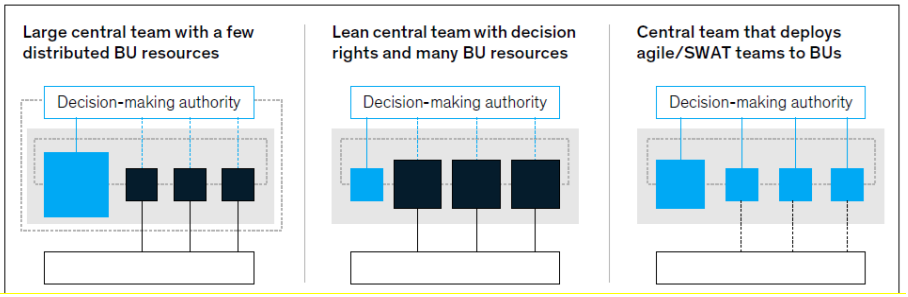

Figure 17. Three alternative models of sustainability structure

Source: McKinsey&Company, 2021

In a model characterized by a substantial central team and limited resources within individual business units (the first one from left in Figure 5), the central team takes the lead in planning and retaining decision-making authority for most sustainability initiatives. Collaboration with business units involves active engagement in specific sustainability issues or leveraging relevant expertise. The central team incubates sustainability projects before transitioning them to business units, ensuring support for activities lacking natural owners. It also allocates budgets and staff to sustainability priorities company-wide, maintaining a focused approach. While having a comprehensive view of broader sustainability trends and stakeholder demands, the central team may be less adept at responding to emerging market opportunities and risks related to sustainability.

In an organizational structure marked by a lean central team and abundant resources distributed among business units (central one in Figure 5), sustainability topics are primarily prioritized from the top down by the streamlined central team. This approach establishes a unified company-wide agenda and targets, with business units entrusted to formulate specific initiatives aligning with overarching goals. Business units, equipped with their resources, possess the flexibility to initiate and work on sustainability projects guided by the central team. This model is most effective in companies where sustainability is deeply ingrained in the organizational culture, fostering genuine cross-functional collaboration.

In the third organizational structure (last one in Figure 5), a central team deploys agile or SWAT (Special Weapons And Tactics) teams to various business units, focusing on sustainability initiatives, this structure is also called “Helix organization” (De Smet et al, 2019). The central team assigns specialized task forces to individual business units, taking the lead in planning and initially executing the unit's priority sustainability projects. The primary goal is to build capabilities within the business unit, enabling it to independently manage sustainability initiatives once the task force moves on to support another unit. This approach

facilitates the effective deployment of sustainability expertise, promoting the sharing of best practices and enabling a nimble reallocation of resources to adapt to the rapidly changing sustainability landscape. The secret of the helix lies in disaggregating the traditional management hierarchy into two separate, parallel lines of accountability—roughly equal in power and authority, but fundamentally different. One of the two lines helps develop people and capabilities, sets standards for how work is done, and drives functional excellence; the other focuses those people and capabilities on the priorities for the business (including overseeing their day-to-day work), creates value, and helps deliver a full and satisfying customer experience. By disaggregating the hierarchy and ensuring that for any given set of leadership responsibilities only one person is accountable, we can stop forcing employees to answer to multiple "bosses" who think it is within their purview to perform the same set of leadership functions such as hiring and firing, job assignments, promotions, evaluations, and incentives (De Smet et al.,2019).

3.2.3 Griffiths and Petrick Models

Griffiths and Petrick (2001) proposed three alternative architectures—networks, virtual organizations, and communities of practice—for sustainability, each offering unique characteristics and prospects to enhance human and ecological sustainability.

Network organizations, seen as a powerful alternative to traditional hierarchical structures. Despite centralized control over major decisions, individual nodes within the network operate with considerable independence. This results in a flatter hierarchy, reduced reliance on formal rules, and improved access to information, fostering economies of scale. Griffiths and Petrick argued that networks are effective for sustainability, given their ability to respond quickly to market changes and adapt to evolving customer needs. However, managing networks requires different skills than those needed for traditional hierarchical structures.

Virtual organizations, according to Griffiths and Petrick, can be designed on two levels. At the first level, they are temporary entities formed for specific projects, disbanding once the project is completed. The second level involves appearing large while remaining small in terms of employees and resources, relying on technology and strategic alliances. Companies adopting team-based organizational architectures, leveraging project teams and virtual teams, aim to enhance employee knowledge for sustainability initiatives.

Communities of practice, as described by Griffiths and Petrick, have flexible structures formed around shared interests, expertise, or project orientation. These communities gather professionals informally to share information, pass on knowledge, and contribute to the

development of their field. Key features include the ability to acquire new members, use formal and informal processes for learning, rely on a core group for collective memory, and lack hierarchical structures. Griffiths and Petrick proposed that communities of practice could serve as entry points for companies to capture and disseminate ecological information strategically.

3.2.4 comparison of the models with the Jones's framework

Jones (2013) argues that if an organization is to remain effective as it changes and grows with its environment, managers must continuously evaluate the way their organizations are designed. He individuates four organizational design choices about how to control—that is, coordinate organizational tasks and motivate the people who perform them—to maximize an organization's ability to create value:

- Horizontal and vertical differentiation
- Balancing differentiation and integration
- Balancing centralization and decentralization
- Balancing standardization and mutual adjustment

The main factors influencing sustainability success, as seen before, are integration, decentralization and low grade of standardization. With the help of this framework, it is possible to compare the different models discussed above in order to have a comprehensive view of the structures proposed and their ability to maximize sustainability value.

Table 1. Model comparison with Jones's framework

	Structures	Horiz. & Vert.	Diff. & Integ.	Centralization & Decentralization	Stand. & Mut. Adj.
Farr	**Stand-alone**	Vertical	Differentiated	Centralized	Standardized
	Integrated	Balanced	Balanced	More Decentralized	More Mut.Adj
	Embedded	Balanced	Integrated	Decentralized	Mutual Adjustment
McKinsey	**Support Function**	Vertical	Differentiated	Centralized	More Standardized
	Large Central	Vertical	Differentiated	More Centralized	Standardized
	Lean Central	Balanced	Balanced	More Decentralized	More Mut.Adj
	Agile SWAT	Balanced	Balanced	Balanced	More Mut.Adj
	Fully Distributed	Horizontal	Integrated	Decentralized	More Mut.Adj
Griffiths & Petrick	**Network**	Horizontal	Integrated	Decentralized	Mutual Adjustment
	Virtual	More Horizontal	More Integrated	Decentralized	More Standardized
	CoP	Horizontal	More Differentiated	Decentralized	Mutual Adjustment

Legenda:
Horizontal-Vertical: Horizontal; More Horizontal; Balanced; More Vertical; Vertical
Diferentiation-Integration: Differentiated; More differentiated; Balanced; More Integrated; Integrated
Centralization-Decentralization: Centralized; More Centralized; Balanced; More Decentralized; Decentralized
Standardization-MutualAdjustment: Standardized; More Standardized; Balanced; More Mut.Adj.; Mut.Adj

Source:Author Elaboration, 2024

Looking at the comparison of the models (Table 1), and the factors critical for sustainability mentioned above, it is possible to say that if there is not only one perfect structure that fits all the organizations, due to the contingency approach, there are structures that do not catch the full impact of sustainability such Stand-Alone structure, Support Function, Large Central Team structure and Communities of Practice that are more indicated to organizations that are at the first stages of sustainability maturity because none of these offers a high grade of integration of sustainability.

The other structures are recommended for organizations that are at higher stages of maturity, they offer a higher grade of integration, decentralization, and mutual adjustment, which are crucial for the effectiveness of the sustainability initiatives but requires a rooted and strong organizational culture for sustainability, a remarkable amount of resources and a skilled management to coordinate the functions and the departments.

3.2.4 Interaction-driven structures

The belief that organizational design for sustainability is not a static process is also shown by Soderstrom and Weber (2020), in their work they introduce the concept of organizational structure and its significance in shaping organizational behaviour and outcomes. They highlight the dynamic nature of organizational structures for sustainability, emphasizing that they are not static entities but rather continuously evolving through interactions among organizational members.

Soderstrom and Weber draw upon structuration theory, developed by Anthony Giddens (1984), to examine the interplay between agency and structure in the emergence of organizational structures. Structuration theory posits that individuals (agents) have the capacity to act and make choices, but their actions are constrained and shaped by the existing social structures (rules, norms, and resources) within which they operate.

After having conducted a qualitative case study of a large biomedical company that embarked on a sustainability initiative, they collected data through in-depth interviews with key informants, including senior executives, middle managers, and lower-level employees involved in the sustainability efforts. Three key processes are identified that contributed to the emergence of organizational structures for corporate sustainability:

- Issue definition, repeated interactions among advocates, middle managers, and lower-level employees helped to define the concept of corporate sustainability within the organization. This involved clarifying the scope of the issue, identifying relevant stakeholders, and developing shared understandings of sustainability goals and priorities.

- Role and responsibility creation, as the issue of sustainability gained prominence, new roles and responsibilities emerged within the organization. This included the creation of dedicated sustainability departments, the assignment of sustainability champions to various functions, and the development of new reporting and performance management systems.

- Norms and procedure establishment, Repeated interactions also led to the establishment of new norms and procedures for addressing sustainability issues. This involved the development of guidelines for sustainability reporting, the

adoption of sustainable practices in procurement and supply chain management, and the implementation of energy-efficiency initiatives.

The authors argue that organizational structures for corporate sustainability emerged through a process of interaction-driven structuration. They emphasize the importance of the quality of interactions, suggesting that interactions characterized by mutual respect, trust, and shared commitment to sustainability were more likely to lead to effective structuration. This perspective highlights the significance of human relationships and social dynamics within organizations in fostering sustainability initiatives. Rather than viewing organizational structures as frameworks chosen and imposed (as seen above), the authors suggest that they emerge and evolve through ongoing interactions among organizational members.

The findings of the study have several important implications for understanding and managing organizational change towards sustainability. First, they highlight the role of social interaction in shaping organizational structures, suggesting that organizations cannot simply impose change from the top down but must also foster a culture of open dialogue and collaboration among employees. Second, the study suggests that organizational change can be a fluid and emergent process, rather than a linear and predetermined one. This implies that organizations need to be adaptable and willing to adjust their structures as new issues and opportunities arise. Third, the study suggests that organizational change can be driven by individuals and groups at lower levels of the organization, not just by top-management directives. These findings show new logic with respect to the traditional change management which educate people through pre-determined process and introduces change and leaves to the HR (Human resources) department to drive the change and individual leaders to manage their people in it from their functional role in the organization (Samuel, 2022), meaning that sustainability is changing a lot of perspectives in the classic organizational theories. This implies that organizations should empower employees to take ownership of change initiatives and provide them with the resources and support they need to be successful. The findings suggest that organizations can more effectively manage change by fostering a culture of open dialogue, collaboration, and employee ownership. By recognizing the importance of interaction-driven structuration, organizations can create more flexible, adaptable, and sustainable structures that support their long-term success.

By prioritizing and nurturing interactions characterized by mutual respect, trust, and shared commitment to sustainability, organizations can create an environment conducive to the development of sustainable practices and structures.

3.2.5 Role of Chief Sustainability Officer

Miller and Serafeim (2014) analyzed the role of the Chief Sustainability Officer in each of their sustainability maturity stage of the organizations.

In the first stage (Compliance stage), CSOs primarily serve as gatekeepers, ensuring that the organization is meeting its legal obligations. Their role is largely reactive and defensive, aimed at minimizing risk and potential penalties.

In the second one, the Efficiency stage, CSOs play a more proactive role in identifying and implementing initiatives to reduce the organization's environmental footprint and improve resource efficiency. Their focus extends beyond regulatory compliance to encompassing broader sustainability goals, such as reducing greenhouse gas emissions, conserving water, and minimizing waste.

In the last stage, the Innovation stage, CSOs have a pivotal role in aligning sustainability strategies with core business operations and driving innovation. They seek out opportunities to leverage sustainability as a source of competitive advantage, developing new products, services, and business models that address environmental and social challenges while also generating financial value.

Miller and Serafeim (2014) observe that the authority and influence of CSOs tend to increase as organizations move from the compliance stage to the efficiency stage and then to the innovation stage. This reflects the growing importance of sustainability in the business landscape. As organizations recognize the strategic value of sustainability, CSOs are increasingly seen as critical partners in shaping corporate strategy and decision-making.

CSOs can play a central role in helping organizations achieve long-term success by integrating sustainability into the core of their business operations. By proactively addressing environmental and social issues, organizations can enhance their reputation, attract and retain talent, and gain a competitive advantage in the marketplace. CSOs, as the stewards of sustainability initiatives, can facilitate this transformative process and help organizations navigate the complexities of sustainability while driving long-term value creation. As sustainability becomes increasingly interwoven with business strategy, CSOs play a crucial role in guiding organizations towards sustainable practices that align with their core values, financial objectives, and the broader needs of society (Miller and Serafeim, 2014).

Irrespective of the organizational structure chosen to drive sustainability initiatives, securing executive sponsorship and visible support from the CEO, executive team, and board of directors is crucial (Gutterman,2020). The leader of the sustainability initiative should directly report to both the CEO and the board, signaling the initiative's importance and providing access to support and resources from high-level executives. Clear procedures on decision rights should be established, acknowledging that sustainability goals may challenge existing decision-making processes.

According to the results of a Deloitte survey (2021), where were asked participants about the CSO's reporting relationships, 32% said they report directly to the CEO in order to give CSO the necessary authority to be effective (Figure 18).

Figure 18. "Who does the CSO report to?"

Source: Deloitte IIF survey, 2021

The risk of conflict between the two figures can be mitigated because they can help each other at the same time. The CEO can help by visibly taking their CSOs seriously, helping colleagues to understand the importance of the role. They need to make time and space for debate—whether formally as an agenda item or informally through listening and asking questions when other executives are around. The CSO also needs air cover because results are seldom instant. By working in sync, setting up broad objectives while the CSO handles the details, CEOs can sponsor far-reaching change. The message to emphasise is that everyone must engage with the topic of sustainability (Deloitte, 2021).

CEOs need to position the organisation for the future while delivering sufficient returns in the present. From presentations at annual general meetings to engaging with NGOs and regulators, not everyone will be sympathetic. A CSO can help the CEO to prepare for what might come next and help them strike the right balance of priorities. Finally, a CSO can help their CEO stay on topic, pushing them to go further, higher, faster. Balancing profit and purpose are never a straightforward job.

Chief Sustainability Officers have also relevant roles in key governance forums (Deloitte, 2021):

- With the board, approves sustainability strategies ensures its integration across the enterprise, and monitors performance against plan (including targets and budgets) and Oversees ESG-related risk ownership and ensures there's an effective programme in place to identify, assess, manage, monitor, and disclose ESG-related risks.
- With the risk committee, establishes the direct oversight of enterprise risk management, assessing the firm's exposures across all risks compared with its stated risk appetite and assesses the quality of ESG risk management and the extent to which specific risk management strategies are working as intended.
- With audit committee, Assists the board of directors in fulfilling its corporate governance obligations and overseeing responsibilities in relation to the entity's financial and performance reporting, common capital and value accounting, systems of internal control, and external disclosures—including those related to ESG.
- With compensation or renumeration committee, Designs and implements reward structures, motivating employees in ways that foster long-term value creation across the value chain and work to reinforce the organisation's ability to achieve its ESG goals
- With governance and nominations committee, appoints directors and senior management with the right skills and experience to advance the ESG strategy

In addition, Chief Sustainability Officers or equivalent leader must establish relationships across all divisions and organizational units, engaging with functions such as health, safety, and environment; ethics and compliance; legal; product development; manufacturing; public affairs; marketing and communications; human resources; and procurement. As organizations grow, the CSO may have a dedicated sustainability leadership team for oversight and coordination, including directors responsible for specific sustainability topics. CSOs surveyed

by Deloitte (2021) who work in large multinational firms said that a hub-and-spoke model seems to be preferable to a large, centralized team.

These sustainability leaders may be supported by steering committees and other coordination mechanisms for activities under their purview. A "sustainability board" often assists the CSO, comprising representatives from relevant functions and divisions. The board ensures the direction, guidance, and coordination of sustainability activities across the company, minimizing duplication, reporting results, and swiftly sharing best practices.

The sustainability board typically has its own charter, outlining responsibilities and composition. This may include approving or recommending sustainability strategies, targets, policies, external positions, materiality assessments, communication approaches, stakeholder engagement plans, and major submissions to environmental, social, and governance indices. The board may also facilitate sustainability dialogues with external stakeholders, develop internal and external reports, and ensure information on sustainability activities permeates the organization.

Given the cross-divisional and cross-functional implications of sustainability, the board should include leaders from all business and functional units (Gutterman, 2020).

3.2.6 The future of the CSO

Even if for the moment the role of CSO is fundamental for embedding sustainability in the organizations, it is plausible that in the future there may be no need of such a specific role because sustainability topics will be so rooted in the organizations culture and structure that will not be necessary a specific department.

A Deloitte survey (2021) asked CSOs and non-CSOs participants what will be evolution of the role in a five-year view. The results are shown in Figure 19. Only 14% answered that CSO will be no longer necessary, of the same advise is Robert-Jan Van Ogtrop, founder of the Circle Economy Foundation, a foundation that since 2011 is focused on empowering decision-makers from the public and private sectors to develop and implement circular economy strategies and business models, says: “I hope that the foundation is so successful that there is no need anymore because the world has become circular, and that is what we want to achieve, it should not be I need to have a big organization like Circle Economy because everybody understand that we all have to live circular or regenerative. If we are successful with sustainability in the future, organizations will not need a sustainability

department because everything is sustainable, everybody understands it and everybody does it".

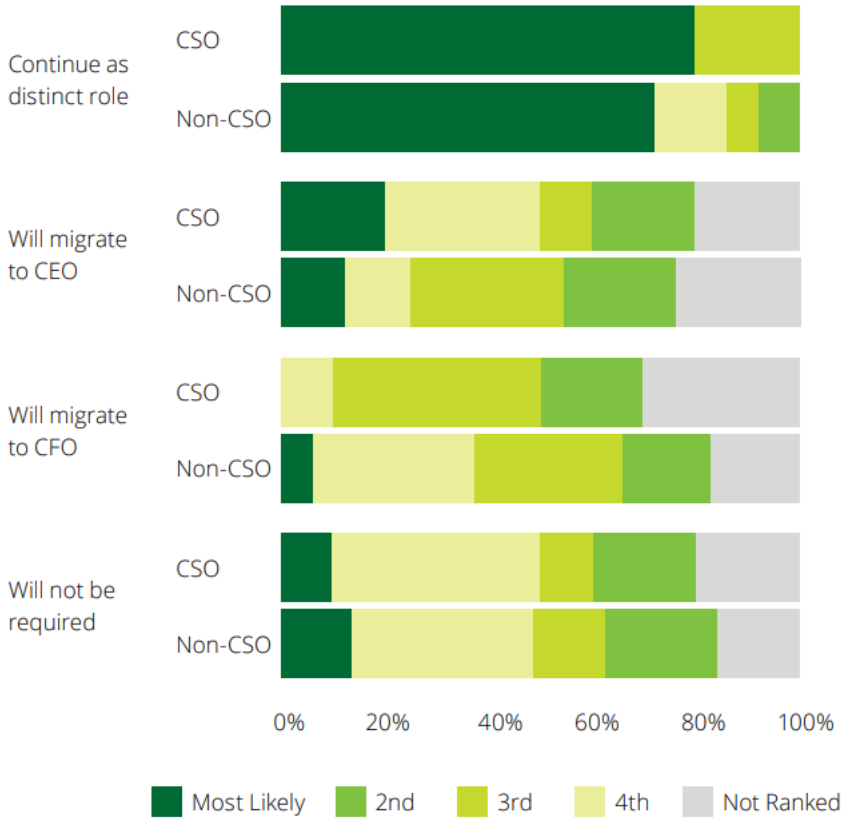

Figure 19. Likeliest evolution of the role CSOs vs. non-CSOs (Five-year view)

Source:Deloitte IIF survey, 2021

Two interesting alternative evolutions of the CSO role are the migration to CEO or CFO.

The transition of the Chief Sustainability Officer to the Chief Executive Officer can occur through two primary avenues. Initially, a successful CSO who effectively shapes strategy and instills systemic change may become a strong contender for promotion to CEO. Alternatively, if the CSO effectively integrates sustainability skills across functions, reducing the need for a dedicated CSO, the role could transition to the CEO.

Although not widely held, some individuals surveyed believed that the CSO role might eventually merge with that of the Chief Financial Officer. This perspective is not grounded in the belief that CFOs excel in stakeholder management or communication campaigns but rather in anticipation of the CFO's role evolving into the "Chief Value Officer" (CVO). The argument posits that organizations are increasingly recognizing the importance of accounting for various forms of capital beyond pure financial capital.

Even if there is no clear answer on how the role might evolve or even disappear, CSOs of today still have many challenges to face. External stakeholders—including regulators, investors, and customers—are still changing firms' operating environments to a profound degree. Since none of these drivers looks likely to diminish over the coming years, nor does the CSO's role.

3.3 Employee Engagement and Incentives

While it is crucial for sustainability initiatives to be championed from top leadership, it is equally important to empower employees with the autonomy to operationalize sustainability. Emphasis should be placed on designing processes, governance structures, and accountability mechanisms.

Successful sustainability initiatives hinge on employee engagement, requiring the development of programs that create awareness of the company's sustainability strategy, goals, and priorities. Employees need education on opportunities and support for their sustainability efforts. Integration of sustainability performance into daily management activities, compensation programs, and alignment of responsibilities with company objectives are essential for encouraging and rewarding contributions to innovation.

Parrish (2007) emphasizes that sustainable values should be ingrained throughout the organization, requiring alignment of local targets, organizational climate, incentives, and leadership.

CEOs often prioritize external recruitment for sustainability-related skill gaps. However, Bain surveys (2023) indicate that there is a gap in providing reskilling and upskilling opportunities for internal career advancement, as expressed by non-managerial employees. Effective integration of sustainability into businesses is a challenge acknowledged by 75% of business leaders. While hiring experienced talent can be a solution, relying solely on workforce turnover is not sustainable, given the extensive skills transformation required and the competitive job market (Bain&Company, 2023).

Transitioning to sustainable effectiveness requires establishing new employee understandings of purpose and mission, aligning with organizational values. Internal people practices, consistent with collaboration, involvement, and diversity, serve as a foundation for broader application in the complex ecosystem (Mohrman and Shani, 2011).

Learning is fundamental for sustainability initiatives, occurring at individual, collective, and organizational levels. Continuous learning, both at the individual and organizational levels, is crucial for addressing economic pressures and challenges related to the triple bottom line.

Transformation toward sustainability requires a radical reconceptualization, involving two types of learning processes: the transformation process and learning in the transformed organization. CEOs leading such transformations acknowledge the need for a 'leap of faith' and emphasize the importance of developing appropriate learning mechanisms and processes (Mohrman and Shani, 2011).

Learning mechanisms, such as structures and processes facilitating understanding and action, play a crucial role in the transformation process. Experimentation with alternative ways of organizing to promote sustainability is vital during this phase. The intentional design of learning mechanisms increases the likelihood of core learning processes, contributing to the emergence of new, more sustainable approaches to work and decision-making.

New decision-making routines are necessary to follow sustainable effectiveness principles, including data-based decision frameworks sensitive to expanded purposes, clarification of decision rights, and involvement processes. Multidirectional communication, reporting processes, and transparency norms establish trust and legitimacy crucial for effective collaboration, involvement, and knowledge sharing.

Empower the Culture of Trust, trust is the foundation of a high-performing organization. When employees trust their colleagues and leaders, they are more likely to collaborate openly, take risks, and challenge the status quo (Figure 20). Trust is built by demonstrating transparency, accountability, and a commitment to open communication (Gulati, 2022).

Figure 20. Collaboration-Trust-Purpose Nexus

Source: Gulati, 2022

A critical aspect of establishing a sustainable organization lies in the design of the incentive system, which should align with the triple bottom line encompassing social, environmental (or ecological), and financial objectives throughout the entire organization (Obel and Kallehave,

2022). It is essential for these incentives to incorporate both short-term and long-term elements. However, findings from a survey of over 4000 CEOs revealed that less than 15% had short-term goals related to social and environmental targets, and fewer than half had long-term goals associated with these issues (PwC's 25th Annual Global CEO Survey, 2022.).

The presence of incentive systems that solely focus on short-term economic goals within specific organizational units poses a significant challenge in fostering an overarching commitment to sustainability across processes, products, and values, even if there are long-term sustainable goals in place (Bocken and Geradts, 2020). Long-term goals are often vague, and there is typically a lack of incentives tied to these objectives.

To ensure coherence among hierarchical levels, the incentive setup should emphasize the value of enterprise activities. This implies that incentives tied to the financial bottom line, environmental sustainability, and social objectives should not be compartmentalized into separate units within the organization, such as finance and human resources. Fragmentation of incentives in this manner can lead to conflicts, heighten the demand for information processing to address these conflicts, and ultimately hinder innovation and increase resistance to change (Burton et al, 2020.).

The intricate design of reward systems and processes for sustainable effectiveness poses particular challenges as individuals are the carriers of purpose and values, influencing the day-to-day actions and decisions that determine the level of sustainability within an organization.

Research by Eccles et al. (2014) reveals that boards of directors in sustainable firms are more likely to be formally responsible for sustainability, with executive compensation incentives tied to sustainability metrics. Sustainable firms are also more inclined to have established processes for stakeholder engagement, exhibit long-term orientation, and demonstrate greater measurement and disclosure of non-financial information.

The establishment of sustainable organizations with high involvement and high performance, achieved through the equitable distribution of resources, responsibility, and benefits, relies on individuals across the entire organization adapting to a new operational paradigm. Leadership in globally responsible organizations encompasses values such as integrity, teamwork, respect, and professionalism.

Success in sustainability hinges on a leader's ability to mobilize others and consistently communicate values and convictions in ongoing dialogues with those around them (Rogers, 2011). Leaders must create a conducive environment with clear strategies, mission, and values. However, translating these elements into practical work systems necessitates

widespread self-organization and learning within the organization. Additionally, responsible leadership involves operating and making decisions in contexts marked by uncertainty and ambiguity, all while reconciling the diverse interests, needs, and demands of multiple stakeholders.

3.4 Conclusion

The topics faced above underscore the necessity for companies to deliberate on the most fitting organizational design to align with their sustainability goals, cultural ethos, and operational dynamics. There is not a "one-size fit-all" solution for the type of structure due to the contingency approach but it is important that regardless the type of structure chosen it is free from the traditional bureaucratic and rigid structures.

The pivotal role of the CSO is highlighted as instrumental in steering the sustainability agenda, acting as a linchpin between the executive team, board of directors, and all organizational tiers. The CSO's effectiveness hinges on their ability to forge cross-divisional partnerships, articulate a compelling sustainability narrative, and mobilize resources to support sustainable initiatives. Their leadership is vital in transitioning organizations through the stages of sustainability—from compliance and efficiency to innovation—thereby embedding sustainability into the core strategic imperatives of the company.

Moreover is emphasized the significance of designing incentive systems that align with the organization's sustainability objectives. These systems should encourage behaviours that support the triple bottom line—economic, social, and environmental outcomes—across all levels of the organization. By integrating sustainability performance into daily management activities and compensation programs, companies can foster a culture that rewards innovation and sustainable practices.

In essence, the journey towards sustainability requires a holistic and adaptive approach to organizational design, leadership, and incentive alignment. As companies navigate the complexities of embedding sustainability into their operations, the strategic integration of these elements will be paramount in achieving long-term success and resilience in the face of evolving global challenges.

Firms with a clear vision and the execution capabilities to navigate this sustainability megatrend are poised to emerge successfully, while those that fail to do so risk being left behind (Lubin and Etsy,2010).

Chapter 4: The Textile and Apparel Industry: Moncler and Prada Cases

4.1 Introduction

In the present chapter are going to be examined two case studies of companies belonging to the fashion industry. As Heatable (2024) points out, fashion industry is addressed to be one of the main sectors where a shift to a sustainability focus is needed. In particular, I decided to take into consideration two listed companies in the Textile & Apparel industry, Moncler, and Prada. The comparison of these two companies turns out be interesting for several reasons. Firstly, Moncler is pointed out as one of the most rewarded companies in terms of sustainability scores in the fashion industry. Secondly, the size and the market presence make Prada a suitable comparable. Moreover, the fact that both of them are listed allows us to have access to a wider amount of information from both internal and external sources.
the chapter is structured as follows. After having introduced the problems and the challenges related to sustainability achievements in the fashion sector, a general overview of the two companies will follow. Finally, we will investigate why Moncler's ESG scores are higher than Prada's according to various ESG rating agencies, by examining their strategic and structural approaches to embedding sustainability within their companies.

4.2 Textile and Apparel Industry

The fashion industry represents an important part of our economy, with a value of more than 2.5 trillion $USD and employing over 75 million people worldwide. The sector has seen spectacular growth over the past decades, as clothing production doubled between 2000 and 2014. While people bought 60% more garments in 2014 than in 2000, they only kept the clothes for half as long (McKinsey & Company, 2016).
However it is pointed as one of the most polluting industries; its detrimental ecological footprint is caused by high energy, materials (approximately 60% of all materials used by the fashion industry are made from plastic) (UNEP, 2019), water (93 billion cubic metres of water – enough to meet the needs of five million people – is used by the fashion industry annually, contributing significantly to water scarcity in some regions) (UNCTAD, 2020) and chemical use, the generation of textile waste and microfibre shedding into the environment during laundering (Niinimäki et al., 2020). While the fashion sector is booming, increasing attention

has been brought to the impressive range of negative environmental impacts that the industry is responsible for.

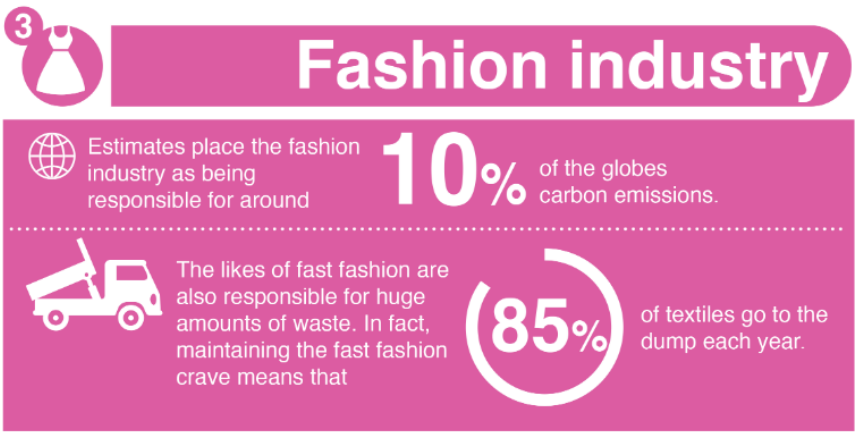

Figure 21. Fashion industry pollution data

Source: Heatable, 2024

The data of fashion industry pollution are (Figure 21):

- The equivalent of one garbage truck full of clothes is burned or dumped in a landfill every second (UNEP, 2018)
- The fashion industry is responsible for 8-10% of humanity's carbon emissions, more than all international flights and maritime shipping combined (UNEP, 2018). If the fashion sector continues on its current trajectory, that share of the carbon budget could jump to 26% by 2050 (Ellen MacArthur Foundation, 2017)
- 85% of textiles go to the dump each year (UNEP, 2018)

Consequently, due to the adverse environmental impacts, prioritizing sustainability has become imperative in the manufacturing industry.

Large-scale systemic change is needed for the industry to align with the Paris Climate Change Agreement's goals to limit global warming to 1.5 °C above pre-Industrial Revolution levels (UNFCCC, 2018), but globalization, the desire for economic growth and a lack of effective global policy hinder the development of a sustainable fashion system. Systemic change requires stakeholder collaboration, technology innovation, government policy and infrastructure support. Solutions range from technical advancements to regenerative models for farming to recycling innovations and biomaterials, as well as reuse and resale initiatives to support a circular economy. Sustainable solutions to recover, reuse and recycle used textiles are needed for transition from the current linear business model to a circular (closed loop) model to diminish the industry's ecological footprint (Jia et al., 2020;).

4.3 Moncler Group

Born on 1 April 2021, Moncler Group, with its two brands – Moncler and Stone Island – represents the expression of a new concept of luxury, which embraces the search for experientiality, inclusivity, a sense of belonging to a community and the mixing of diverse meanings and worlds including those of art, culture, music and sport.

In 2022, Moncler Group reached consolidated revenue of EUR 2,6 billion up 25% compared to 2021. EBIT was equal to EUR 776.5 million, 29.8% margin, compared to EUR 603.1 million in 2021. The economic results have been continuously growing in last 4 years (as shown in Figure 22), with the exception of the 2020 due to the Covid-19 pandemic.

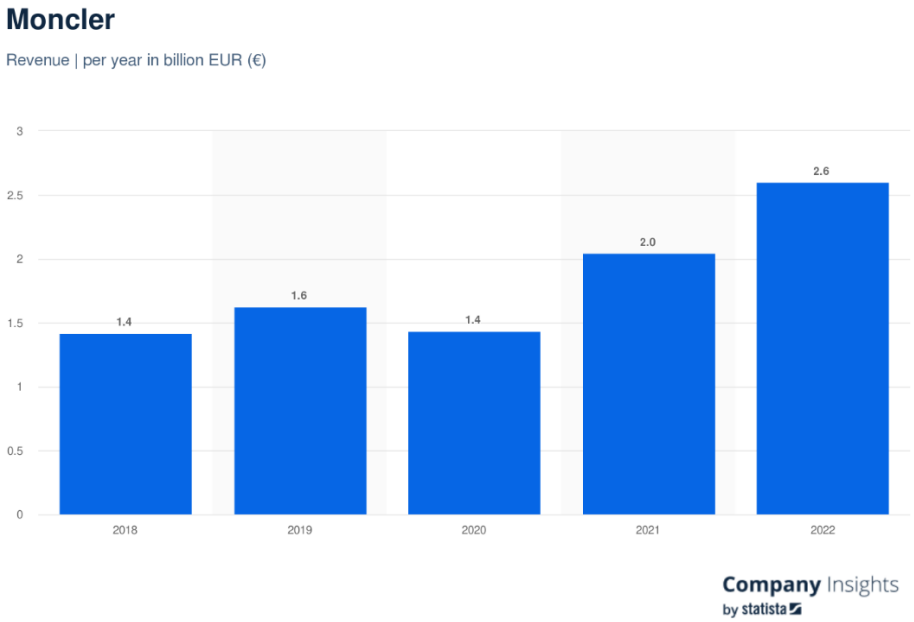

Figure 22. Net revenues Moncler 2018-2022

Source: Statista, 2023

On 31 December 2022 the Moncler Group had a total of 6,310 employees, up on 2021 (+19%, equal to 1,020 more people) (Moncler Consolidated Non-Financial Statement, 2022).

The primary strategic goal of the Moncler Group is to organically grow its brands while amplifying their distinctive qualities. This involves continually integrating various entrepreneurial and managerial perspectives, along with diverse business knowledge and technical expertise, to enrich and strengthen the brands' identities (Moncler Consolidated Non-Financial Statement, 2022).

The Moncler Group strategy is underpinned by four pillars:

1) Becoming a leader in the luxury segment.

   The Moncler Group with its two brands – Moncler and Stone Island – represents the expression of a new concept of luxury, far from the traditional stereotypes, which embraces the search for experientiality, inclusivity, sense of belonging to a community and contamination of different worlds including those of art, culture, music and sport.

   United by "beyond fashion, beyond luxury" philosophy, Moncler and Stone Island intend to consolidate in the new luxury segment, strengthening their ability to interpret the evolving cultural codes of the new generations.

2) Build a global group able to fully enhance its brand's potential at global level.

   Moncler is following a growth strategy inspired by two key principles: to become a global brand and to be more direct to consumers.

   The Moncler Group aims at sharing knowledge and experience with both its brands to fully capture their growth potential globally, maintaining their unique positioning while strengthening their direct to consumers' approach.

3) Develop all distribution channels with an omnichannel approach, supported by a strong digital culture.

   Engaging directly with clients through every channel and touch point, involving them, understanding their expectations – even when unspoken – and creating unique and distinctive experiences in its stores, are the cornerstones of the relationship that the Group strives to develop with its community to never stop surprising it. The Group is pursuing a strategy of integrated development of its distribution channels knowing that thinking, defining and implementing its strategy digitally is key to sustain future growth.

4) Follow a sustainable growth path to create value for all stakeholders.

   Moncler has been progressively strengthening its commitment to a long-term, sustainable and responsible growth, fully integrated into the Group's strategy and entirely embraced by Stone Island as well. The Group's plan is based on five strategic priorities: climate action, circular economy, fair sourcing, enhancing diversity, and giving back to local communities.

4.4 Prada Group

The Prada Group is one of the world leaders in the luxury goods sector where it operates with the Prada, Miu Miu, Church's and Car Shoe brands in the design, production and distribution of luxury handbags, leather goods, footwear, apparel and accessories. The Group also operates in the eyewear and fragrance industries under specific licensing agreements stipulated with

industry leaders, and with the acquisition of Pasticceria Marchesi 1824, it has made its entry into the food industry, where it is positioned at the highest levels of quality. In 2021, the Luna Rossa brand also becomes part of the Prada Group following the acquisition of Luna Rossa Challenge S.r.l.. Prada S.p.A. (the "Company" or "Parent Company"), together with its subsidiaries (collectively the "Group"), is listed on the Hong Kong Stock Exchange. On December 31, 2022, the Group's products were sold in 70 countries worldwide through 612 Directly Operated Stores (DOS) and a selected network of luxury department stores, independent retailers and franchise stores.

In 2022 Prada Group reported net revenues of EUR 4,2 billion, up by 21.3% with respect to 2021. EBIT is attested at EUR 845.2 million, corresponding to 20.1% of net revenues, increasing by 69.2% versus 2021 (EUR 499.5 million, 14.8% of net revenues).

As shown in Figure 23, the net revenues of Prada have been increasing since 2018, with exception of 2020 where the revenues were damaged by the Covid-19 pandemic.

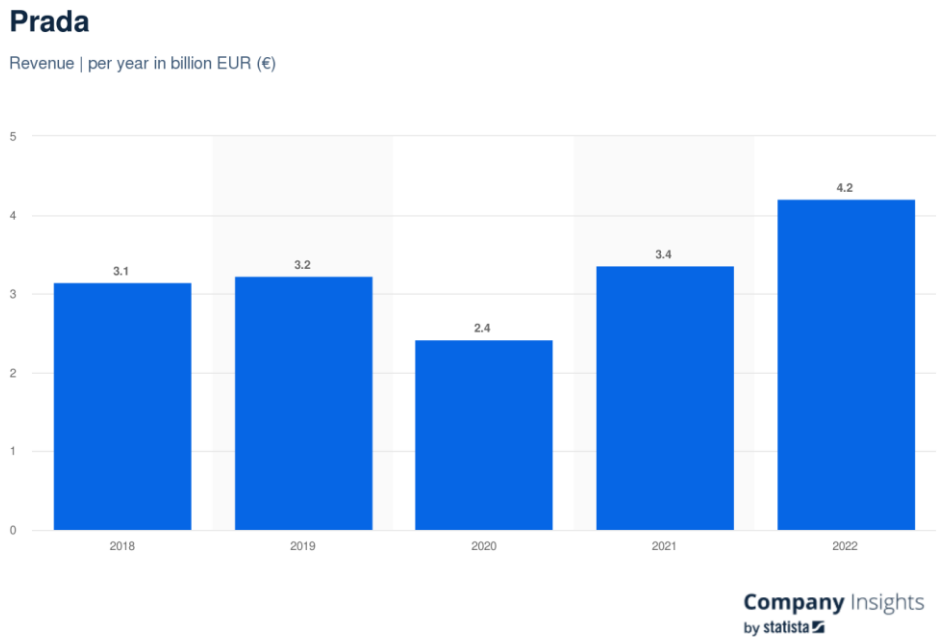

Figure 23. Net revenues Prada 2018-2022

Source: Statista, 2023

At December 31, 2022 the number of employees of the Group stands at 13,768, reporting a 5% increase compared to 2021.

The Prada Group's competitive advantage also derives from its distinctive manufacturing tradition, developed through the buildup of its production premises, the progressive expansion of its manufacturing skills and enhanced control over its supplier network.

In recent years, thanks to investments of more than Euro 140 million since 2019, the Prada Group's industrial strategy has focused on strong vertical integration of the supply chain, progressive insourcing of sensitive phases of the production process and the acquisition of key capabilities (Prada Sustainability Report, 2022).

Consistently with the Prada Group's overall long-term growth strategy, the key objective of the Retail Innovation & Commercial Department, which is part of the Marketing Department, has been to further accelerate and consolidate the digital transformation process.

In 2022 the Group kept investing on human-led touchpoints considered one of the main levers to nurturing intimate relationships with customers and, ultimately, driving loyalty in order to Reinforce its commitment and focus to a customer-centric approach.

Here a brief summary of the general information of the two companies (Table 2).

Table 2. General Comparison of Moncler and Prada

	MONCLER	**PRADA**
Net Revenue	EUR 2.6 Bln	EUR 4.2 Bln
N. Employees	6305	13768
Market presence	612 DOS in 75 countries	3233 DOS in 70 countries
Strategy	1) Becoming a leader in the luxury segment 2) Build a global group able to fully enhance its brand's potential 3) Develop all distribution channles with with an omnichannel apporach 4) Follow a sustainable growth path	1) Strong vertical integration of the supply chain 2) Digital transformation 3) Customer centricity 4) Reinforce standards of corporate governance 5) Integrate sustainability

Source: Author Elaboration, 2024

4.5 ESG Ratings

ESG scores are a measure of how well a company addresses risks and concerns related to environmental, social, and corporate governance issues in its organization and day-to-day operations (Hayes, 2023). These scores are important for socially responsible investors who

want to invest in companies with strong ethical and sustainability practices, as they provide an insight into a company's long-term performance and resilience.

ESG scores can serve as a basis for comparing companies and funds across different factors, such as a company's carbon footprint and labour practices. These individual factors are combined and weighted to come up with a single ESG score that can be found for a significant portion of publicly traded funds and securities.

ESG rating agencies are third-party companies that create ESG scoring systems. Here are considered the main ones where both companies are valuated: LSEG ESG score, Sustainalytics and European Climate Leaders 2023 list developed by Financial Times and Statista.

The analysis of the through these three ESG score is interesting because each of them measure the sustainability basing on different factors, therefore offering a more holistic view of the companies' sustainability performance.

4.5.1 LSEG ESG Score

LSEG (London Stock Exchange Group) ESG scores reflect the underlying ESG data framework and are a transparent, data-driven assessment of companies' relative ESG performance and capacity, integrating and accounting for industry materiality and company size biases. An overall ESGC score is also calculated, which discounts the ESG score for news controversies that materially impact corporations. The underlying measures are granular enough to differentiate effectively between companies that have limited reporting and are not transparent, or deliver minimal implementation and execution, versus companies that 'walk the talk' and emerge as leaders in their respective industries or regions. ESG scores are calculated and available for all companies and historical fiscal periods in the ESG global coverage, i.e., back to fiscal year 2002 for approximately 1,000 companies (mainly US and European). The model comprises two overall ESG scores: 1. ESG score – measures the company's ESG performance based on verifiable reported data in the public domain. 2. ESGC score – overlays the ESG score with ESG controversies to provide a comprehensive evaluation of the company's sustainability impact and conduct over time (LSEG, 2023).

LSEG captures and calculates over 630 company-level ESG measures, of which a subset of 186 of the most comparable and material per industry, power the overall company assessment and scoring process. These are grouped into 10 categories that reformulate the three pillar scores and the final ESG score, which is a reflection of the company's ESG performance,

commitment and effectiveness based on publicly-reported information. The category scores are rolled up into three pillar scores – environmental, social and corporate governance. The ESG pillar score is a relative sum of the category weights, which vary per industry for the environmental and social categories. For governance, the weights remain the same across all industries. The pillar weights are normalised to percentages ranging between 0 and 100 (Table 3).

Table 3. Score range LSEG ESG score

Score range	Description	
0 to 25	First Quartile	Scores within this range indicates poor relative ESG performance and insufficient degree of transparency in reporting material ESG data publicly.
> 25 to 50	Second Quartile	Scores within this range indicates satisfactory relative ESG performance and moderate degree of transparency in reporting material ESG data publicly.
> 50 to 75	Third Quartile	Scores within this range indicates good relative ESG performance and above average degree of transparency in reporting material ESG data publicly.
> 75 to 100	Fourth Quartile	Score within this range indicates excellent relative ESG performance and high degree of transparency in reporting material ESG data publicly.

Source: LSEG, 2023

The world's leading corporations, lenders and banks rely on LSEG ESG Risk Ratings to identify and understand the financially material ESG issues (MEIs) that can affect their organization's long-term performance.

According to the LSEG ESG index, regarding the Textile and Apparel industry, Moncler is positioned at the 4th place out of 153 companies globally while first considering only Italian companies with a score of 84 (Figure 24), positioning itself in the fourth Quartile, that indicates the highest standards of ESG performance and transparency. A score that is quite above the benchmark median of 48.

Figure 25. Moncler LSEG ESG Score

Source: Refinitiv, 2023

Figure 24. Prada LSEG ESG Score

Source: Refinitiv, 2023

Prada is positioned at the 63th place globally and 7th in Italy with a score of 47 (Figure 25) so, part of the second Quartile, where the degree of ESG performance and transparency are satisfactory. According to LSEG Prada is not performing well in the Governance area which includes management, shareholders and CSR strategy. It has a good score in resource use but a very poor score in environmental innovation. In the management area is worthy to underline poor compensation incentives for sustainability objectives.

4.5.2 Sustainalytics

The ESG Risk Ratings measure the degree to which a company's economic value is at risk driven by ESG factors or, more technically speaking, the magnitude of a company's unmanaged ESG risks. A company's ESG Risk Rating is comprised of a quantitative score and a risk category. The quantitative score represents units of unmanaged ESG risk with lower scores representing less unmanaged risk. Unmanaged Risk is measured on an open-ended scale starting at zero (no risk) and a maximum score usually below 50 (Sustainalytics, 2021). Based on their quantitative scores, companies are grouped into one of five risk categories (negligible, low, medium, high, severe) (Table 4).

Source: Sustainalytics, 2023

Table 4. Sustainalytics ESG Score range

Negligible	Low	Medium	High	Severe
0 - 10	10 - 20	20 - 30	30 - 40	40+

The ESG Risk Ratings' approach to materiality is introduced by a two-dimensional architecture with the first dimension, Exposure, reflecting the extent to which a company is exposed to material ESG risks at the overall and the individual MEI (Material ESG Issues) level, and the second one, Management, reflecting how well a company is managing its exposure.

Exposure can be considered as a set of ESG-related factors that pose potential economic risks for companies while management can be considered as a set of company commitments, actions and outcomes that demonstrate how well a company is managing the ESG risks it is exposed to.

According to this index in the industry group of Textiles & Apparel, Moncler is classified 6th out of 205 companies, with an ESG Risk Rating score of 10.1 (Figure 26).

Exposure refers to the extent to which a company is exposed to different material ESG issues. Sustainalytics' exposure score takes into consideration subindustry and company-specific factors such as its business model. Moncler SpA's Exposure is Low. Moncler SpA's Management of ESG Material Risk is Strong.

Instead, Prada is classified as 47th out of 205 companies with an ESG Risk Rating of 15, its exposure to ESG material issues is low but its management of ESG Material Risk is Average. This means that the company is not managing the risks correlated to ESG issues in the most effective way.

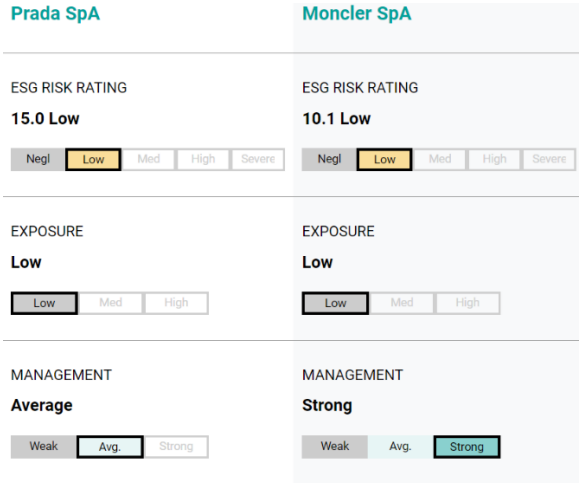

Figure 26. Prada and Moncler Sustainalytics ESG Score

Source: Sustainalytics, 2023

4.5.3 Europe's Climate Leaders 2023

The Financial Times in partnership with Statista published the third edition of Europe's Climate Leaders of 2023, Europe's Climate Leaders 2023 is a list of 500 European companies that have achieved the greatest reduction in their greenhouse gas (GHG) emissions intensity and made further climate-related commitments. These two factors are combined to produce an overall score for each company.in which are classified 500 listed companies for their reduction of emissions (Table 5).

Table 5. Europe's Climate Leaders 2023

Moncler	Italy	Apparel & luxury goods	73.8	19.5%	2.2	4,403	33.3%	Yes	A-	Targets set, 1.5°C
JD Sports Fashion	UK	Apparel & luxury goods	73.0	23.5%	4.3	44,008	5.6%	Yes	A-	Targets set, 1.5°C
Decathlon	France	Apparel & luxury goods	72.2	23.9%	5.3	73,164	64.7%	Yes	B	Targets set, 1.5°C
Hermès	France	Apparel & luxury goods	71.7	12.5%	4.2	37,381	11.4%	Yes	A-	Targets set, 1.5°C
Puma	Germany	Apparel & luxury goods	71.5	15.1%	5.4	36,591	17.1%	Yes	A	Targets set, well below 2°C
LVMH	France	Apparel & luxury goods	70.2	10.6%	5.9	375,740	2.6%	Yes	A	Targets set, 1.5°C
H&M Group	Sweden	Apparel & luxury goods	70.1	7.0%	2.6	50,078	37.8%	Yes	A-	Targets set, 1.5°C
Puig	Spain	Apparel & luxury goods	69.9	6.3%	1.1	1,967	21.0%	Yes	A-	Targets set, 1.5°C
Prada	Italy	Apparel & luxury goods	68.9	13.1%	12.6	41,788	48.2%	Yes	B	Targets set, 1.5°C

Source: Financial Times, 2023

In this list Moncler got a score of 73,8 figuring as 6th in the Apperel and Luxury goods industry and getting a Carbon Disclosure Project (CDP) score of A-. CDP is a non-profit organisation that assesses how well companies and other bodies report on and reduce their

environmental impact. A CDP score provides a snapshot of a company's disclosure and environmental performance. Bold environmental action must begin with an accurate, transparent assessment of environmental impact and progress, which CDP scoring makes possible. Our scores show organizations and their stakeholders where they are on the road towards operating in line with a 1.5-degree, deforestation-free and water-secure future. By disclosing over consecutive years, they can understand the trajectory of their environmental journey.

To earn an A score from CDP, organizations must show environmental leadership, disclosing action on climate change, deforestation or water security. They must demonstrate best practice in strategy and action as recognized by frameworks such as the TCFD, Accountability Framework and others. As well as having high scores in all other levels these companies will have undertaken actions such as setting science-based targets, creating a climate transition plan, developing water-related risk assessment strategies, or reporting on deforestation impact for all relevant operations, supply chains and commodities (CDP, 2023).

Prada got a score of 68,9, figuring as 14th in the Apparel & Luxury goods and received a B as CDP score. Companies that score a B have addressed the environmental impacts of their business and ensure good environmental management. A B-score indicates that a company is showing some evidence of managing its environmental impact but is not undertaking actions that mark it out as a leader in its field.

4.6 Sustainability Maturity Curve

The causes of the difference of the two companies in the score can be evaluated with the help of a framework called the Sustainability Maturity Curve (SMC). This guide not only lays out the steps that companies must navigate at each stage of sustainable strategic development but also points out the significant milestones to aim for along the way (Andrade, 2023).

The sustainability Maturity Curve is driven by 6 pillars:

1. Motivation
2. Strategy
3. Governance structure
4. Reporting
5. Ratings & Certifications
6. Value Chain collaboration

Looking into these six pillars it is possible to understand where rely the differences in sustainability maturity between the two companies.

4.6.1 Motivation

Motivation serves as the North Star guiding companies towards sustainable actions and goals. Motivation can be exhibited across a company, from leadership and/or from employees. It's the driving force that propels an organisation's commitment to sustainability. Initially, external forces guide actions, but companies that find themselves at a higher level of maturity see this motivation coming from within.

Incentives are very important to boost the managers and employees motivation to reach social and environmental goals.

Moncler set an MBO (Management By Objectives) system, social and environmental targets related to the achievement of the Sustainability Plan are set for everyone involved in the implementation of the Plan itself. Concerning medium-/long-term incentive plans, the share plan performance indicators, starting from the "2020 Performance Shares Plan", also include an ESG Performance Indicator, linked to the achievement of specific objectives of the Sustainability Plan. To ensure compliance with the commitments made, the Sustainability Unit requests regular progress reports on the projects and, in turn, informs the Control, Risks and Sustainability Committee (control phase).

The Management By Objective (MBO) system is based on annual objectives, mainly quantitative, relating to financial performance achieved by the Group (primarily Group consolidated EBIT) and qualitative objectives of significant strategic and operational importance, including those linked to the achievement of the objectives of the Strategic Sustainability Plan (Moncler Consolidated Non-Financial Statement, 2022). The system, which applies to executives, managers and professionals for corporate sites employees and to the store management team, is intended to encourage the achievement of distinctive results through mechanisms that reward over-performance by increasing the value of the bonus that can be awarded, over a certain threshold, where the assigned objectives are exceeded. In the MBO system, for all those involved in the implementation of the Sustainability Plan are assigned social or environmental objectives as well as internal population engagement objectives. All members of the Strategic Committee, including the Chairman and the Chief Executive Officer, have a percentage of their MBO linked to the achievement of the Group’s strategic sustainability objectives and a target relating to the DE&I topic. Lastly, the MBO system provides for alignment between performance objectives and the management of the

risks identified by ERM to spread a culture of risk assessment and management in the employees decision making process. As a long-term incentive system, the Moncler Group currently uses Performance Share plans for key positions within the management population. These systems allow the incentive process for managers and key resources of the Group to be linked to actual company's results, steer people towards strategies aimed at pursuing sustainable medium-/long-term results, align the interests of beneficiaries with those of shareholders and investors and develop policies aimed at attracting and retaining talented professionals.

Prada did not incorporated such elements of rewards in its Performance Management and this can contribute to a lack of effectiveness of sustainability initiatives promoted by the company.

In addition, in order to foster the spread of sustainability culture and goals, Moncler identified some figures called "Ambassadors" within each corporate department, with the task of raising awareness of social and environmental issues among the departments in which they operate and promoting sustainability initiatives consistent with the Group's objectives.

Prada did not yet form these figures, even if it is important that the CEO or top management make sponsorships to sustainability culture and initiatives, it is as crucial to have figures that communicate them through the whole organization.

4.6.2 Strategy

As saw in precedence, successful sustainability achievements require strategic planning as their cornerstone. Incorporating key sustainability factors into organizational policies, procedures, and long-term objectives defines the goal of the sustainability journey. Embedding sustainability at the core of your organization ensures sustainability is part of the long-term strategy of the organization, paving the way for meaningful change.

The Moncler 2020-2025 Strategic Sustainability Plan shows the Group's commitment to sustainable development and how environmental and social responsibility are an increasingly integral part of the business model. The Plan focuses on five strategic priorities (Moncler Consolidated Non-Financial Statement, 2022) (Figure 27):

1. Climate change and biodiversity
2. Circular economy
3. Responsible sourcing
4. Valuing diversity
5. Supporting local communities

Figure 27. Five strategic priorities Moncler Sustainability Plan 2020-2025

Source: Moncler, 2022

For each strategic priority, the Group has defined a set of commitments based on an analysis of the areas where the Group can maximize positive and minimize negative impacts, also taking into consideration the challenges posed by the sector as well as the expectations of the financial community and clients.

The Group's Sustainability Plan, which includes Net Zero target by 2050 and an intermediate commitment to reduce CO2 emissions by 2030, sets ambitious targets that require important choices by the Moncler Group, ranging from the use of 100% renewable energy for direct consumption to a challenging work on its products and supply chain, where the greatest impacts are generated. Another goal linked to reducing environmental impact is to have over 50% of lower-impact yarns and fabrics. The Plan also involves the ongoing work to be carried out with the supply chain on raw materials traceability and on social standards, with the emerging topic of the living wage. Awareness-raising initiatives are also planned to promote and enhance diversity and strengthen an increasingly inclusive culture. This is why training and awareness-raising commitments were established for diversity, equity and inclusion and for obtaining the Equal Pay certification. The Group is also committed to support local communities with high social value projects, and to protect children and families in difficult situations from the cold.

In identifying the Plan's strategic drivers and relative commitments, the priorities set in the 2030 Agenda for Sustainable Development (Sustainable Development Goals – SDGs) were also taken into account, thereby contributing to achieving them.

Of the 17 macro goals described in the SDGs (such as combating inequality and fighting climate change), the Group contributes to 11 of them directly or through organizations with which it collaborates.

The Prada Group's strategic choices are guided by the integration of sustainability in the corporate strategy with a continuous and transparent dialogue with stakeholders. Company's sustainability strategy is focused on three pillars – Planet, People and Culture (Prada Sustainability Report, 2022) (Figure 28).

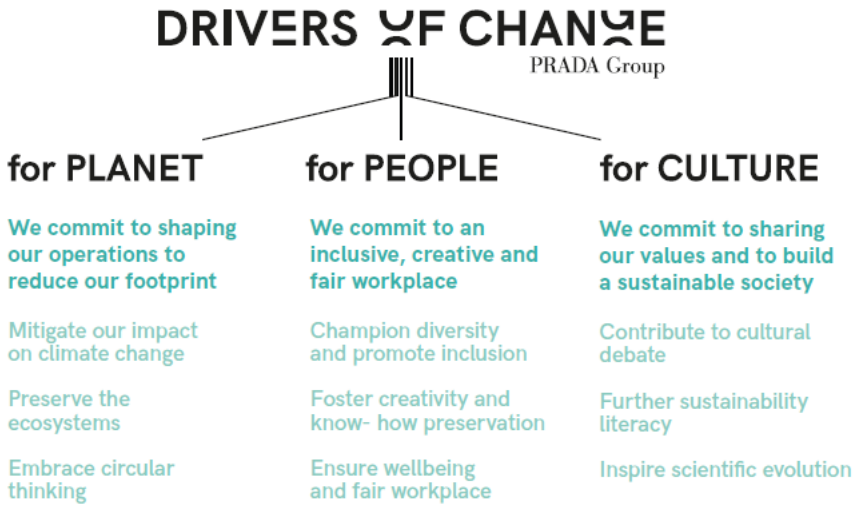

Figure 28. Three pillars Prada Sustainability Strategy

Source: *Prada, 2022*

Developed in 2021, the Prada Group Sustainability Strategy IMPACT aims at consolidating this commitment, identifying for each line of action medium and long-term objectives on the basis of which quantitative targets are formalized, to guide future actions in the sustainability field.

The "for Planet" pillar sets out impact reduction goals, including the attainment of Carbon Neutrality for all Prada Group's operations starting from 2022, reach the Net Zero in 2050 and the targets approved by the Science-Based Targets initiative (SBTi) for reducing Scope 1, 2 and 3 greenhouse gases emissions (aligned with Business Ambition 1.5°C), extensive use of alternative low-impact materials for both finished products and packaging, and an approach more geared toward circularity for the materials used in production and with other purposes such as shows and events, whose scraps are reintroduced to new circuits and reused. The strategy also focuses on raw materials traceability and continuous improvement of social and environmental standards along the supply chain, thanks to close collaboration with suppliers.

The "for People" pillar sets out initiatives to promote and enhance diversity, equity and inclusion, as well as the advancement of an inclusive culture based on respect for each person at every level of the organization and in the fashion industry in general.

The "for Culture" pillar summarizes the Group's investment in the preservation and dissemination of Italian and international cultural heritage as well as in nature and science, underlining the Group's active role as a promoter and educator.

Both companies formulated their sustainability strategies through a materiality assessment, to individuate the main stakeholder's environmental and social priorities according to the requirements of the GRI standards 2021. Moncler utilized also the SASB standards in order to have a more comprehensive view.

In Table 6 a review of the companies' sustainability strategies.

Table 6. Sustainability Strategy comparison Moncler and Prada

	MONCLER	PRADA
Sustainability Strategy	1) Climate change and biodivesrity 2) Circular economy 3) Responsible sourcing 4) Valuing diversity 5) Supporting local communities	1) Planet (reduce footprint) 2) People (inclusion, creativeness , fairness) 3) Culture (build a sustainable society)
Standard Reference	GRI Standards 2021 SASB Standards	GRI Standards 2021
SDGs (17)	3. Good Health and Well-Being 4. Quality Education 5. Gender Equality 6. Clean Water and Sanitation 7. Affordable and Clean Energy 8. Decent Work and Economic Growth 11. Sustainable Cities and Communities 12. Responsible Consumption and Production 13. Climate Action 14. Life Below Water 15. Life On Land	5. Gender Equality 6. Clean Water and Sanitation 7. Affordable and Clean Energy 8. Decent Work and Economic Growth 11. Sustainable Cities and Communities 12. Responsible Consumption and Production 13. Climate Action 14. Life Below Water 15. Life On Land

Source: Author Elaboration, 2024

The Sustainability Accounting Standard Board (SASB), an independent non-profit, whose mission is to develop and disseminate sustainability accounting standards that help public corporations disclose material, decision-useful information to investors, individuated 26 sustainability material issues for the Apparel, Accessories & Footwear industry (SASB, 2023). Within these issues, three of them are considered very relevant:

- Product Quality & Safety (The category addresses issues involving unintended characteristics of products sold or services provided that may create health or safety risks to end-users. It addresses a company's ability to offer manufactured products and/or services that meet customer expectations with respect to their health and safety characteristics. It includes, but is not limited to, issues involving liability, management

of recalls and market withdrawals, product testing, and chemicals/content/ingredient management in products).

- Supply Chain Management (The category addresses management of environmental, social, and governance (ESG) risks within a company's supply chain. It addresses issues associated with environmental and social externalities created by suppliers through their operational activities. Such issues include, but are not limited to, environmental responsibility, human rights, labour practices, and ethics and corruption. Management may involve screening, selection, monitoring, and engagement with suppliers on their environmental and social impacts).
- Materials Sourcing & Efficiency (The category addresses issues related to the resilience of materials supply chains to impacts of climate change and other external environmental and social factors. It captures the impacts of such external factors on operational activity of suppliers, which can further affect availability and pricing of key resources. It addresses a company's ability to manage these risks through product design, manufacturing, and end-of-life management, such as by using of recycled and renewable materials, reducing the use of key materials (dematerialization), maximizing resource efficiency in manufacturing, and making R&D investments in substitute materials. Additionally, companies can manage these issues by screening, selection, monitoring, and engagement with suppliers to ensure their resilience to external risks).

Now we will see what type of initiatives the two companies started relative to these three issues.

Quality and safety are constantly monitored by the Moncler Group throughout the garment design and raw material procurement phases. The Group meticulously selects suppliers and subjects raw materials to rigorous controls, ensuring excellent final product quality (Moncler Consolidated Non-Financial Statement, 2022). The initiative of "Continuous Improvement of Garment Quality" prioritize the refinement of internal technical skills to ensure high-quality standards throughout the design, industrialization, and production phases, whether conducted internally or by suppliers.

Suppliers must adhere to stringent international regulations on chemical substances and performance, including European REACH (Registration, Evaluation, Authorisation and Restriction of Chemicals) regulation, Chinese GB (GuoBiao) requirements and Japanese JIS (Japanese Industrial Standards) requirements.

Contractual agreements mandate compliance with Compliance Specifications outlining key requirements for suppliers and sub-suppliers, covering dye houses, laundries, and

embroideries. Specifications are regularly updated to reflect international regulations and voluntary commitments by Moncler and Stone Island, including Product Restricted Substances List (PRSL) and Manufacturing Restricted Substances List (MRSL) compliance.

The Moncler Group carries products tests through ISO (International Organization for Standardiation) 17025 accredited third-party laboratories in order to have a assurance about products' quality and safety.

The Moncler Group maintains a zero-tolerance policy for compromises in health and quality. If a product fails tests, the purchasing process halts until the supplier rectifies the issue. All Moncler and Stone Island products undergo thorough final quality inspections before entering the market.

Additionally, Moncler and Stone Island are constantly engaged in the fight against counterfeiting to guarantee intellectual property rights and product authenticity and quality, to protect end clients.

For Moncler and Stone Island supply chain management, want to promote a supply chain that is attentive and respectful of workers' rights, of animal welfare, and of the environment.

The focus on ethical, social and environmental aspects along the supply chain starts with the supplier selection phase and continues with systematic awareness-raising and monitoring activities (Moncler Consolidated Non-Financial Statement, 2022). Knowledge, traceability, sharing of best practices and verification are in fact fundamental, not only to limit situations of risk, but also, and above all, to generate culture and promote the responsible, sustainable development of the business for the benefit of the entire supply chain.

During the contracting phase, all suppliers Code of Ethics and the related policies (including the Environmental Policy and Human Rights Policy) outlining the principles and guidelines that inspire the Group's business and guide the behaviour and actions of all those with whom Moncler and Stone Island interact.

In order to better steer the actions of its partners, the Group has adopted a Supplier Code of Conduct. The Code is inspired by the Universal Declaration of Human Rights and the ILO (International Labour Organization) Conventions and sets out the Group's expectations for the main areas of responsible business. It consists of six sections (Labour and Human Rights, Health and Safety, the Environment, Animal Health and Welfare, Product and Service Safety and Quality and Business Ethics) and contains the mandatory requirements that suppliers must follow in order to begin or continue working with the Group.

The Group procedure that governs the selection of all new suppliers was updated in 2021. The assessment of a new supplier consists primarily of an on-site visit carried out by the Quality Team to evaluate the supplier's alignment with the Group's quality standards. After this

technical analysis, the assessment process for new façon manufacturers and finished products suppliers involves an ethical, social and environmental audit by a third party. For raw material suppliers, it requires the completion of an environmental and social evaluation questionnaire supported by documentary evidence and then an audit that is carried out in line with the provisions of the audit plan. By doing so, the Group commits to not include in its supply chain companies that do not comply with the Group's quality standards and basic ethical, social and environmental principles (Moncler Consolidated Non-Financial Statement, 2022).

In its commitment to ethical, social, and environmental standards, Moncler maintains an ongoing monitoring system of its supply chain. This involves periodic audits conducted on suppliers to ensure compliance with applicable laws and the company's codes of conduct. While Moncler upholds a zero-tolerance policy towards major breaches, it remains dedicated to supporting its suppliers in implementing corrective actions identified during audits.

Throughout 2022, Moncler undertook several strategic initiatives to strengthen its supply chain management. Moncler initiated the development of a new collaboration aimed at fostering closer ties with manufacturers. Despite challenges posed by the Covid-19 pandemic, the company persevered in enhancing visibility and control over production phases. The platform facilitates real-time communication, aiding in the management of raw materials, production planning, and logistics (Moncler Consolidated Non-Financial Statement, 2022).

Adopting a data-driven approach, Moncler incorporated scientific methodologies into its supply chain management processes. Regular monitoring meetings are held to assess operational performance based on key indicators across various operational areas. This enables informed decision-making and continuous improvement.

Recognizing the importance of shipment tracking, Moncler launched a project to enhance visibility from raw materials procurement to finished product distribution. This initiative, initiated in 2022, aims to ensure accurate tracking and accountability within the supply chain. Plans are underway to expand the tracking system to encompass repair orders and integrate it seamlessly into the supplier portal.

These initiatives underscore Moncler's proactive approach to supply chain management, emphasizing collaboration, data-driven insights, and transparency. By upholding ethical standards and driving continuous improvement, Moncler aims to mitigate risks and uphold its commitment to responsible sourcing and sustainable practices throughout its global supply chain network.

Both Moncler and Stone Island have prioritized the integration of recycled materials into their production processes. Moncler recycles down from its garments, while Stone Island has launched an upcycling project aimed at recovering cotton scraps from production, resulting in

a 70% recycled cotton fabric for new items (Moncler Consolidated Non-Financial Statement, 2022).

Moncler's commitment to sustainability is further evidenced by its Extra-Life project, which focuses on extending the lifespan of jackets through repairs. This initiative, which involves collaboration with local tailors and has expanded globally, underscores Moncler's dedication to enhancing garment durability and minimizing waste generation.

In addition to these efforts, Moncler has implemented several strategic initiatives aimed at advancing sustainability within its operations. Moncler has extended its Product Lifecycle Management (PLM) platform to encompass all product lines and categories. This centralized environment enables streamlined development processes and increased efficiency by facilitating seamless sharing of information among all functions involved in the collection development process.

The integration of 3D technology into Moncler's product development process aims to reduce the need for physical samples, minimize waste, and accelerate prototype production. The company has also launched a 3D modeling course to cultivate a multidisciplinary team capable of swiftly responding to collection development needs.

A dedicated project focused on zero waste aims to classify and verify obsolete materials in Moncler's main warehouse, allowing for their reuse in new collections and reducing waste generation. A specialized team has been formed to intensify recovery efforts and maximize resource efficiency.

Furthermore, Moncler has implemented the Early Product Engineering Programme to identify and address critical issues in the sample collection phase. This proactive approach enables the swift resolution of issues, minimizing negative impacts on economic performance, time, cost, and waste while promoting sustainable product development practices.

These initiatives collectively reflect Moncler's commitment to sustainability across its operations, encompassing materials sourcing, product development, and waste reduction strategies. By integrating sustainability into its core business practices, Moncler aims to contribute to positive environmental and social outcomes while maintaining excellence in product quality and innovation.

Third-party validation ensures transparency and credibility, with Stone Island's upcycling project undergoing external validation to confirm recycled content and origin from production scraps, and Moncler adhering to the R•DIST section of the DIST (Down Integrity System & Traceability) protocol for recycled down certification.

In 2020 Moncler produced its Guidelines for Sustainable Materials, a protocol, updated on an annual basis, that summarises the criteria and thresholds that guide the choice of materials,

accessories and production processes of low-impact Moncler products; it will see an evolution in the Responsible Raw Materials Manual in 2023.

The main raw materials used by the Moncler Group are fabrics, yarns and down. Both Brands work constantly with their suppliers and require production processes to be structured so to optimise use and cutting, thus avoiding scraps and waste. The Group is constantly looking for solutions for the development of products and processes with a view to a circular economy. For this reason, annual investment in research and development is allocated to identify new solutions, also in collaboration and with the support of international start-ups and research institutes, accelerators and universities.

Additionally, Moncler Group announced a Fur-free retailer policy from 2018 for Sone Island and from 2022 for Moncler (Moncler Consolidated Non-Financial Statement, 2022).

Regarding Prada Group, product quality and safety are evaluated throughout its manufacturing processes. The Group ensures that its products meet uniform quality standards and comply with regulations in over 70 countries where they are sold (Prada Sustainability Report, 2022).

To achieve these standards, the Prada Group employs at least 10 years experienced technicians who conduct rigorous quality controls on every material used, from sourcing to finishing touches. Periodic visits are made to raw material suppliers and contractors' manufacturing sites to assess processes, goods quality, and workplace conditions.

As part of its control and guidance efforts, the Prada Group has developed and regularly updates a Restricted Substances List (RSL) to limit the presence of chemicals in its products. The Group aligns its RSL limits with the stringent approach outlined in the "Guidelines on eco-toxicological requirements for articles of clothing, leather goods, footwear, and accessories" endorsed by the Camera Nazionale della Moda Italiana (CNMI). These limits surpass the standards set by national and international laws, aiming to ensure higher chemical safety standards.

Prada Group too rely on external ISO 17025 accredited analytical laboratories in order to carry quality tests (Prada Sustainability Report, 2022).

The Prada Group regularly monitors registrations of intellectual property rights by third parties and any possible misappropriation of trademarks, designs and domain names that are identical or confusingly similar to its own distinctive signs and product that could compromise products' quality and safety for the clients.

The Prada Group responsible supply chain management focus on works closely with its suppliers to uphold ethical standards and implement workplace health, safety, and

environmental regulations. This collaborative approach fosters enduring relationships and ensures adherence to the Group's Code of Ethics and relevant regulations.

One of the key aspects of Prada's supplier management strategy is its focus on the selection and qualification of suppliers. The Group has established a Qualified Vendor List procedure, which outlines the criteria for evaluating the ethical, technical, and economic reliability of suppliers. This procedure serves as a framework for initiating and sustaining supplier relationships while mitigating the risks of non-compliance.

Central to Prada's ethical standards is its commitment to human rights, environmental protection, and responsible sourcing practices. The Group's Code of Ethics, revised in 2022, sets forth fundamental principles that guide its policies and initiatives, including the Human Rights Policy and the Supplier Code of Conduct. Suppliers are required to adhere to these standards, which encompass various aspects such as labour rights, environmental sustainability, and raw material sourcing.

Prada employs a comprehensive system of controls and inspections to ensure supplier compliance with ethical standards and regulatory requirements. These controls, conducted at both the first and second levels, encompass document reviews, site inspections, and audits. In cases where breaches are identified, the Group implements corrective action plans, including the possibility of terminating supplier relationships for serious violations (Prada Sustainability Report, 2022).

Despite challenges such as the health emergency, Prada remains committed to monitoring and improving its supply chain management practices. Efforts are focused on strengthening assessments of social and environmental sustainability aspects, through a task force team that audit the Group’s suppliers.

Furthermore, Prada actively addresses modern slavery, forced labour, and human trafficking risks within its organization and supply chain, in compliance with the UK's Modern Slavery Act 2015. The Group maintains transparency regarding the measures taken to prevent such abuses and underscores its commitment to ethical sourcing practices.

The Prada Group perceive a responsible sourcing of raw materials, considering their quality, origin, and manufacturing processes to protect the environment and biodiversity. Investments in industrial development have enabled the Group to insource various production phases, maintaining high-quality standards while optimizing raw material usage (Prada Sustainability Report, 2022).

The clothing, footwear, and leather goods divisions directly select suppliers for all raw materials, coordinating and monitoring the production process to ensure quality and ethical

integrity. This integrated approach, combining design, product development, and production control, allows the Group to maintain control over crucial aspects of the value chain.

Prada adheres strictly to local and international regulations, including the Convention on International Trade in Endangered Species (CITES), to prevent the use of materials from threatened species or illegal sources. In 2019, the Group announced a Fur-Free Policy for all its brands in collaboration with the Fur-Free Alliance (FFA), promoting the development of innovative and responsible materials.

Regarding the main raw materials utilized by Prada Group like leather, nylon and gold, the Group started several initiatives in the last years. In 2021, the Prada Group communicated the important goal of achieving full conversion of purchased leather to Leather Working Group (LWG) certified tanneries by 2023. The Prada Re-Nylon collection started in 2019 is crafted entirely from regenerated nylon created through the recycling and purification of plastic collected from oceans – like fishing nets - and landfills, as well as textile fiber waste globally. Regarding the jewelry, 100% of the gold used in 2022 by Prada is Certified Recycled Gold, meeting "Chain of Custody" standards set by the Responsible Jewelry Council (RJC). Every step of Prada's responsible gold and diamond production chain is verifiable and traceable.

Prada Group belief is that luxury products is meant to last, so offers its client a repair service through a total of 12 repair hubs worldwide that allow to reuse the products repaired.

Prada Group is starting to integrate circular thinking in its organization with initiatives such the Prada Group Re-Set project that has made possible to set up a real system for recuperating the materials used during events and fashion shows so that they can be reused (Prada Sustainability Report, 2022).

Both Groups are founders with other relevant groups in the fashion industry, of the Re.Crea Consortium that has as main goals to manage end-of-life textile and fashion products and to promote the research and development of innovative recycling solutions that enhance resources and raw materials.

Table 7. SASB three relevant issues initiatives comparison

Source: Author Elaboration, 2024

Table 7 gives us a panoramic view of the initiatives set up by the two companies. It is possible to see that Moncler started more initiatives regarding the relevant issues of the fashion industry according to SASB with respect to Prada. Having a strategy that focus on issues that are considered relevant could help in obtaining a higher ESG score by the rating agencies.

4.6.3 Governance structure

For sustainability efforts to take off, accountability must span at all levels of an organisation. Governance and ownership over sustainability practices ensure that every employee, from top to bottom, is committed to making a difference. A collective sense of responsibility throughout this journey is a strong sign that a company's maturity is on the rise.

In addition to accountability, is also important to have a proper sustainability structure that could enhance the effectiveness of the sustainability initiatives set by the management.

	MONCLER	PRADA
Product Quality & Safety	Supplier compliance (REACH, GB, JIS requirements) Compliance specifications (PRSL, MRSL) ISO 17025 accredited third-party testing laboratories Anti-counterfeiting measures Continous improvement of garment quality	Quality Test conducted by technicians with at least 10 year experience Restricted Substance List (RSL) Tests are carried out through external ISO 17025-accredited analytical laboratories Trademark protection
Supply Chain Management	Supply chain collaboration Data-driven supply chain management Shipment Tracking Code of Ethics Supplier code of conduct Systematic ethical, social and environmental audits Quality Team to verify supplier's alignement with Group's standards	Code of Ethics Qualified Vendor List Supplier code of conduct Task force to control over the supply chain
Material Sourcing & Efficiency	Collection Excellence through PLM (Product Lifecycle Management) platform Integration of 3D technology Zero waste project Early product engineering programme Moncler's Extra-Life project Guidelines for sustainable materials DIST protocol for recycled down Fur-free retailer policy (Moncler form 2022; Stone Island from 2018) Re.Crea consortium founder GreenTech: Plastic recycling with high efficiency system	Fur-Free policy from 2019 (all brands) Prada Re-Nylon project Prada Fine Jewelry: Eternal Gold Repairs service Re.Crea consortium founder Prada Group Re-Set porject

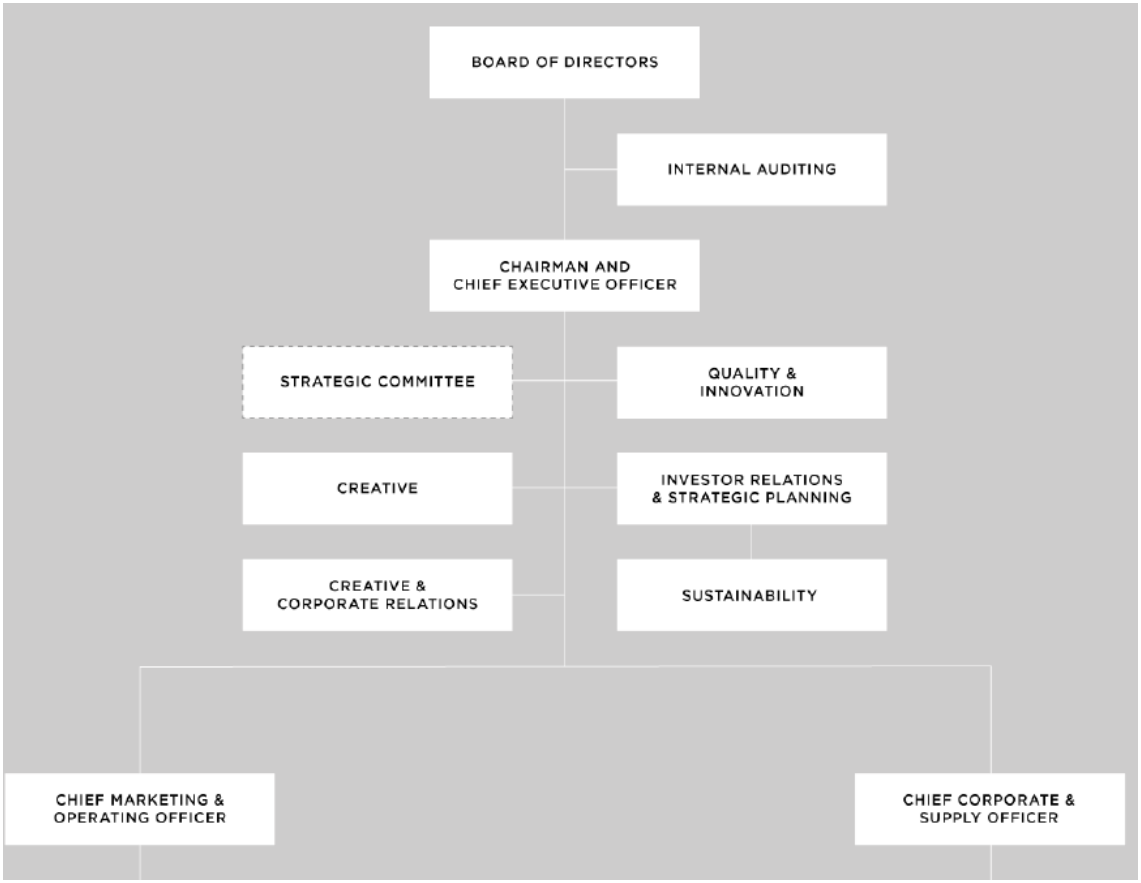

Figure 29. Moncler Governance Structure

Source: Moncler, 2022

Moncler formed a Sustainability Unit (Figure 29) that is responsible for proposing the Group's sustainability strategy, identifying, promptly reporting to senior management and handling together with the relevant functions the risks and impacts linked to sustainability issues, including those relating to climate change, biodiversity and human rights, as well as for identifying areas and projects for improvement, thereby contributing to the creation of long-term value generations (Moncler Consolidated Non-Financial Statement, 2022). It also prepares the Consolidated Non-Financial Statement and spreads a culture of sustainability within the Company. Lastly, the Unit promotes dialogue with stakeholders and, together with the Investor Relations function, handles to requests from sustainability rating agencies and socially responsible investors (SRIs). As further confirmation that sustainability is a shared approach promoted by senior management, a Control, Risk and Sustainability Committee is established at Board level.

The process of formulation of the plan starts from the Sustainability Unit that, in collaboration with the heads of the relevant departments, identifies areas for improvement and the relevant projects and, on this basis, formulates a draft for the Sustainability Plan (planning phase).

The Plan is then submitted to the Strategic Committee of Moncler and Stone Island, which analyse its content and feasibility. In the final stage, the Plan is evaluated by the Control, Risks and Sustainability Committee, which verifies its consistency with the Group's strategy and expresses its opinion to the Board of Directors, responsible for formal approval. Responsibility for achieving the objectives set out in the Sustainability Plan lies with the officers of the departments involved, who have the resources, tools and know-how necessary for its implementation (management phase). The Plan is then updated annually in order to report on the state of implementation of the projects and to set new objectives with a view to continuous improvement, in the awareness that sustainability is not a destination, but a process of continuous improvement.

Prada, unlike Moncler, decided to give the responsibility of setting the overall and sustainability strategy to the Board of Directors, as well as reviewing the operational and financial performance of the Company and the Group (Prada Sustainability Report, 2022). Therefore, the Board considers and resolves on all matters concerning the overall Group strategy, the Group's strategic objectives, the annual budget, annual and interim results, approval of major transactions, connected transactions and any other significant operational and financial matters. The Board of Directors has the overall responsibility for setting and monitoring the Group's sustainability strategy and for ensuring that appropriate and effective internal control and risk management system is in place.

The Sustainability Committee (Figure 30) that lies within the Board, assists, and supports the Board of Directors with proposing and advisory functions in its assessments and decisions on sustainability-related issues, overseeing the Company's commitment to sustainable development along the value chain. It supports the Board in defining strategic sustainability guidelines and the relevant policies, as well as drafting and reviewing reports and documents, including the annual reviewing of the Sustainability Report and its Material Topics, and all communications concerning sustainability to be submitted to the Board of Directors for approval.

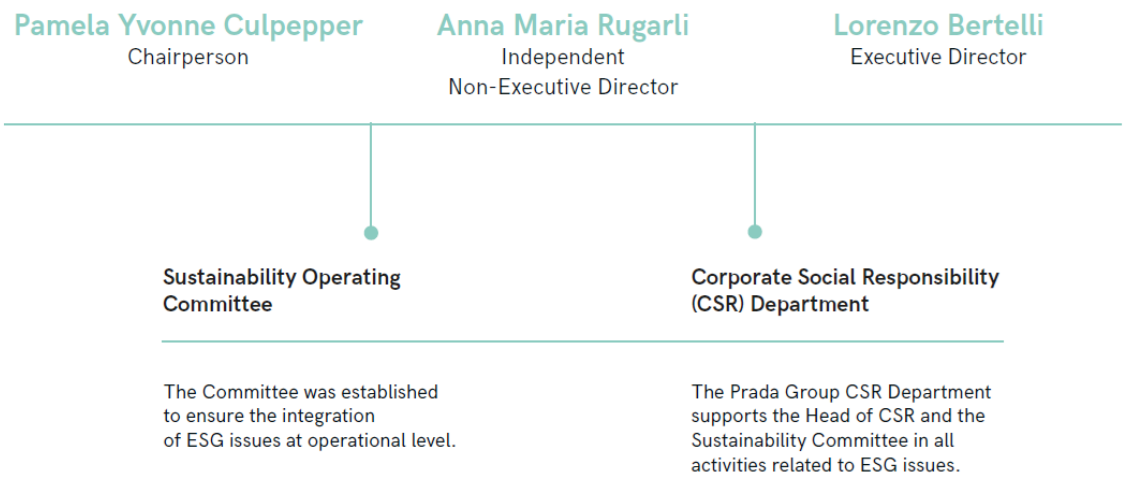

Figure 30. Prada Sustainability Committee

Source: Prada, 2022

Prada's Board of Directors is committed to conducting the business responsibly, to building an inclusive and safe work environment for all, to the preservation of the ecosystems and protection of the communities in which it operates.

The Board provides direction and maintains oversight on the Group's ESG performance with the support of the Sustainability Committee, the CSR Department and anyone involved in the implementation of the sustainability strategy. Sustainability performance, as well as ESG objectives, are reported to the Board at least once a year or when significant developments occur. Any updates of the objectives set with respect to material ESG issues are discussed with each department involved, also thanks to the CSR Department that assists and supervises the organization to ensure proper application. In details, the Committee provides assistance and support to the Board of Directors' environmental and social sustainability assessments and decisions, especially over the Group's three strategic areas of action. The Committee also proposes and evaluates the adoption of policies to ensure constant commitment on ESG issues, the strategic direction and growth at Group level, as well as adherence to the values on which the Group builds its business. The Prada Group's Sustainability Operating Committee plays a role in tying in the Sustainability Committee with the Company's most operational applications. The CSR Department must provide all the necessary tools to the decision-making and advisory bodies to make informed decisions consistent with the Group's strategies and take on the actual operational needs and complexities of the Group and of the individual brands; at the same time, the Department is responsible for implementing strategic decisions, supporting business divisions and management that integrate long-term sustainable growth objectives. The CSR Department prepares the Sustainability Report and disseminates a sustainability culture within the Company through projects dedicated to internal

communication and training. The Department guarantees a constant dialogue and cooperation with multiple stakeholders and, together with the Investors Relations function, satisfies the demands of the financial community, which expresses a growing interest in the Prada Group's sustainability initiatives and practices.

The two companies propose two different approaches to develop sustainability strategy and initiatives, Prada with a top-down approach and Moncler with a bottom-up approach.

Prada's sustainability input come from the Board of Directors, with the support of the Sustainability Committee, and are spread throughout the organization by the Sustainability Operating Committee and by the CSR Department while Moncler's sustainability initiatives come from the Sustainability Unit that, in collaboration with the heads of each department propose a plan to the Control, Risk and Sustainability Committee (internal to the Board) that analyze its consistency with the overall strategy and once assured of it the Board of Directors give formal approval.

While top-down approaches force behaviour changes through policy, bottom-up approaches attempt the opposite: to influence policy through behaviour (Gallup, 2018). The appeal of any bottom-up approach is that individual actions can have a massive impact when adopted by large numbers of people. An individual behaviour change—say, biking to work—may have a limited impact, but has great potential if adopted by many. The key to effectively activating the potential of a bottom-up approach lies in communicating both the goals of behavioural changes as well as the best strategies for implementing these changes to have maximum impact.

That's why, for example, in 2022 Moncler continued to promote the use of bicycles by making company bicycles available to all employees at the Milan and Trebaseleghe (Padua) offices who applied for them with the aim of encouraging individual mobility as an alternative to using local public transport for urban travels and travel between offices.

In addition, in Italy, a Mobility Manager was appointed in 2021 to promote sustainable mobility of employees by developing a Work Home Travel Plan (WHTP).

With reference to the previous chapter, it is possible to find similarities between the structures of the two companies and the structures proposed by the three authors.

Moncler's structure share some characteristics of the Integrated Structure and the Lean Central Team Structure, because sustainability directors have a strong relationship with the heads of the business units, in fact Moncler has a good grade of integration and even if the final decision right is retained by the Board, the initiatives are proposed by the Sustainability Unit and the heads of the units are involved in the formulation and are accountable for their success once received the appropriate resources, resulting in a more decentralized structure.

Prada's structure is closer to the Large Central Team Structure and the Stand-Alone Structure, the Sustainability Committee plans and retains the decision-making authority of the sustainability initiatives. It develops the sustainability projects and then transfers them, through the Sustainability Operating Committee, to the business units that have the duty to make them operating. These structures, as seen in precedence, does not offer the possibility of a high degree of integration and results in a more centralized structure.

4.6.4 Reporting

Having a robust data management system in place is key for timely performance measurement and effective communication on impact indicators spanning sustainability topics. By evaluating key performance indicators and tracking progress towards sustainability goals, organisations can fine-tune their strategies. This ongoing evaluation not only keeps them on course but also allows for rerouting as environmental, social, and market conditions evolve.

Collecting information and data is important also to understand the effectiveness of the initiatives proposed by the company so Moncler appointed figures as Sustainability Data Owner that are responsible, each for their respective area, for data and information published in the Consolidated Non-Financial Statement and for achieving the objectives set out in the Sustainability Plan.

Reporting the results of such initiatives boost the transparency of the company's commitment to sustainability, and having more than one reporting standards give a wider vision of company success in this field. Moncler, like Prada, use the GRI standards to develop its report but in addition it utilises the SASB standards.

Collecting information is crucial also in the field of risks analysis. It is important to report on business risks and opportunities linked to climate change to anticipate future events in a context of uncertainty.

Both Prada and Moncler are making risks analysis but Moncler made a step forward, it continued the integration of the ERM (Enterprise Risk Management) model with climate change risks according to the areas defined by the recommendations of the Financial Stability Board Task Force on Climate-related Financial Disclosures (TCFD). Climate scenario analysis represents a critical tool for strategic planning and risk management as it allows to better understand the impact of climate change and how it could affect company's strategy and business. The Head of internal Audit responsible for risk management and the Enterprise Risk Management process, in collabpration with the Sustainability Unit, carries out a scenario

analysis aimed at assessing the main climate change risks with potential impact on the main operating sites.

The analysis is performed over three different time horizon:

- 0-3 years (aligned with the Sustainability Plan)
- 3-10 years (in order to predict and evaluate the first significant impact)
- 10-30 years (aligned with the 2050 NetZero target set by the Paris Agreement)

This addition to the traditional Risk Management could explain Sustainalytic's valuation of strong relating to Moncler's management of ESG risks and average concerning Prada that does not conduct such type of scenario analysis.

4.6.5 Ratings

Companies aiming for sustainability excellence often seek validation through third-party quality standards. Ratings and certifications demonstrate a commitment to best practices. They can be a powerful symbol of transparency and credibility, as they often come with rigorous standards and guidelines that push companies to continuously improve.

As showed above Moncler in every ratings taken in consideration, received a better evaluation with respect to Prada.

In addition, in 2022 Moncler is confirmed for the fourth year in a row at the top of the Textiles, Apparel & Luxury Goods sector in the Dow Jones Sustainability World and Europe indices and it is rated AA by MSCI ESG Research.

In the same year Moncler places as second in the Specialised Retail sector examined by Moody's ESG Solutions in the ESG Overall Score rankings with a score of 62/100.

4.6.6 Value Chain collaborations

Partnerships and cooperation with upstream and downstream partners, as well as other external stakeholders, are essential to address key sustainability challenges. Collective efforts within and between value chains create a ripple effect, driving change beyond the confines of individual organizations (Andrade, 2023).

Both Prada and Moncler are making strides towards greater sustainability within their value chains, through collaborations with various entities.

Moncler's collaborations:

- Ellen MacArthur Foundation: Supporting the foundation's initiatives to promote circular economy practices in fashion.
- Aquafil: Utilizing Econyl regenerated nylon in various collections.
- Sympatex: Partnering on the development of recyclable and PFC-free membranes for outerwear.
- Nikwax: Using PFC-free water repellents for some of their jackets.
- Conservancy International: Supporting environmental conservation projects focused on protecting biodiversity.

Prada's collaborations:

- The Woolmark Company: Partnering to develop responsible wool standards and promote traceability throughout the wool supply chain.
- The Gold Standard: Collaborating on projects supporting renewable energy and carbon reduction initiatives.
- Aquafil: Using Econyl regenerated nylon made from ocean waste in Re-Nylon collections, reducing reliance on virgin materials.
- PrimaLoft Bio: Incorporating biodegradable alternatives to down in some puffer jackets.
- Circularity Capital: Investing in companies focused on circular economy solutions within the textile industry.

4.6.7 Maturity Grade

Through an analysis of these six pillars, a complete picture can be painted of a company's current sustainability maturity level. Companies are mapped to a maturity stage for each of pillar and for a final average position by compiling each individual average (Andrade, 2023).

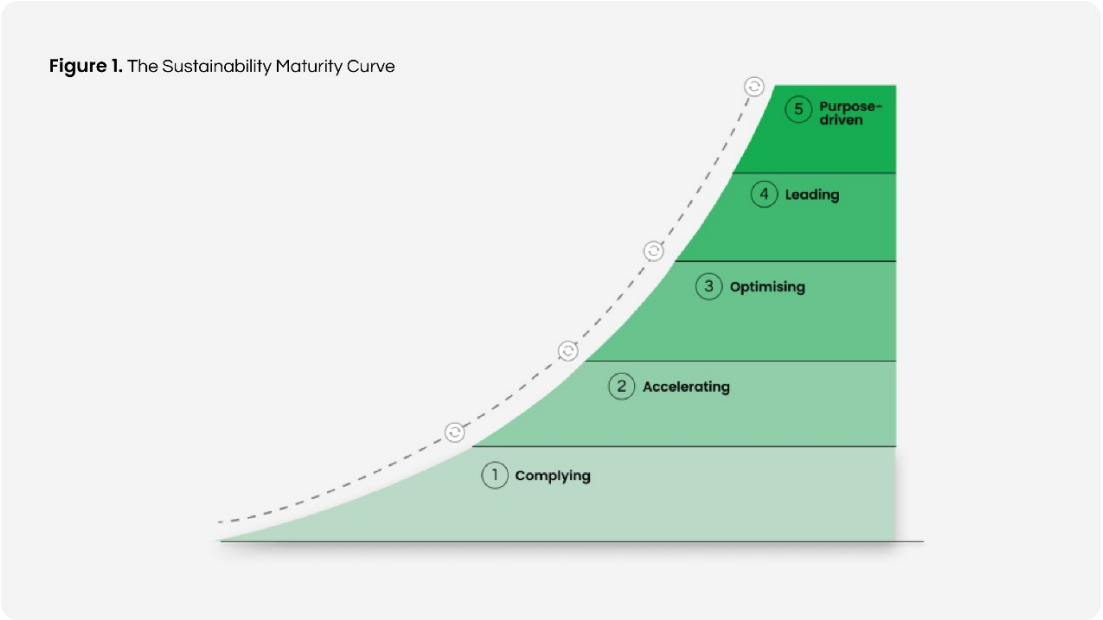

Figure 31. Sustainability Maturity Curve 5 stages

Source: Nexio Porjects, 2023

The sustainability maturity curve (Figure 31) demonstrates the five levels of progression from compliance, accelerating, optimising, leading and ultimately being purpose-driven, focusing on continuous improvement to maintain a level of maturity and advance to the next stage.

Each level demonstrates a progressive commitment to sustainability, going from meeting the minimum regulatory standards, through to setting goals and targets to taking responsibility for the wider value chain and highly transparent transitioning to a truly purpose-driven organization. At this level, a company understands its role in the world from a system-thinking perspective by embracing ecological stewardship and circular business models balancing people, planet, and profit.

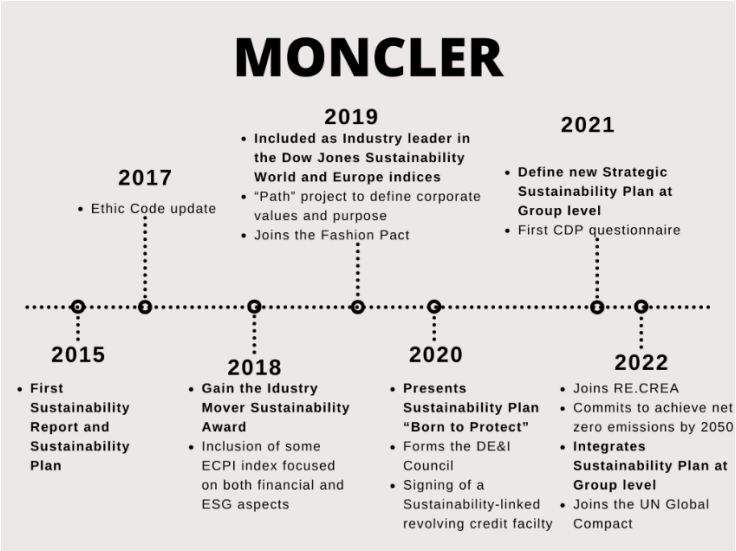

Figure 32. Moncler's sustainability path

Source: Author Elaboration, 2023

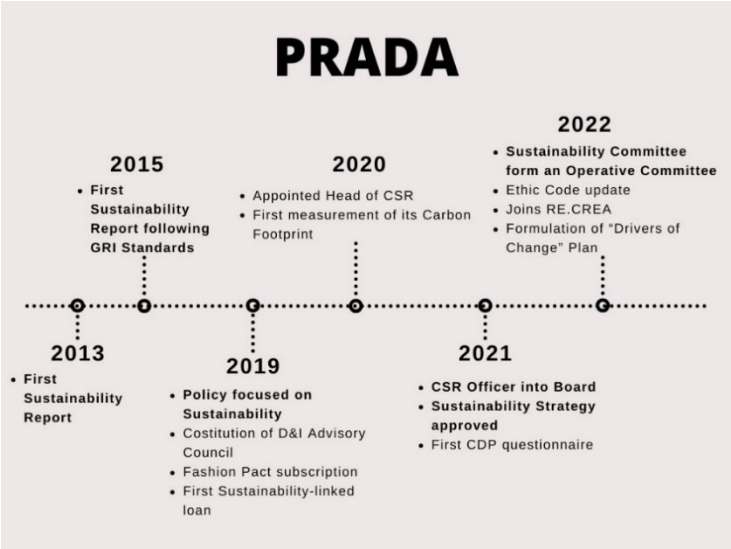

Figure 33. Prada's sustainability path

Source: Author Elaboration, 2023

Looking at their sustainability path in the last years, comes out that Prada (Figure 33) started its journey into sustainability 2 years before Moncler (Figure 32), but Moncler from the beginning developed, in addition to the compliance part of the report, a sustainability plan that is first step in order to embed and show true commitment about sustainable initiatives.

In 2019 when Prada was developing its first sustainability policy, Moncler was awarded as sustainability leader in the Textile, Apparel & Luxury goods by the Dow Jones Sustainability World and Europe indices.

This shows that even if Prada started its journey to sustainability before Moncler, it has reached a higher maturity stage before it and showed more ability to incorporate such principles and practices into the organization.

Collocating the companies into the Sustainability maturity curve, Prada would be positioned as Optimising, even it is making steps forward in the integration of sustainability, its strategy has not detailed goals on issues that SASB consider relevant in the fashion industry, it has poor incentive system based on ESG factors and its sustainability structure does not allow a deep sustainability integration and engagement from all the actors of the organization. At this stage, organisations have a robust sustainability management system in place, a clear understanding of their material topics, and a centralised and coordinated approach to internal reporting. Progress is achieved through the continuous improvement of the existing systems and processes already in place.

Moncler instead would be positioned in the next stage, their strong performance across most pillars, particularly Strategy, Governance Structure, Ratings and Reporting, indicates a more integrated and proactive approach to sustainability, so as Leading. Leading organisations have a comprehensive and structured approach to sustainability, which covers both their own operational footprint and value chain. These companies continuously strive for improvement in their daily operations and provide the resources, expertise and capacity needed for innovation.

4.7 Managerial Implications

This research contributes to the current body of knowledge on organizing for sustainability. We provide some managerial implications that could be beneficial for companies seeking to successfully integrate sustainability into their organization. Our analysis suggests that sustainability have become an imperative for companies in the modern business context but not everyone has the right organization to embed it effectively.

Notwithstanding the principle of contingency, so that there is not a solution that could fit all the organizations and the organizational choices change from company to company according their internal and external factors of influence.

The case study presented show how between two comparable companies one is performing better than the other in terms of sustainability due to a better identification of relevant issues during the strategic planning phase, structure that have specific characteristics such

integration, decentralization, and low degree of standardization and a structured ESG focused incentives and reward system.

So, if managers want to embed sustainability effectively into their organizations should follow that type of model. Starting from setting a sustainability focused strategy through a materiality assessment in order to understand social and environmental considerations deeply, identifying critical sustainability issues and integrating them into business strategies for long-term success and stakeholder engagement. Using more than one standard reference turns out to be helpful.

Then choose a structure with characteristics that enable to exploit the sustainability full potential. In this context is also valuable to underline the importance of giving the CSO the right duties according to the maturity stage of the organization. Alongside with the structure managers should also empower employees by setting an incentives system.

However it is very important to underline that remain steady the principle of contingency, there is not a solution that could fit all the organizations, so the choices change from company to company according their internal and external factors of influence.

This comprehensive approach outlines a roadmap for businesses aiming for sustainable development and resilience, highlighting the intricate relationship between sustainability imperative and organizational design, companies that succeed in this process can outperform in sustainability and financial terms.

4.8 Conclusion

The apparel industry plays a significant role in the global economy, but this industry has also been associated with numerous environmental and social challenges. The importance of sustainability in the apparel industry cannot be overstated. By adopting sustainable practices, the apparel industry can reduce its environmental footprint, ensure fair treatment of workers, and meet the growing demand for eco-friendly products. The shift towards sustainability offers various benefits and opportunities. To secure a profitable and healthy future, the apparel industry must continue to prioritize sustainability and its applications.

Analyzing two of the main companies in this industry, Moncler and Prada groups, and the difference in the ESG scores, comes out that Moncler have reached a higher grade of sustainability maturity thanks to its organization solutions, which enabled the company to better build sustainability effectiveness.

Moncler structure and governance model allow to involve the Heads of each department in Sustainability Plan formulation, engaging them into the process and making them accountable

for the good management of the initiatives. The Management by Objectives incentive system reward them if they are successful in meet ESG goals set by the Plan and by consequence boosting their commitment to sustainability purpose.

Moncler's case show that with a strategy formulation addressed to key sustainability issues and a structure that allow for a deep integration of sustainability into the organization and with employees, it is possible to exploit sustainability full potential.

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APPENDIX

		MONCLER	PRADA
	Net Revenue(2022)	EUR 2.6 Bln	EUR 4.2 Bln
	N. Employees	6305	13768
	Market presence	612 DOS in 75 countries	3233 DOS in 70 countries
	Strategy	1) Becoming a leader in the luxury segment 2) Build a global group able to fully enhance its brand's potential 3) Develop all distribution channels with an omnichannel approach 4) Follow a sustainable growth path	1) Strong vertical integration of the supply chain 2) Digital transformation 3) Customer centricity 4) Reinforce standards of corporate governance 5) Integrate sustainability
	Sustainability Strategy	1) Climate change and biodivesrity 2) Circular economy 3) Responsible sourcing 4) Valuing diversity 5) Supporting local communities	1) Planet (reduce footprint) 2) People (inclusion, creativeness , fairness) 3) Culture (build a sustainable society)
	Standard Reference	GRI Standards 2021 SASB Standards	GRI Standards 2021
	SDG (17)	3. Good Health and Well-Being 4. Quality Education 5. Gender Equality 6. Clean Water and Sanitation 7. Affordable and Clean Energy 8. Decent Work and Economic Growth 11. Sustainable Cities and Communities 12. Responsible Consumption and Production 13. Climate Action 14. Life Below Water 15. Life On Land	Not explicitly declared by the company
SASB relevant issues in the Apparel, Accesories & Footwear industry	**Product Quality & Safety**	Supplier compliance (REACH, GB, JIS requirements) Compliance specifications (PRSL, MRSL) ISO 17025 accredited third-party testing laboratories Anti-counterfeiting measures Continous improvement of garment quality	Quality Test conducted by technicians with at least 10 year experience Restricted Substance List (RSL) Tests through external ISO 17025-accredited analytical laboratories Trademark protection
	Supply Chain Management	Supply chain collaboration Data-driven supply chain management Shipment Tracking Code of Ethics Supplier code of conduct Systematic ethical, social and environmental audits Quality Team to verify supplier's alignement with Group's standards	Code of Ethics Qualified Vendor List Supplier code of conduct Task force to control over the supply chain
	Material Sourcing & Efficiency	Collection Excellence through PLM (Product Lifecycle Management) platform Integration of 3D technology Zero waste project Early product engineering programme Moncler's Extra-Life project Guidelines for sustainable materials DIST protocol for recycled down Fur-free retailer policy (Moncler form 2022; Stone Island from 2018) GreenTech: Plastic recycling with high efficiency system Re.Crea consortium founder	Fur-Free policy from 2019 (all brands) Prada Re-Nylon project Prada Fine Jewelry: Eternal Gold Repairs service Re.Crea consortium founder Prada Group Re-Set project
	Other Initiatives	MAKE Platform (training, contents, e-learning courses for employees) MINE Platform (Sharing information and networking between colleagues) Building Leadership Training Programme Lead Accelerator (executives and senior managers develop ability in complex enviornments) MONVoice survey (employees engagement and enablement) Human Rights Policy (DE&I) Partnerships to support communities (San Patrignano, Lebron James Foundation, WWF) Whistleblowing system	Partnership with Forestami (plant 3 million trees) and Ogyre (clean seas from plastic) DE&I project (maturity, awareness and share knowledge about DE&I) Generation Prada (next-generation career growth opportunities) Whistleblowing system Human rights policy Partnership with UNFPA (training for young women in Ghana and Kenya) Fondazione Prada (contribute to culturale debate) Prada Frames (investigate the relationship between sustainability and design) Sea Beyond (ocean preservation)
	Sustainability Structure	Bottom-up Approach Decentralized (Plan decided by sustainability unit outside the board) Integrated (Heads of Bu help formulate the plan and are accountable for its success) Resources distributed to the Business Units Characteristics of an Integrated Structure and Lean Central Team Structure	Top-down Approach Centralized (Plan decided by the board) Differentiated (initiatives directed by the sustainability committee inside the board) Low employees engagement Characteristics of Stand-alone Structure and Large Central Team Structure
	Value Chain Collaboration	Ellen MacArthur Foundation Aquafil Sympatex Nikwax Conservancy International	Woolmark Company The Gold Standard Aquafil PrimaLoft Bio Circularity Capital