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CSR Disclosure and Performance Evaluation in the Fashion Sector: Focus on Benetton Group practices

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ABSTRACT

This thesis explores the relationship of sustainable innovation, corporate social responsibility (CSR), and sustainability reporting within the fashion industry. The first chapter provides an overview of sustainable innovation and CSR, examining their definitions, evolution over time, and correlation with organizational performance. It also examines how corporate social responsibility (CSR) influences innovation practices within businesses and what impact has the engagement in to environmental, social, and governance (ESG) practices. The second chapter main focus are the economic implications of mandatory disclosure and reporting standards for CSR and related topics. It covers the goal and audience perspectives of CSR reporting in addition to the potential economic consequences and implementation challenges.

The last two chapter are the core of the thesis with and emphasis on the environmental and social impacts in the fashion industry and the main sustainability challenges that the industry has to face. The third chapter also present some of the environmental and social certification that may be applied to fashion industry. Whereas the following chapter analyses more in detail Benetton Group sustainability initiatives, from their sustainable materials guidelines, social and environmental sustainability initiatives. The conclusion reflects on the importance of assessing and sharing sustainability performance in light of changing CSR reporting regulations and increasing demand of CSR from consumers.

Introduction

Contemporary business landscapes see a growing importance in social responsibility and environmental stewardship. This thesis takes a broad approach to investigating how businesses may both promote innovation and maintain social responsibility. It focuses on the fashion sector, taking the Benetton Group as a case study.

The first chapter provides an overview of sustainable innovation and corporate social responsibility (CSR), outlining the basic concepts and range of applications of them. Furthermore, a review of earlier research studies sheds light on the complex relationship between organizational effectiveness and sustainable innovation and its implications for financial performance. At the same time, the chapter outlines the key elements of CSR, highlighting its development throughout time and its intrinsic relationship to sustainable innovation. Additionally, we examine the driving role played by corporate social responsibility (CSR) in promoting innovative processes in businesses, including the advantages realized and the corresponding difficulties faced. Finally, we outline how CSR influences sustainable dynamics in the fashion industry, as highlighted by changing customer demands and legal requirements.

The economic aspects of required disclosure and reporting criteria related to CSR and sustainability goals are explored in depth in Chapter 2. This dissertation begins by defining the characteristics of CSR reporting, identifying its fundamental goals, forms, and target audiences. A detailed examination of the financial effects of the mandatory CSR and sustainability reporting follows, clarifying the fine line that must be drawn between disclosure requirements and financial limitations. The discussion looks into the reasoning behind the requirement for corporate social responsibility reporting explaining also the related externalities, costs, and economic benefits. The numerous complexities involved in standardization initiatives and the differing paths that distinguish financial reporting and corporate social responsibility models highlight the significant implementation difficulties. Particular importance in this chapter is given to the evolution of ESG reporting, monitoring its global incorporation of cultural norms and legal changes, with a particular emphasis on the European Union's transition from NFRD to CSRD. The chapter closes with a thorough examination of the paradox of CSR

communication, including tactics for finding a careful balance between the demands of transparency, motivation, and stakeholder trust-building.

The third and fourth chapter are the core of the thesis, an in dept exploration of sustainability issues in the fashion industry with a focus on Benetton Group commitment on these topics.

The fashion industry's sustainability story is full of social and environmental paradoxes, which are thoroughly examined in the third chapter. We trace the growth of the fashion industry over time, describing its shift from mass manufacturing models to modern sustainability rules. An interesting examination of the environmental effects of fashion industry methods is conducted, focusing on issues related to waste management, water consumption dynamics, and pollution; followed by an examination of the societal issues that afflict the industry, such as violations of workers' rights, discrimination based on gender, and the exploitation of children for labor. Lastly, we take a look at the growing popularity of social and environmental certifications, highlighting their influence on industry-wide change.

The fourth and last chapter examines the Benetton Group's sustainability initiatives, which provides a detailed analysis of the company's Integrated Report and the strategic priorities that guide its sustainability plan. By following the group's past, we can see how its sustainability and CSR reporting have changed over time. An in-depth review of Benetton's sustainable materials policies and certifications follows, providing information about the company's adherence to recycling programs, environmental standards, and natural fiber certifications. The dissertation then proceeds with Benetton's social sustainability programs, including its labor standards compliance, code of conduct, and international alliances for the advancement of worker welfare and safety. Considering some of the company' strategies as Benetton's zero discharge programs, detox commitment, and environmental impact mitigation techniques, environmental sustainability takes center stage.

To sum up, this thesis tries to simplify the complicated network of sustainable innovation and corporate social responsibility in the fashion sector, using the Benetton Group case study as an example. This thesis goal is to provide practical insights for

businesses addressing the balance of innovation ability and sustainability requirements in a constant changing society, underling that to remain competitive and succeed in business is essential to follow the demand from consumers in the CSR domain.

CHAPTER 1

Sustainable Innovation and corporate social responsibility (CSR): an overview

1.1 Definition of Sustainable Innovation

The concept of sustainable innovation has been evolving over time, and it is challenging to identify the exact moment when the first definition was given. However, the integration of sustainability and innovation has gained significant attention and concern in academic literature and business practices over the past few decades (Schaltegger and Wagner, 2011).

One early influential work in this field is the book "Natural Capitalism: Creating the Next Industrial Revolution" by Paul Hawken, Amory Lovins, and L. Hunter Lovins, published in 1999. The book discusses the need for companies to adopt sustainable practices and innovation to achieve economic success while reducing environmental impact. Since then, numerous scholars, researchers, and practitioners have contributed to the understanding and development of the concept of sustainable innovation. The United Nations' Brundtland Commission's report, "Our Common Future," published in 1987, also had a significant impact on how sustainable development was perceived, which basically involves innovation for long-term environmental and social well-being. It is important to remember that the definition and understanding of sustainable innovation continue to evolve as new insights and knowledge emerge. As sustainable development and environmental concerns have continued to grow in importance, today, sustainable innovation is a recognized an essential aspect of business strategies across various industries, including the fashion industry, as organizations strive to balance economic growth with environmental and social responsibility.

Even if the concept of sustainable innovation is always evolving, a common definition involves the development and implementation of novel ideas, practices, technologies, products, or business models that not only generate economic value but also address pressing environmental and social challenges. It goes beyond traditional innovation by integrating sustainability principles into the core of the innovation process. As said

before, in order to maintain long-term sustainability, it is important to develop solutions that strike a balance between social welfare, environmental protection, and economic growth.

Sustainable innovation recognizes that business success should not come at the expense of the planet and society. It looks for novel solutions to reduce adverse environmental effects, such as lowering greenhouse gas emissions, preserving resources, and avoiding pollution. It also takes into account social factors including promoting social equity, ethical business practices, and community engagement. It recognizes that sustainable innovation goes beyond the mere reduction of negative impacts and aims to create positive value for all three dimensions of sustainability.

By adopting sustainable innovation, organizations aim to create positive change and contribute to a more sustainable future (Boons & Lüdeke-Freund, 2013). It needs a shift in mindset, moving away from a simply profit-driven approach to a more comprehensive and responsible strategy that takes into account the wider societal and environmental implications of innovation.

1.2 Sustainable innovation in 3 perspectives: internal managerial, external relational, and performance evaluation

Sustainable innovation, also known as eco-innovation or green innovation, has undergone significant transformations in its perception and application over the years.

As already said, today, sustainable innovation is viewed from a broader global perspective, encompassing not only environmental aspects but also social and economic dimensions of sustainability. The triple bottom line approach[1], which promotes the simultaneous pursuit of economic growth, preservation of the environment, and social

[1] also known as "People, Planet, Profit." It was first introduced by John Elkington in 1994 and since then has become a widely recognized concept in sustainability and corporate social responsibility (CSR) discussions.

well-being, has become a guiding principle for sustainable innovation. Nowadays, businesses strive to offer valuable goods, services, and business models while limiting their negative impacts on the planet and society.

Analysing the article of Boons and Lüdeke-Freund (2013) that emphasizes the managerial challenges associated with sustainable innovation, it is noted that "sustainability considerations (environmental, social, and financial)" should be "integrated into company systems from idea generation through to research and development (R&D) and commercialization" (p. 12). This means that all business decisions about products and services, as well as the new business and organizational models that must be adopted, should be made using a sustainable approach to innovation.

Existing literature has claimed that there are three main viewpoints that can be used to study sustainable innovation: internal management, external relational, and performance evaluation (Cillo et al., 2019). In the realm of internal managerial perspective, sustainable innovation entails integrating sustainability principles within an organization's culture, strategy, and operations. It requires top-down commitment, employee engagement, and the integration of sustainable practices across all functions. Companies employ tools and frameworks like life cycle assessment, design for sustainability, and environmental management systems (e.g. ISO 14001[2]) to direct their efforts at sustainable innovation. To ensure an organized and planned approach to sustainable innovation, they also create separate sustainability departments or designate sustainability managers. From an external relational perspective, sustainable innovation places a strong emphasis on partnership development and collaboration. Organizations collaborate with various stakeholders, including suppliers, customers, NGOs, and government agencies, to co-create sustainable solutions and address shared sustainability challenges. Industry consortia, sustainability networks, and multi-stakeholder platforms are examples of collaborative initiatives that enable knowledge exchange, resource pooling, and group action. These partnerships give organizations

[2] ISO is an internationally recognized standard developed by the International Organization for Standardization (ISO). ISO 14001 provides a structured approach for organizations to identify and control the environmental impact of their activities, products, and services.

access to a variety of knowledge, strengthen the validity of their sustainability claims, and create systemic change beyond their individual capabilities.

Organizations use performance evaluation frameworks to assess the efficacy and impact of sustainable innovation. These frameworks consider not only financial metrics, but also non-financial indicators related to environmental and social performance. Tools like sustainability reporting, integrated reporting, and sustainability certifications (e.g., B Corp certification[3]) provide mechanisms for organizations to assess and communicate their sustainability achievements. External evaluations, including sustainability rankings and indices, allow for benchmarking and comparisons with competitors in the industry, encouraging healthy competition and ongoing improvement (Dinh et al., 2021).

Closing, there has been a substantial development in the understanding and use of sustainable innovation across time. From a narrow focus on environmental issues, it has expanded to include economic and social dimensions of sustainability. Sustainable innovation now involves internal managerial efforts to embed sustainability principles, external relational collaborations to address collective sustainability challenges, and performance evaluation frameworks to monitor and communicate sustainability performance. This holistic approach to sustainable innovation reflects a paradigm shift in how businesses perceive their part in contributing a more sustainable future.

1.3 Previous studies on the impact of sustainable innovation on organizational performance and economic performance

Previous studies have closely investigated the impact of sustainable innovation on organizational performance since it has the potential to benefit businesses while addressing environmental and social challenges. The research in this area has focused

[3] also known as Benefit Corporation certification, is a distinction given to for-profit companies that meet rigorous standards of social and environmental performance, accountability, and transparency.

on various industries and sectors, bringing valuable insights on the connection between sustainable innovation and performance results (Boons et al., 2013).

Sustainable innovation has been demonstrated to have a favourable impact on key indicators including profitability, competitiveness, and market position in terms of organizational performance. For instance, a study by Schaltegger, Lüdeke-Freund, and Hansen (2016) investigated the business cases for sustainability and underlined the importance of business model innovation in driving corporate sustainability. According to the research, sustainable business models support improved financial result and long-term business resilience.

Moreover, sustainable innovation has been associated with improved operational efficiency and cost savings. Organizations can use less energy, produce less trash, and consume fewer resources by incorporating environmentally friendly practices into their operations. These efficiency improvements not only support the protection of the environment but also lower production costs and higher resource productivity, which eventually improve the company's financial performance (Lopes et al., 2022).

Furthermore, it has been demonstrated that sustainable innovation improves a company's reputation and brand value. Consumer demand for sustainable goods and services is continuously rising, and businesses that show a commitment to sustainability are likely to have an advantage over competitors. Studies have shown that consumer perceptions, brand loyalty, and market share are all positively impacted by sustainability-focused marketing and branding initiatives (Hermundsdottir F. and Aspelund A., 2021).

Sustainable innovation also promotes employee engagement and talent attraction. Employees are more likely to be motivated and committed to organizations that share with their values and contribute to societal well-being. According to research, firms that prioritize sustainability have greater rates of employee happiness, productivity, and retention, which enhances overall performance.

In terms of economic performance, sustainable innovation has been considered as a driver of economic growth and competitiveness at both the firm and national levels. Studies have demonstrated the positive relationship between sustainable innovation

and economic indicators such as GDP growth, job creation, and export performance (Lopes et al., 2022).

Sustainable innovation has also been shown to encourage technological advancement and industrial change. Organizations may encourage innovation ecosystems, open up new markets, and take the lead in developing sectors by investing in the research and development of sustainable technologies. The shift to a circular economy, made possible by sustainable innovation, has the potential to launch new business opportunities, boost resource efficiency, and encourage the creation of new business models. Specifically, the review of article by Todeschini, Cortimiglia, Callegaro-de-Menezes and Ghezzi published in 2017 help to clarify a range of technological advancements that contribute to enhanced sustainability in the fashion industry. Between these, special attention is focus on sustainable or alternative fibers, since its impacts involve enhancing clothing durability, minimizing waste generated during cleaning processes, and utilizing alternative (synthetic) raw materials instead of scarce natural resources. Fashion business models could in addition be altered by emerging short-to medium-term technological trends like augmented reality and wearable technologies. Smart wearables, for example, offer opportunities to monitor fabric wear and tear and provide insights about the best ways to dispose of used clothing, even though they are still in the design stage.

It is important to keep in mind that the effects of sustainable innovation on business success and economic performance might vary depending on the situation and a number of variables, including firm size, industry characteristics, and regulatory frameworks (Hermundsdottir and Aspelund, 2021). The majority of the studies, however, points to a favourable correlation between sustainable innovation and both performance characteristics. According to Jin and Cedrola (2019), the fashion business is characterized by major changes in demand due to seasonal and trend shifts, as well as significant differences in size and individual preferences. Therefore, it is extremely difficult to predict demand accurately; unsold inventory reduces earnings and is an ongoing challenge for any fashion company.

In fashion sector, sustainable innovation has become a crucial driver of success for companies seeking to remain competitive and satisfy the growing demands of environmentally and socially conscious consumers. As partially said before sustainable practices in this industry cover a range of activities: eco-friendly materials sourcing, responsible manufacturing processes, and ethical supply chain management.

Many leading fashion companies have incorporated sustainable innovation into their business strategies and seen improvements in their organizations' performance as a result. For instance, Patagonia, a well-known outdoor apparel company, has long been committed to sustainability. Patagonia has not only developed a devoted consumer following but also achieved exceptional financial success through sustainable innovation initiatives like employing recycled materials, encouraging repair and reuse, and encouraging responsible consumption. The business has continuously surpassed its rivals in terms of revenue and profitability despite its dedication to sustainability.

Beyond organizational performance, sustainable innovation in the fashion industry has broader economic implications. Fashion businesses may help create a circular economy by using sustainable practices that reduce waste and promote resource efficiency. One of the biggest fashion retailers in the world, H&M, for instance, introduced their "Conscious Collection" of clothing, which includes items manufactured from eco-friendly materials including organic cotton and recycled polyester. This campaign appeals to ethical consumers, fosters the creation of sustainable supply chains, and incites other businesses to adopt similar practices. Another big company really committed in sustainable innovation that we will analyse better in the further chapters, is the Italian Benetton Group, in fact the group is committed to being a globally responsible company from a social, environmental, and economic perspective, growing together with the communities in which it operates. Benetton Group invests 1% of its annual turnover to the sustainability activities, taking concrete actions to achieve its social and environmental goals. An example of their commitment concerns the replacement of the fibres in their collections: more and more of their products have been made from recycled or organic materials that come from certified supply channels in order to have every cotton item in collection sustainable by 2025.

This paragraph aims to point out that lot of studies cited before have demonstrated the positive impact of sustainable innovation on organizational performance and economic performance. Improved financial performance, operational effectiveness, reputation and brand value, employee engagement, and economic growth are all benefits of sustainable innovation. Organizations may gain numerous performance benefits while addressing societal and environmental issues by embracing sustainable practices and incorporating them into their innovation processes. However, it is essential for future research to further explore the specific mechanisms and contextual factors that drive the relationship between sustainable innovation and performance outcomes, so that policymakers can better know what strategies to follow to better implement sustainable innovation.

1.4 What is corporate social responsibility (CSR)

In recent decades, corporate social responsibility (CSR) has gained significant importance in the business world. The influence and impact of environmental, social, and governance (ESG) aspects on business decisions have progressively grown. Better measurement and disclosure of corporate sustainability could facilitate stakeholders, including investors, in understanding how companies will navigate the dynamic and rapidly changing landscape.

Volunteering plays a significant role within this problem, leaving it up to companies whether they will be socially responsible or not. But these days, all businesses are beginning to understand that taking social responsibility seriously is essentially required, and also most governments are starting to regulate it. Corporations frequently benefit from social responsibility in a number of ways, both financial and non-financial. The objective of social responsibility is very obvious, despite the fact that it lacks a standard definition and clear activity boundaries (Thorisdottir & Johannsdottir, 2020).

Corporate Social Responsibility (CSR) is a comprehensive business approach that refers to a company's commitment to conducting its operations in an ethical, sustainable, and socially responsible manner, beyond its primary goal of generating profits. It involves

integrating social and environmental concerns into the company's core business strategies and decision-making processes. In essence, CSR entails taking responsibility for the impact of a company's activities on its stakeholders, including employees, customers, communities, the environment, and society at large. CSR is founded on the belief that businesses have a broader responsibility beyond merely maximizing shareholder value. It recognizes that companies have the potential to significantly influence and contribute to societal and environmental well-being. Therefore, businesses should actively strive to positively impact the communities and environments in which they operate.

Numerous definitions of CSR have been put forward by various organizations and scholars, emphasizing different aspects of its principles and practices. The World Business Council for Sustainable Development (WBCSD) defines CSR as "the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as the local community and society at large."

The European Commission describes CSR as "the responsibility of enterprises for their impacts on society." It emphasizes that responsible businesses should consider the social, environmental, and economic consequences of their activities and proactively address potential negative impacts while maximizing positive contributions to society.

The evolution of Corporate Social Responsibility (CSR) over time is something to take in strong consideration as it reflects the changing perspectives and expectations of society towards businesses but particularly it aims to compare several definitions of CSR to understand the diverse perspectives and interpretations of this concept among different authors. The central idea of this broad notion is that corporate social responsibility is an evolving framework that adapts depending on a number of factors, including historical context, study area, reference theory, and business environment.

Currently, both the academic community and the business world debate on how CSR should be defined. However, the concept of corporate social responsibility first emerged in the 1950s. One of the first publications that examined the idea of the modern CSR is by Howard R. Bowen, Social Responsibilities of the Businessman, from 1953. Nowadays,

there are numerous definitions, many of which, according to Van Marrewijk (2003), are biased toward a particular interest. This problem prevents the creation and adoption of a widely recognized framework. The main concept behind CSR is that businesses have obligations and commitments to the communities in which they operate that go beyond the aim of profit (Branco and Rodrigues, 2006).

In general, CSR is defined as the way a business incorporates environmental, social, and economic challenges into its strategy, culture, and operations in a responsible and transparent manner. The major objective is to enhance business practices while bringing advantages to society at large (Hohnen and Potts, 2007). Dahlsrud (2008) performed a content analysis in 2008 and found 37 distinct definitions from 27 authors. Since then, numerous other academics and organizations from all over the world have added new interpretations to this conceptual framework.

Corporate social responsibility cannot be properly defined with a single sentence, as has already been clear because it is a complicated issue. The fundamental connection between CSR and society serves as an illustration of the complexity of the situation. Despite the wild range of notions, this dissertation will use as reference the definition provided by Carroll, one of the most important authors in this field. According to his belief, “Corporate social responsibility involves the conduct of a business so that is economically profitable, law abiding, ethical and social supportive” (Carroll, 1979). CSR is currently referred to as "The commitments of business firms to seek those strategies, to settle on those decisions, or to pursue those lines of activity that are according to societal values and expectations" (Carroll, 2008). This definition was made possible by a later publication. These brief introductions include all the key points that modern businesses should think about in order to be regarded as a responsible organization.

1.5 Evolution of CSR over time

The phenomenon of corporate social responsibility has been studied for many years and its analysis continue to be conducted. There is no internationally accepted definition of the notion and its key elements, as has already been fully pointed out. Also, the concept

continually evolves. For these reasons, it is believed that a brief historical examination of corporate social responsibility could be useful. This section gives a broad overview of the conceptual growth of CSR and illustrates how CSR has changed over time how organizations are managed.

The beginnings of social responsibility may be seen in the most developed economies at the end of the 1800s, when the first managerial attempts to support better working conditions were taken. The current notion of social responsibility, however, was only introduced in the 1950s. The initial research focused on social responsibility without giving corporations any consideration. Carroll (1999) hypothesizes that this is caused by the economic context of the time, in which corporations didn't control the commercial sector, yet. The first time that a scholar made an attempt to define corporate social responsibility was when Howard R. Bowen wrote a book titled "Social Responsibilities of Businessmen", released in 1953. Bowen's conceptual framework was built around the fundamental responsibilities that businesspeople have to society. He stated that social responsibility cannot be used as a fix-all for all business issues, but it contains a crucial fact that should be followed. Carroll (1979) later said that Bowen ought to be regarded as the originator of CSR.

During the 1960s, interest in corporate social responsibility research expanded, given the creation of many definitions and conceptual frameworks with a similar, modern view of social responsibility. During those years, the firm and the community developed an unprecedentedly close relationship, and social responsibility began to be seen as a business and entrepreneurial goal. Later, according to Carroll and Shabana (2010), Patrick Murphy identified the 1960s as the decade of "awareness" for CSR[4]. From that point forward, even though specific procedures and implementation tactics weren't well defined yet, corporate responsibility began to extend beyond financial and legal obligations.

In the 1970s, companies started incorporating CSR into their business planning. Heald (1970) connected the theoretical elements of CSR to managerial practices and policy in

[4] During this time, racial discrimination was corrected, pollution was reduced, businesses focused on charitable donations, social consciousness and recognition of general responsibility changed, and involvement in community affairs and urban decline emerged (Murphy, 1978).

his book "The social responsibility of business: company and community". The author asserted at the time that businesses need to have created managerial strategies focused on the welfare of society and its constituents. So leaders and managers should base business policies on charitable activities and the fostering of ongoing relationships to the community. This is a strong and persuasive assertion because it is the first time that a scholar has connected CSR theory to actual business strategy. Most of the definitions that arose during that time had something in common, a growing understanding of the social purpose of business activity occurred in the 1970s. The notion of CSR was expanded in the 1970s by a number of studies and economic theories, leading to an enormous amount of research. It is useful to remember the release of one of Carroll (1979) best works that gave birth to one of the most pertinent definitions of corporate social responsibility, he also realized the CSR pyramid[5].

In the 1980s, a paradigm change eventually happened. The focus of the literature shifted from looking for novel definitions to the investigation existing CSR-related concepts, for example corporate ethics. This occurrence also had intriguing business-related implications. Businesses paid close attention to customer abuse, employment discrimination, and pollution reduction. They also made an effort to enhance staff work-life balance and health and safety standards at the same time (Carroll, 2008).

The most notable advancements in CSR throughout the 1990s were made in the area of business strategy. A prominent non-profit organization in the US was founded in 1992: “Business for Social Responsibility”. From a managerial perspective, this organization argues that corporate social responsibility (CSR) is seen as a comprehensive set of policies, initiatives, and practices that are integrated into decision-making processes, business operations, and supply chains within the management team.

On the conceptual front, by the end of the 1990s, Elkington created the "Triple Bottom Line" notion. According to this view, businesses should place equal emphasis on social and environmental issues and financial success.

[5] It is conceptual model used to illustrate the different levels of CSR activities that a company can engage in. The CSR Pyramid is an hierarchical structure with 4 levels: Economic, legal, ethical and philanthropic responsibilities.

Another significant trend that began in the 1990s and is still going strong now is the emergence of numerous companies with exceptional experience in CSR practices, opening the way for a more ethical and sustainable business environment. Companies like Patagonia, and Esprit de Corp serve as well-known case studies of tiny businesses that increased their success and reputation while using cutting-edge CSR strategies. On the other side, there are also well-known global firms that are currently under criticism for the nature of their business methods.

Since the 1980s, but particularly since the 2000s, the interest in CSR has grown dramatically in the European Community and on a global scale. The OECD published a report in 2001 that stated that "CSR is definitely a global phenomenon, though there are important intra-regional variations in practice" (Carroll, 2008). While some firms have been under regulatory and legal pressure to adopt certain methods, others are more voluntarily adopted than others. Even in heavily regulated fields like labour standards, human rights, and anti-bribery, differences in management practices and dedication were evident. Although this process is still in progress today, a first step toward the creation of social norm harmony has already been made at the time the study was published.

Nowadays, investments in green technologies, employee and community participation, greater transparency, diversity and inclusion initiatives, and investments in local communities and employees are some of the most appreciated CSR trends. It seems that in the future, CSR may develop into a significant secular trend, driven by an ongoing process of revisiting firms' social responsibility obligations. It should be noted that CSR can only be sustained for as long as it keeps boosting business success. Although it may seem strange, business organizations will overcome cyclical crises only by adjusting to a quickly changing environment with a forward-looking strategy. The ability to handle immediate problems while making long-term plans presents the biggest obstacle. Having a clear sense of purpose and visionary leadership are necessary to look beyond "CSR as usual" methods. For instance, to meet contemporary issues, businesses must be able to reconcile profitability with their "raison d'être," contributing to both the environment and people at the same time (Delbard, 2020).

1.6 Correlation between CSR and sustainable innovation

Modern businesses operate in a rapidly changing environment, necessitating a constant search for new solutions to gain and maintain a competitive advantage (Gunday et al., 2011). In this context, innovation plays a crucial and inevitable role for every company and significantly shapes a company's strategy, guiding its evolutionary path.

The concept of innovation has evolved over time, with various scholars offering different perspectives. Johnston (1966) focused on the technical aspects of innovation, including novelties in production processes and their dissemination to other companies, industries, and countries. Myers and Marquis (1969) presented a comprehensive definition encompassing the entire process, from the origin of a new idea to problem-solving and the exploitation of the social and economic benefits of the novelty. Drucker (1968) distinguished between changes in products or services and changes in the abilities necessary to implement innovation.

Innovation manifests in diverse fields of business activity, leading to a variety of classifications. The Oslo Manual (OECD and Eurostat, 2005) proposes four types of innovations: product, process, organizational, and marketing innovations. Additionally, innovations differ in their degree of novelty, categorized as incremental, new to the company, or radical innovations (Tidd et al., 2005).

The presence of innovation holds significant importance in contemporary business, with scholars emphasizing that the development and existence of society depend on innovations (Zenko and Mulej, 2011). Gunday (et al., 2011) further supports this idea by asserting that constant change is a prevailing characteristic of today's world.

As fully explain in the previous paragraph, corporate Social Responsibility (CSR) has a not a unique definition, but one cited before originating from the European Commission (2001) describes it as companies integrating social and environmental concerns voluntarily into their business operations and interactions with stakeholders. The later European Commission Communication (2011) broadens the definition, considering CSR as the responsibility of enterprises for their impacts on society and aiming to maximize shared value for owners/shareholders and other stakeholders.

In the classification of CSR, the significance of innovation becomes evident in various research papers. Halme and Laurila (2009) identify three types of CSR: philanthropic, integration, and innovation. Visser (2010) presents five stages of CSR: defensive, charitable, promotional, strategic, and systemic. Scholars also divide CSR into traditional and strategic or reactive and proactive categories (Torugsa et al., 2013). Innovation, as a primary driver of CSR, is often linked to the most advanced and suitable stages of CSR implementation in companies. The importance of CSR is evident in reports on social and environmental activities that are increasingly published (KPMG, 2011).

Another key point to discuss and that research frequently explores, is the relationship between CSR and corporate financial performance (CFP), with innovation commonly indicated as a significant factor in this connection. Companies striving to improve their social performance generate innovations that impact both social and financial outcomes. The mechanism of innovation generation is associated with R&D investments, changes in organizational culture, and senior management attitudes towards social matters. Related to this question, according to the words of McWilliams and Siegel (2001), there is a connection between R&D and CSR because many CSR initiatives result in the development of new processes, products, or both. By following on the Theory of the Firm, they argue that CSR can be viewed as a form of investment, and one way to assess investment in CSR is as a mechanism for product differentiation. As a result, differentiating through the use of CSR assets, such recycled goods, may also involve investing in research and development.

Husted and Allen (2007) and Bansal (2005) have both highlighted their arguments regarding the connection between CSR activities and innovation initiatives. For instance, companies must implement corporate responsibility principles into their goods, operational procedures, and practices, which may necessitate R&D expense. In this regard, strategic management research has stated that CSR can present opportunities for innovation and that CSR practices can result in innovation through the use of social, environmental, or sustainability drivers to create new ways of working, new goods and services, novel production methods, and novel business opportunities.

1.7 The role of CSR as a driver for Innovation Practices in Companies: Benefits and Challenges

So far, we have longly discussed about CSR and innovation practices. CSR has become a potent force behind innovation activities within businesses and fosters a constructive relationship between the two ideas. Innovation has established itself as a crucial strategic instrument for survival and expansion as organizations traverse the dynamic and competitive global landscape. Concurrently, as society expectations for ethical and sustainable corporate practices have grown, businesses have begun to embrace CSR as a strategy for addressing ethical, social, and environmental issues. Due to their convergence, CSR and innovation are now seen as complimentary forces that can work together to improve both company success and social impact.

The relationship between CSR and innovation has several facets, which can be investigated by examining the way one is impacted by the other. Companies that prioritize CSR initiatives tend to promote a culture of responsibility and stakeholder involvement. In turn, this culture fosters an environment that encourages innovation. Businesses become more aware of the requirements and challenges of society as a whole when they actively incorporate social and environmental issues into their operations. They are therefore motivated to look for novel solutions that not only deal with these problems but also produce competitive benefits.

One of the main advantages of CSR-driven innovation is to obtain a competitive edge by developing different products and services (Porter and Kramer, 2006). Companies that place a high priority on CSR frequently find unmet societal needs and use innovative approaches to address them. This not only improves the reputation of a brand but also opens doors to other markets. Consumers and stakeholders respect ethical companies more and more, which results in greater consumer loyalty and a larger customer base.

Innovation can lead to opportunities for CSR initiatives to save money (Hess and Warren, 2008). Companies can increase resource efficiency, minimize waste, and lower their environmental impact by using innovative technology and procedures. As a result, CSR

activities improve in sustainability, cost-effectiveness, and scalability, becoming a crucial component of the overall business plan.

Additionally, CSR-driven innovation promotes stronger connections among stakeholders. Businesses that actively include their stakeholders in identifying common values and issues can jointly develop innovative solutions (Morsing and Schultz, 2006). In addition to increase the success of CSR efforts, this co-creation strategy fosters stakeholder loyalty and trust. As a result, businesses have access to useful information, materials, and support from stakeholders, which helps them with their efforts to innovate.

Nevertheless, despite the many advantages, combining CSR and innovation presents a few difficulties. Balancing short-term business goals with long-term sustainable practices is one of these challenges (Kotler and Lee, 2005). Some businesses could put an emphasis on short-term profits over investments in CSR-driven innovation, making it difficult for them to take advantage of future prospects and satisfy changing societal expectations. Furthermore, innovation frequently entails taking risks and dealing with uncertainty, which may discourage some businesses from fully embracing CSR-driven innovation. Businesses may be hesitant to experiment with new ideas due to a fear of failure or the large expenditures connected with research and development.

Additionally, a change in company culture and mindset is necessary due to the complex nature of CSR and innovation. Companies must make a firm commitment to ethical behavior and integrate CSR concepts into every aspect of their business (Jamali, 2010). The alignment of these values with innovation necessitates a cultural shift that prioritizes cooperation, adaptability, and a long-term perspective.

The success of CSR-driven innovation also strongly depends on capable governance and strong leadership. Leaders must promote the integration of CSR and innovation, establish definite objectives, and spend resources properly. A company's overall business plan must be in line with CSR initiatives, which are continually monitored and assessed for their effects on both corporate performance and societal consequences (Godfrey et al., 2009).

In the end to provide a concrete example, we take into consideration the study of MacGregor and Fontrodona (2008) who evaluate the CSR-innovation relationship for businesses from Spain, Italy, and the UK using a case study methodology. In their research, they found that SMEs approached CSR and innovation either using a proactive or reactive approach. The companies with the greatest success used a pro-active strategy and, strangely, had the highest level of CSR implementation. Proactive CSR is simpler than proactive innovation, they noted. CSR adoption can serve as a launch for proactive innovation as well as for businesses that wish to strengthen their market position but are often risk-averse. Innovation is frequently dangerous, but CSR can be a way to mitigate that risk. Businesses frequently use CSR as a way to mitigate risks related to stakeholders or the law. The most crucial element is to get companies started on the process, despite the fact that this is occasionally criticized as having an incremental, short-term perspective on CSR. Once they get going, businesses might recognize the advantages right away and start putting longer-term CSR into practice.

The figure below describes the virtuous circle of CSR and innovation.

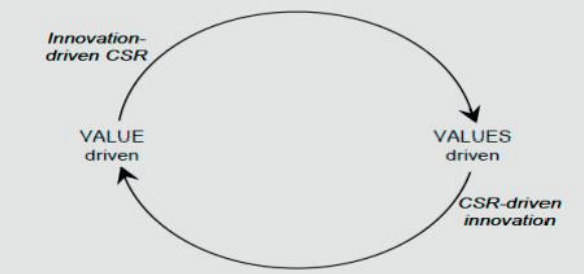


Figure 1. CSR and Innovation

Source: Exploring the fit between CSR and Innovation, 2008

The end consequence of CSR-driven innovation, according to the authors (MacGregor and Fontrodona, 2008), is the creation of goods and services with a certain kind of social mission. It is motivated by values that support the development of social goods and services. On the other side, innovation-driven CSR might be more linked to developing social processes and is motivated by value. Although the outcome may not have a purely social motivation, the process by which it was created, such as through supplier or employee acts, is more socially responsible. As a result, innovation driven by CSR is focused on "doing the right things," whereas innovation driven CSR is focused on "doing things right."

In summary, CSR has become the driving force behind creative methods within businesses, creating a mutually beneficial connection that enhances both business

success and societal well-being. Innovation that is driven by CSR not only produces unique goods and services but also promotes chances for cost savings and improves stakeholder relations. However, there are obstacles to overcome when merging CSR with innovation, like balancing short-term profit goals with long-term sustainability, encouraging risk-taking, and developing a responsible and innovative company culture. Strong leadership, efficient governance, and a dedication to implementing CSR concepts across the organization are necessary to meet these obstacles. Companies can open up new doors for growth, sustainability, and positive societal impact by using CSR as a driver for innovation.

1.8 CSR and environmental, social and governance (ESG): impact of firms' engagement in ESG policies on their innovation capacity levels

Corporate Social Responsibility (CSR) and Environmental, Social, and Governance (ESG) practices are now essential elements of contemporary company strategies. Companies are under more and more pressure to implement ethical and sustainable practices as global issues including climate change, social inequity, and ethical concerns intensify. CSR and ESG are no longer seen as additional responsibilities but rather as crucial drivers of value creation and company performance as a result of this paradigm shift in corporate thinking. It is crucial at this point to try to investigate the link between CSR, ESG impact value, and company performance with an emphasis on how organizations' adoption of ESG policies affects their levels of innovation capability.

The idea of CSR refers to a firm's commitment to taking into account the needs of all stakeholders, such as customers, employees, communities, and the environment, when conducting business (Carroll, 1979). Contrarily, ESG reflects a broader approach that evaluate a company's performance on environmental, social, and governance dimensions with a focus on sustainable and ethical business practices (Kramer and Porter, 2011).

According to studies (Hahn et al., 2015; Grewatsch et al., 2015), companies that actively implement CSR and ESG policies have a tendency to enhance their brand reputation,

build closer relationships with their stakeholders, attract in socially conscious investors, and increase their overall business resilience. According to Lee and Yeo (2016) and Christmann and Taylor (2006), CSR and ESG initiatives are also linked to lower reputational risks, lower costs of regulatory compliance, and improved access to financing. The cumulative impact of these positive outcomes translates into enhanced firm performance and long-term value creation.

For companies working in a fast-changing economic environment, innovation is acknowledged as a major factor in competitiveness and long-term growth. Companies that adopt CSR and ESG principles are better able to recognize societal demands and environmental issues, which promotes an environment that is innovative. Businesses can co-create sustainable solutions by engaging with stakeholders to discover shared values and concerns, creating possibilities for collaborative innovation.

Additionally, innovation that is driven by CSR results in the creation of different products and services that deal with societal issues. Companies get a competitive edge while simultaneously making a beneficial contribution to society by utilizing innovative methods to meet unmet needs. For instance, a company's commitment to sustainable practices often results in ecologically friendly goods and services (Ghisetti and Rennings, 2014).

Companies that prioritize ESG policies experience a direct impact on their innovation capacity levels. ESG-driven innovation pushes companies to include environmental and social factors into their product development procedures in order to keep up with evolving customer needs and legislative requirements. Through resource efficiency, waste reduction, and sustainable supply chain practices, such innovation not only produces unique products and services but also opens up potential for cost savings.

ESG-driven innovation also improves a business's reputation and attracts top personnel, developing a culture of responsibility and creativity. When a company has a strong commitment to the well-being of society and the environment, employees are more likely to be engaged and motivated. This productive workplace environment stimulates innovation and teamwork, which results in constant improvements and a persistent competitive advantage.

The perception of CSR and ESG practices as compliance-driven activities has changed, and these practices are now seen as essential elements of sustainable business plans. Companies can improve their overall performance and financial worth as well as their ability for innovation by actively pursuing CSR and ESG policies. Differentiated products, potential for cost savings, and improved stakeholder relationships are the results of CSR and ESG-driven innovation.

1.9 introduction of CSR and its influence on sustainability within the fashion industry

The globalization of the economy has transformed the dynamics of competition among companies and industries, leading to product and service differentiation as a crucial strategy for capturing consumers' attention. However, in the fashion industry, which ranks among the largest globally and is the fourth largest in Europe after housing, food, and transport (European Environment Agency, 2020), standardization is crucial, but it has resulted in unsustainable practices driven by low-cost production and maximum production speed. This sector plays a significant role in the global economy, considering the global workforce of 3.4 billion people, it employs around 430 million people in fashion, clothing, and textile production. This means that about 12.6% of the world's population of 7.84 billion people based on data from 2021 (World Bank Open Data, 2022), is contributing to make the world’s clothes, shoes and accessories. Despite its importance, the fashion industry has faced persistent accusations of unsafe workplaces, low salaries, workers' rights violations, and poor environmental performance, including excessive use of natural resources. The negative consequences of inaction over the years have had a detrimental impact on sustainable development and call for urgent attention.

The fashion industry's environmental impact is often linked to mass production, prevalent labour abuse, and throwaway culture fostered by marketing methods in recent years. This culture has resulted in a significant global disposal issue, with a

truckload of textiles ending up in landfills or incinerated every second. The trend of discarding new clothes before they fall out of fashion has exacerbated environmental issues, despite growing consumer awareness of social and environmental impacts. The industry's lack of commitment to corporate social responsibility (CSR) is still evident, since only a few companies have hired CSR experts and its focus on low-cost production and consumerism is definitely a growing problem which has hindered the adoption of sustainable practices. This necessitates a clearer policy on pricing and production, encouraging collaboration between fashion companies, suppliers, and stakeholders to produce environmentally friendly products. Implementing formal CSR and sustainability practices within the fashion sector can eventually create added value for stakeholders (Moore et al., 2012).

To address the negative aspects of the fashion industry's product life cycle, businesses need to plan for the future and conduct their operations differently. This includes addressing issues like increasing scarcity of energy, water, and rising waste disposal costs, as well as considering workers' rights during decisions on factory closures. Companies may change their behaviour and take responsibility for various reasons, such as protecting and enhancing their reputation, reducing stakeholder pressure, exploring new markets, and gaining a competitive advantage. To bring about real improvements, many fashion brands are adopting standards, implementing codes of conduct, and introducing measures to better manage the social and environmental dimensions of the supply chain, the industry can also support diversity by contributing to charity or funding volunteer programs through changes in investment practices.

The extensive and intricate supply chains also pose challenges to transparency and visibility, making it challenging for consumers and stakeholders to trace the origins and production processes of garments (Pedersen and Andersen 2015), but lof of times is consumer behaviour who plays a significant role in driving sustainability efforts. Studies have shown that consumers may not show significant interest in eco-friendly clothes if the design and texture do not appeal to them (Jin Gam, 2011), for this reason, to promote desirable behaviour, fashion designers must increase the value of eco-friendly clothing designs without compromising style or brand identity. Particularly, for consumers who view clothing as a mean of expressing their individuality or social status,

appealing designs are essential. But the focus of the problem should be on increasing consumer awareness of sustainability, that can be achieved through education and effective marketing communication via social media, since the communication structure for CSR requires a fresh strategy. Fashion firms must adapt their marketing strategies, whether they are regionally or internationally focused, to raise customer awareness of a sustainable product.

Natural resources are under stress due to the disposal issue caused by mass production and consumerism, as new clothing are thrown away once they no longer meet consumer expectations and are no longer seen as valuable. The discussion is supported by data, that show that up to 100 billion garments are produced by the fashion industry every year. And each year, as much as 92 million tons of clothing ends up in landfills. In Eu in one year, 12.6 million tonnes of textile waste are produced and a person alone produces 12 kg of waste annually, or 5.2 million tonnes of rubbish, just from clothing and shoes. Only 22% of post-consumer textile waste is currently collected separately for recycling or reusing; the majority is frequently landfilled or burned (European Commission, 2023).

Due to this, the European Commission created a framework to create new sustainable "eco-design and other measures" to increase consumer awareness of sustainable products by making it easier to access "re-use and repair services", which would then be in line with circularity by increasing transparency in the global production process. The action plan aims to transform the textile sector into a more environmentally friendly, competitive, and resilient industry by 2030. Key objectives include ensuring that all textile products in the EU market are durable, repairable, and recyclable, predominantly composed of recycled fibers, and free from hazardous substances. The vision also emphasizes moving away from "fast fashion," promoting longer consumer use of high-quality, affordable textiles. Additionally, the strategy envisions widespread availability of profitable re-use and repair services, along with a competitive, resilient, and innovative textiles sector where producers take responsibility for their products across the value chain. The goal is to have ample recycling capacities and minimize incineration and landfilling.

Closing, scholars have shown growing interest in the fashion industry, particularly in relation to fashion supply chains and their sustainability emphasis. Sustainability and CSR practices within the fashion industry have also garnered significant attention (Thorisdottir, 2019). There is a clear need to explore how sustainability can be integrated into the fashion industry's ecological, environmental, and social responsibility practices (Karaosman et al., 2015), for this reason numerous approaches bring attention to sustainability in the fashion sector, such as by highlighting more transparency in disclosing the production processes. Fashion designers struggle with transportation miles, traceability, and waste in the creative process while working under constant pressure. As a result, it can be difficult to determine if the lack of consideration for these components throughout the design phase is due to time constraints or a lack of interest. Given these factors, sustainability should be viewed as a chance to advance the field of sustainable fashion in the future.

CHAPTER 2

Economic effects of mandated disclosure and reporting standards for corporate social responsibility (CSR) and sustainability topics

2.1 Defining CSR Reporting: Purpose, Format, and Audience Perspectives

We define CSR reporting as the measurement, disclosure, and communication of information regarding CSR-related topics such as CSR activities, risks, and policies. This definition is founded on the purpose that CSR has the strong aim to drive change towards sustainability. The way in which CSR data is reported and disclosed is governed by CSR reporting requirements.

Depending on the company, a different reporting format may be used for CSR data. CSR reports, also known as sustainability reports, corporate accountability reports, or non-financial reports, can be provided separately or as part of an organization's annual report. Inside the CSR report is provided a lot of information, qualitative and quantitative, but not always monetized. Information about corporate activities, risks, and policies relating to CSR is contained in CSR reports (or the pertinent sections in the annual report). Sometimes businesses request the certification of their CSR reports or disclosures from an auditor, consultant, or alternative assurance provider.

The scope of CSR reporting (and standards) is a crucial aspect, both in terms of the breadth of the information disclosed and the breadth of the intended audience. For instance, businesses could limit CSR reporting to details they believe investors will find important or relevant. Investors may find information on CSR-related subjects helpful for estimating future cash flows or evaluating the risks associated with enterprises (Dhaliwal et al., 2012; Grewal et al., 2017). Additionally, CSR data is frequently strongly tied to a company's regular business operations or business risks (for example, data on employee safety for a mining company). As a result, corporations may be required by current securities rules to disclose CSR information.

In order to broaden the scope of CSR reporting and standards, instead of concentrating on investors, businesses (and standard-setters) should target a wider audience and

provide information that is useful to all stakeholders, not just investors. By providing CSR information, businesses demonstrate that they are acting in the interests of society as a whole or to justify their actions to customers, employees, non-governmental organizations (NGOs) (Deegan, 2002; Cho and Patten, 2007).

Guidance on sustainability disclosures for businesses is provided by a number of organizations, including the Carbon Disclosure Project (CDP), the Global Reporting Initiative (GRI)[6], the Sustainability Accounting Standards Board (SASB)[7], and the Task Force for Climate-Related Financial Disclosure.

Sustainability disclosures were historically voluntary, but things are rapidly changing, both in US and especially in EU where a new legislation, the CSRD, has shortly been introduced. This directive expands the scope of sustainability reporting, affecting approximately 50,000 companies across Europe, with the aim to standardise non-financial data reporting.

Regarding the US, in March 2022, the SEC[8] issued a proposed rule that would enhance and standardize climate disclosure requirements provided by public companies. With the proposed regulation, businesses were supposed to provide specific climate-related information in their annual reports and registration statements. These would include climate-related financial impact and expenditure metrics as well as a discussion of climate-related impacts on financial estimates and assumptions in the financial statements, moreover they will be subject to management's internal control over financial reporting and external audit. This rule is still not approved nowadays, but it can be stated for sure that US companies with subsidiaries in the EU need to comply with the CSRD, with reporting obligations beginning in 2026 based on fiscal year 2025. CSDR new directive will be examined in detail in paragraph 2.4.2.

[6] is an international non-profit organization created with the aim of defining the standards of sustainable performance reporting of companies and organizations of any size, belonging to any sector and country in the world.

[7] SASB: Sustainability Accounting Standards Board was created in 2012 to deliver industry-specific disclosure standards for ESG issues and standardize ESG reporting. The SASB has a set of 77 industry-specific standards. SASB's standards vary between industries, disclosure topics are drawn from a universe of five sustainability issues, namely, environmental, social capital, human capital, business model and innovation and leadership and governance

[8] The Securities and Exchange Commission (SEC) is a U.S. government oversight agency responsible for regulating the securities markets and protecting investors.

It is clear from the assumption just mentioned, that there is a strong necessity to harmonize the recommendations given by different organizations about sustainability disclosures in order to allow for comparability and consistency in sustainability disclosures among enterprises, for these reasons the trend is accelerating.

2.2 Potential economic consequences of a requirement for CSR and sustainability reporting for firms

2.2.1 Balancing Act: The Economic Implications of Corporate Disclosure and Reporting

Corporate disclosure is essential for reducing information gaps between investors and corporations as well as within the investor community in general. Companies can improve market efficiency, attract investments, and create transparency by giving stakeholders relevant data. In this context, the many advantages of corporate disclosure are examined, including increased market liquidity, decreased capital expenditures, improved risk sharing, better managerial judgment, and facilitated information flows between businesses. The importance of disclosure in balancing the playing field for investors and encouraging effective capital allocation is highlighted in the present discussion. Additionally, it emphasizes the wider beneficial effects of disclosure on the general health of the economy.

Following a research by Christensen, Hail and Leuz (2021), one of the primary advantages of corporate disclosure relies in overcoming information asymmetries among firms and investors. This disclosure has several functions in this situation. Firstly, it improves investor fairness by reducing the adverse selection problem, ultimately leading to increased liquidity in secondary securities markets and a reduction in necessary returns on firm stock investments. Second, disclosure helps investors predict future cash flows and covariances, which lowers the cost of capital as a whole (Lambert et al., 2008). Thirdly, it encourages investor interest to keep securities, which helps the economy share risks more effectively overall (Diamond and Verrecchia, 1991). Fourthly, disclosure improves managerial choice-making and results in more effective business

investments by allowing external monitoring by analysts and institutional investors. Lastly, the disclosure of information by one company might provide insightful information about other companies, resulting in information transfers and spillover effects, supporting the necessity for required disclosure and reporting.

The extensive body of research supports the finding that better disclosures, both in terms of quantity and quality, can result in tangible capital-market benefits like increased liquidity, lower capital costs, higher asset prices (or higher firm values), and possibly even better corporate decisions. These relationships and results are supported by empirical data, though the quality of this evidence differs depending on the economic construct or outcome. As was mentioned in Leuz and Wysocki's 2016 survey, understanding of the concrete effects resulting from corporate disclosures is still in the early stages. When assessing the influence of CSR reporting on the information available to investors, the same theories and a large portion of the past findings related to economic consequences remain relevant.

Parallel reasoning applies to the cost aspect. Direct and indirect costs associated with disclosures could exceed the advantages just indicated. The creation, verification, and distribution of accounting reports are all examples of how direct expenses emerge in many ways. These costs can be substantial, especially when accounting for the opportunity costs incurred by top management. Furthermore, these costs often contain fixed components and smaller enterprises may be overly taxed by disclosure requirements. Indirect costs also factor in for firms due to the possibility of third parties (e.g., competitors, labor unions, regulators, tax authorities, etc.) leveraging information provided to capital market participants. These private costs are more important for specific or broad disclosures than for general or aggregated disclosures, especially for smaller enterprises.

These opposing trends make it difficult for companies to disclose business information and is the reason why firms often are reluctant to voluntarily furnish certain information. Similarly, managers who have access private information may be incentivized to falsify financial reports and corporate disclosures. A complicating factor in disclosure decisions

is litigation risk[9], which depends on both the form of disclosures and the trading behavior of insiders. The dominant literature frequently suggests that increasing disclosure lowers the likelihood and expense of litigation, particularly when corporations voluntarily provide adverse news, despite the possibility that forward-looking disclosures could increase litigation risk.

Lastly, it's essential to acknowledge that disclosures, especially when obligatory, can generate costs by inducing negative real effects, both from the perspective of the firm and society at large. Such negative impacts might result from efforts to manipulate disclosures through real actions, particularly when the disclosure provides an insufficient assessment of the standard of the underlying actions. These effects on disclosure that have been discussed, together with the costs and advantages they bring to businesses and managers, are not exclusive to financial disclosures; they also apply generally to corporate disclosure and reporting, which includes CSR information. Along with the distinct characteristics of CSR reporting, the present literature suggests that there is significant variation in the net benefits of CSR reporting among enterprises, industries, and marketplaces, in addition to the distinctive features of CSR reporting. This variability in economic effects, consequently, should lead to noticeable diversity in observed CSR reporting practices.

2.2.2 Assessing the Rationale for Mandatory CSR Reporting: Externalities, Cost Reductions, and Economic Efficiency

The previously analysed factors that limit voluntary disclosures and the divergence in voluntary reporting practices are a result of the topic of mandatory reporting regulations and standards. The benefits of consistent reporting for informational and comparative purposes are frequently emphasized by supporters of standardized reporting rules. However, the simple fact that these benefits exist does not automatically support a mandate; in situations where enterprises' benefits from disclosure exceed the costs involved, regulatory action or mandates may not be necessary. Externalities, economy-

[9] Refers to the possibility that legal action will be taken because of an individual's or corporation's actions, inaction, products, services, or other events.

wide cost reductions from regulation, or economic inefficiencies that transparency could address are necessary components of an economic justification for regulation (Leuz and Wysocki, 2008).

To begin, disclosure externalities can occur when the societal value of disclosed information differs from its private value, potentially leading to either an excess or a shortage in the production of information. It is possible that disclosures made by one company could provide information about other companies, resulting in advantageous externalities. The same is true for improving the comparability of a firm's reporting methods with those of others, which could also result in beneficial externalities. However, individual businesses may not fully take into account the overall positive externalities of reporting choices, which could lead in a lack of more comparable financial reports across the sector. This general concern serves as justification for developing standards and imposing their use.

Secondly, regulation could generate market-wide cost reductions by reducing duplications in information production and acquisition. For example, the requirement to publish annual reports saves firms the negotiation costs associated with disclosures to individual information users. The majority of firms would happily provide them freely because they are highly probable to result in such savings when they are uniformly applicable to all firms. Standards may also reduce information processing costs for users. An associated argument discusses that it may be costly or even impossible in some circumstances to privately make a commitment to transparency that is credible to market participants. In this situation, mandates can serve as instruments of commitment that oblige businesses to share information, whether it contains favorable or negative news. A mandate could be advantageous if it offers access to penalties that are unavailable through private contracting or if it ensures commitment at a lower cost.

Thirdly, disclosure regulations might reduce external and inefficient business activity. Agency problems and insider benefits frequently result in poor investment behavior. These opportunities are lost to the economy if private contracts are unable to address this inefficiency and rivals fail to take advantage of the resulting investment opportunities. In these circumstances, disclosure rules could make it easier for new

entrants to get finance, giving them the opportunity to boost competition, exploit opportunities left by incumbents, and reduce social losses. Similar logic is true in situations when business practices lead to negative externalities like pollution. Requiring disclosures of firms' pollution levels could put pressure on firms to reduce their pollution, effectively establishing a price mechanism that internalizes the negative externalities.

In summary, the consensus in literature indicates that in situations where net private benefits are present, firms can be trusted to voluntarily disclose information. This insight is transferable to CSR disclosures and reporting. Therefore, arguments for mandatory CSR reporting should demonstrate how a mandate results in positive externalities, triggers economy-wide cost savings, or reduces current inefficiencies. Given the variances in CSR activities and measurement challenges discussed earlier, it is less convincing to support mandates based on the feasibility of CSR disclosure spillovers or cost benefits to businesses from consistency. For users of CSR information, cost reductions and gains from standardization are likely to be more persuasive in theory than the possibility to mitigate negative externalities resulting from business operations, such as pollution.

However, it is crucial to recognize that the design, implementation, and maintenance of mandatory disclosure regulations can be costly, especially concerning enforcement. Furthermore, there is no guarantee that regulatory solutions will always provide better results or be more affordable than market-based ones. The organizations that regulators and standard-setters control can have an impact on them. Regulatory procedures struggle with a number of problems, such as regulator or standard-setter governance, and are far from perfect (Peltzman et al., 1989). Furthermore, corporations are probably more knowledgeable than regulators about the cost-benefit trade-offs connected to corporate disclosure, suggesting that regulators face considerable informational problems.

Empirically, evidence regarding the impacts of disclosure regulation and standards in financial reporting, not exclusive to CSR, is quite mixed. Due to the challenges in separating the effects of regulation from other institutional and economic

developments, causal evidence about the effects of regulatory reform is scarce (Leuz and Wysocki, 2016). Furthermore, there is frequently a lack of empirical support for the factors that support economic justifications for regulation and frequently not enough data to calculate the cost-benefit trade-offs for particular regulatory actions. Moreover, the introduction of new regulation interacts with other aspects of the existing institutional framework, influencing its effectiveness and making results depending on context. These warnings and difficulties should be kept in mind as they apply equally to the prospective implementation of a mandate for CSR reporting.

2.3 Implementation Issues: Challenges in establishing and maintaining reporting standards

2.3.1 Complexity of CSR Reporting Standardization: Costs, Benefits, and the Challenges of Achieving Harmonization

This section explores important factors that should be taken into account when creating a CSR reporting mandate. The discussion will start by exploring the potential costs and benefits from the standardization of CSR reporting, along with an in-depth examination of the process involved in establishing and maintaining CSR reporting standards.

The standardization of CSR reporting is defined as the process of formulating and implementing a set of technical standards or regulations that provide guidance to companies regarding their disclosure of CSR-related issues that are important to their operations. These CSR guidelines require agreement on a number of issues, including their goals, their scope, their content, and the techniques for evaluating CSR disclosures. Adherence to these standards can be mandatory, quasi-mandatory (such as inclusion in stock exchange listing requirements or industry guidelines), or voluntary. Regardless of the approach, CSR guidelines seek to harmonize corporate reporting methods for CSR issues that are similar in origin and content. The benefits of CSR standards include increased comparability among companies over time and across industries, broader and more consistent disclosures, lower costs for companies in producing disclosures and for

investors in their analysis, and the demonstration of a more credible commitment to a specific level of CSR reporting.

However, the standardization of CSR reporting faces several significant challenges. For instance, reaching agreement on the CSR standards' scope is significantly more difficult than it is for financial reporting requirements. This complexity results from the wide range of CSR-related topics, the different reasons why businesses choose to participate in CSR activities, and the multifaceted nature of CSR itself. The use of CSR disclosures varies widely not only within the same group of stakeholders (for example, socially responsible investors versus less socially responsible ones), but also across different stakeholder groups (examples include financial investors versus activist groups, NGOs, or politicians with specific social or political agendas) and over time (for example, in the wake of significant natural disasters). Given this variability, CSR standards' scope will probably need to be broad in order to accommodate for the present and future interests of a variety of users and stakeholders. As an alternative, these standards would need to be updated and expanded frequently. Even a more specialized or industry-specific approach, such as one that responds to the needs of a particular stakeholder group, such as investors, can only partially address scope-related issues because it is difficult to foresee in advance which CSR dimensions will be important to users. In addition, a lot of CSR topics require measuring actions, dangers, or results that are difficult to quantify into monetary terms (Christensen et al., 2018).

Flexibility in CSR standards is one way of dealing with the previously mentioned variability by enabling businesses to customize them to their unique situations. It's not always negative to allow for discretion and demand judgment when applying CSR rules. Like financial accounting, discretion enables management to communicate private information and modify their reporting procedures to better reflect the relevant CSR challenges for their business. However, the opportunity for discretion and judgment emphasizes management's reporting motivations more (Burgstahler et al. 2006) and leaves room for misreporting (Cho at al., 2015), selective disclosure, "greenwashing" (Marquis et al., 2016) and other possible problems. There are concerns about how well CSR regulations can uniformize CSR reporting methods, especially in light of prior research demonstrating the significant influence of incentives in influencing observed

financial reporting trends. It is obvious that standards by themselves cannot provide standardized or comparable reporting. The underlying reporting incentives must be similar, in order to achieve convergence in practices, a need that rarely occurs in financial reporting and even less frequently in CSR reporting (Leuz, 2010).

One advantage that makes standardization compared to a purely voluntary CSR disclosure system preferable is that standards explicitly define the scope of CSR disclosures. They offer a "benchmark" for market expectations and performance comparisons by defining what kinds of disclosures customers could expect from a corporation. This benchmark serves as a commitment mechanism, as non-compliance is likely to be noticeable and could incur costs for businesses if they deviate without a valid justification.

The cost implications of CSR standardization are likely twofold. On the one hand, businesses must pay more money to implement new reporting requirements. The infrastructure, procedures, and systems for reporting will be considerably impacted by CSR disclosure rules, assuming businesses do not already voluntarily provide the necessary information. One-time or transitional costs may be high given the non-financial nature of CSR activity. As a result of the sensitive nature of CSR data, ongoing reporting costs may also include potential proprietary costs as well as any potential increases in reputational and litigation risks (although it's important to note that increased transparency can also lower these risks). They also include the costs associated with operating the reporting system and preparing CSR information. Having standards and guidelines to follow, as well as enhanced CSR data comparability, could result in cost savings for businesses.

However, it is expected that the standardization of CSR disclosures will result in cost savings for investors and other stakeholders. Standardized reporting should make it simpler and less expensive to receive, process, interpret, and compare CSR information while maintaining other factors constant. This in turn makes it easier to compare businesses and industries, and it improves stakeholders' and external parties' understanding of a company's CSR initiatives. These advantages should be present even if CSR requirements do not in fact increase the volume or quality of corporations' CSR

reports. This is due to the fact that, when processing costs are taken into account, information is more helpful to users with more standardized reporting procedures. Therefore, it would seem that standardization's cost savings would primarily benefit investors, other stakeholders, and society as a whole.

So, the variety in present CSR disclosure techniques among businesses indicates that there may be substantial advantages to comparison through standardized CSR reporting. However, it is difficult to achieve these harmonization benefits through the adoption of CSR standards alone due to the inherent discretion in CSR rules and variances in enterprises' CSR reporting incentives. In this context, materiality and enforceability both play significant roles, which is why we discuss both following.

2.3.2 Divergent Paths: Contrasting the Standard-Setting Processes of CSR and Financial Reporting

When talking about the process for creating CSR standards, it is necessary to first mention financial reporting standards which are established by the Financial Accounting Standards Board (FASB)[10], which follows a process that aims to take into account the opinions of all relevant stakeholders. Before new standards are released, this procedure entails asking for requests and proposals for them as well as holding public discussion periods. A similar strategy is adopted by the SEC when establishing new rules related to disclosure. Regardless of whether obligatory CSR standards are implemented by an entity such as the FASB or directly by the SEC, it is likely that a similar due process will be followed. However, specific attributes within the CSR framework could potentially result in contrast in the standard-setting process when compared to the process guiding financial reporting standards.

The notion that a wider range of stakeholders might benefit from CSR disclosures is broader compared to those associated with financial reporting is extremely important. The reality is that once information is made public, it becomes accessible to everyone,

[10] FASB was formed in 1973 and sets accounting rules for public and private companies and nonprofits in the United States. In recent years, the FASB has been working with the International Accounting Standards Board (IASB) to establish compatible standards worldwide.

regardless of the ability of standard-setting groups to focus standards' scope and identify the audience for CSR data. As a result, a much wider range of stakeholders may be involved in the standard-setting process, and their goals may be very different from those of investors. Activist groups, for instance, can try to use CSR guidelines to affect a company's CSR initiatives or policies. Despite the possibility that investors have similar goals, their financial relationships to the company may cause them to fight attempts to increase the firm's value. Because of this, discussions regarding the importance and societal value of a company's CSR initiatives are likely to influence the CSR standard-setting process. This is an important contrast to how financial reporting standards are developed, when the focus is not often placed on the value of the underlying transactions.

Therefore, rather than being motivated by the financial trade-offs related to disclosing CSR information, the process of creating CSR standards is more likely to be driven by value or moral judgments of the underlying CSR activities. This approach fits in effectively with the objective of using CSR reporting standards to induce behavioural change in businesses. In these situations, the CSR standard-setting process requires a broader democratic validation, much like other regulatory interventions like taxes or limits on emissions that try to influence business behaviour. These more extensive (and normative) factors related to the underlying CSR activities, however, could potentially result in CSR standards that hold limited relevance for investor-oriented financial decision-making if the goal is primarily to inform investors about pertinent CSR information.

2.3.3 Analysing Materiality in CSR Reporting: Single vs. Double Materiality Perspectives and Implications for Stakeholder Engagement

Another key point to analyse is related to the fact that the scope of reporting standards depends on the concept of materiality. It includes the idea that information is considered "material" if the omission of a particular fact is expected to significantly alter the totality of available information, as perceived by a rational investor. According to the FASB, accounting information is considered substantial if it is omitted or stated

incorrectly in light of the surrounding circumstances and have the potential to affect the decision-making of a reasonable person who relies on it. The central question revolves around identifying the receiver of the information and the purposes for which they employ it. The FASB specifies the intended audience in this context as present and potential investors and creditors, as well as those who make decisions on credit, investments, and similar issues who have a solid understanding of business and economic activity. The purpose of accounting disclosures and financial reporting is to communicate with sophisticated stakeholders who have a financial stake in the company and to provide them with detailed, decision-oriented information.

The vast number of pertinent decision-makers presents the main obstacle to applying the materiality idea from financial reporting to CSR disclosures. Beyond the world of investors, a wide range of stakeholders are interested in CSR topics. Given this viewpoint, the identification and assessment of materiality for CSR disclosures become more challenging, especially when CSR requirements cover a wide range of business activities, including the effects of such activities on the environment and society.

One solution to this problem is to restrict the application of CSR guidelines so that they only address the information needs of investors. This strategy, which is frequently referred to as "single materiality," would include focusing reporting solely on CSR issues that hold material relevance for investors. This more limited view of materiality is consistent with the goal of giving investors the knowledge they require to make informed decisions, assuming that their main area of interest is the financial effects of corporate operations. Following this idea and goal, it is conceptually appropriate to limit the scope of CSR disclosures to topics that could have an impact on investors' decision-making and the long-term value generation of businesses. Notably, this more limited approach excludes CSR disclosures related to externalities produced by businesses in society. One could argue that this approach is essentially implicit in the SEC's (and FASB's) definition of financial materiality. Therefore, if companies generally comply with current SEC regulations, imposing CSR standards based on this limited approach may not result in substantial new information for investors (Grewal et al, 2021). Nevertheless, these standards could still offer advantages in terms of standardization or simplicity of enforcement. However, it's possible that problems with non-compliance might persist

concerning material CSR-related information. Furthermore, there might be increased confusion in defining what constitutes financially significant information for investors in the context of CSR, with fewer guidelines provided by accounting standards or the SEC.

On the opposite end of the spectrum is a materiality perspective, which includes data that is pertinent to a variety of stakeholders. The reporting entity evaluates whether and how its operations have an impact on the sustainability of the systems in which it operates, taking into account elements like the environment and society. This evaluation occurs whether or not these impacts lead to financially material consequences for the firm. This approach also entails reporting on externalities. The core criterion for materiality revolves around whether CSR information is relevant to one or more stakeholders because of the effects generated by the firm, including those that have a meaningful financial impact on the company and investors. This broader approach is often referred to as "double materiality." As a result, a wide range of Environmental, Social, and Governance (ESG) reporting themes may be relevant and include a variety of ESG concerns. This approach to materiality seems motivated by the desire of inducing change through CSR reporting. The basic idea is that CSR disclosures impose businesses to internalize the consequences of their effects on society and the environment, which ultimately causes them to change how they conduct business.

The selection between a narrow or expansive approach to CSR reporting hinges on numerous factors, including normative perspectives concerning the intended scope and target audience because the trade-offs entailed are complex (Christensen et al, 2021).

It is clear that the extensive approach associated with double materiality is likely to attract pressure from a variety of unexpected parties, necessitating the use of political and moral judgments by standard-setting entities regarding underlying CSR activities; consequently, this circumstance renders the more limiting, single materiality approach potentially appealing to standard-setting bodies and securities regulators, given its alignment with their area of expertise. One may also argue that this more constrained viewpoint makes it easier to determine the kinds of CSR data that require reporting by businesses, which lowers compliance expenses. However, the limits of singular materiality, even when focusing on what investors want, can be unclear. This ambiguity

is primarily caused by the possibility that stakeholders other than investors are also concerned with how a company will affect society and the environment. These effects can lead stakeholders to take actions against the firm. If such projected stakeholder reactions have an impact on the firm's finances, then the topic becomes materially relevant to investors, thereby rendering CSR disclosures capable of change the financial repercussions of these actions relevant to investors, even if the CSR subject by itself appears immaterial. Moreover, it is fundamentally incorrect to assume that investors only give consideration to financial gains. An increasing percentage of investors seem to base their investment choices not just on expected future profits but also factor in non-monetary aspects and societal norms. The range of relevant information is much wider for these investors (Hong and Kotovetsky, 2012). For instance, an investor who disagrees with the use of child labor would like to know the company's position on the issue as well as specifics about how child labor is used across the supply chain. Therefore, it is necessary to include information relevant to shareholders' CSR preferences in order to maximize shareholder welfare rather than shareholder value (Hart and Zingales, 2017). To put it another way, meeting the needs of investors goes beyond financial materiality. One approach to integrating investors' non-monetary preferences while still restricting the scope of CSR reporting is to require agreement among capital providers concerning the relevance of a CSR subject for it to be taken into account by standard-setting agencies.

On a more practical level, the application of the single materiality approach to CSR reports generates a number of supplementary issues. The relationship between CSR activities and corporate value or financial success is uncertain and CSR information is rarely reported in monetary terms. Moreover, CSR is often characterized by its long-term and intangible nature. Consequently, standard-setting entities (ex-ante) and managers (ex post) confront significant discretion when determining the importance of CSR subjects (Amel-Zadeh and Serafeim, 2018). Furthermore, there is no historical precedent for the definition of materiality requirements for CSR reports. New CSR reporting requirements need time to develop, and organizations, businesses, and accountants necessitate time to learn and adapt. However, establishing a shared materiality criteria and applying it to a large group of companies for the first time might

significantly increase the volume and comparability of CSR disclosures versus the current situation. Furthermore, despite similarities in capital structures and operational procedures among industries, the materiality of a given information in the world of financial reporting sometimes depends on firm-specific factors. With CSR reporting, corporate practices shape the common CSR topics for all companies in a specific industry. While certain CSR topics are more industry-specific (e.g., greenhouse gas emissions for energy companies, hazardous waste for chemical companies), the rest tend to be more generic (e.g., worker safety, labor relations). As a result, an industry-related element is crucial to CSR materiality. Finally, financial reporting requirements frequently react to corporate scandals or financial crises because these occurrences change how material information is seen. In the context of CSR reporting, such changes might be more obvious. CSR subjects typically pertain to matters of broad societal interest. These problems can develop quickly, cover a wide range of subjects (many of which are frequently contested due to ethical, moral, or political considerations), and are occasionally triggered by outside events (such as natural catastrophes, environmental incidents, or protest movements). This dynamic nature is likely to be more evident in double materiality, yet it could also emerge under single materiality, particularly if the financial materiality of an issue depends on stakeholder reactions (Christensen et al., 2021).

In conclusion, the aforementioned issues highlight the complexity of the several materiality notions guiding CSR reporting. The borders between these notions may be more complex than first thought and provide a few difficulties in actual implementation.

2.4 ESG Evolution: Integrating Cultural Values and Regulatory Shifts in Global Sustainability Reporting

2.4.1 Analysis of Influencing Factors, Trends, and Global Impacts of ESG disclosure for companies

The term 'ESG,' coined in 2004 in 'Who Cares Wins,' aimed to incorporate ESG aspects into the capital market. Since then, ESG has been viewed as an extension of traditional CSR and socially responsible investment (SRI). A greater number of businesses are disclosing their ESG data publicly as a result of increased public awareness of corporate environmental activities (Raimo et al., 2021). Concerns around ESG have expanded to cover issues like climate change and poor working conditions (Singhania and Saini, 2023). An example in the US by the Governance and Accountability Institute which has corporate interest in ESG, demonstrate in latest studies that companies within the largest half by market cap of the Russell 1000[11] (i.e., the S&P 500[12]) are nearing 100% reporters with 98% publishing a report in 2022, an increase from 96% in 2021 (G&A institute, 2023). G&A's 2023 Sustainability Reporting analyses ESG-related report content to provide detailed breakdowns of reporting frameworks and standards used – Global Reporting Initiative (GRI), Sustainable Accounting Standards Board (SASB), Task Force on Climate-Related Financial Disclosures (TCFD) - as well as alignment with initiatives such as the UN Sustainable Development Goals (SDGs), trends in external assurance and CDP reporting, and breakdowns of non-reporters by sector. These statistics underscore the growth in sustainability reporting and the role of ESG disclosure as a channel for sharing sustainability activities (Ioannou and Serafeim, 2012).

Investors and business management are not the only ones who have noted the increase in standalone sustainability reports or CSR sections in annual reports. Helfaya and Whittington (2019) emphasize the desirability of ESG disclosure from both private and public perspectives. The integration of the ESG strategy with cultural values is theoretically linked, as demonstrated by Toumi et al. (2022) who highlight the impact of the cultural system on managerial decision-making processes within a country. This idea is reinforced by Baldini et al. (2018) indicating that culture influences both voluntary and mandatory disclosure of sustainability information. Ioannou and Serafeim note that in

[11] The Russell 1000 is a list of the 1,000 largest public companies in the United States. It is a subset of the Russell 3000, which lists the 3,000 largest. The Russell 1000, while containing only one third of the shares in the Russell 3000, still accounts for about 92% of the US stock market value.

[12] Standard & Poor 500 is the largest US stock index. It was developed by Standard & Poor's in 1957 and follows the trend of a stock basket made up of the 500 most capitalized US companies.

countries with low social cohesion and unequal opportunities, managers may feel more pressure to enhance corporate disclosure through ESG reporting. Reporting on ESG practices within capital markets is seen as an effective risk management tool.

Growing concerns about CSR and sustainable development practices highlight the central role of meeting stakeholders' expectations. Integrating a sustainable business strategy into the organizational culture is seen as crucial for fulfilling diverse stakeholder expectations. The integration of Environmental, Social, and Governance (ESG) considerations into strategic business operations is vital for evaluating a firm's performance (Tanimoto, 2019). Socially responsible investing, focusing on sustainable financial returns and nonfinancial returns to protect stakeholder interests, is gaining importance.

Stakeholders are increasingly pressuring companies to minimize negative impacts on society and provide detailed information through ESG disclosure. Transparency in ESG reporting holds companies responsible for their actions, supported by frameworks like the Sustainability Accounting Standards Board (SASB) standards. Industry-specific materiality is emphasized in ESG disclosure, recognising that the value of ESG can vary across industries (Schiehll and Kolahgar, 2021).

ESG disclosure plays a crucial role in a firm's reputation, brand image, and investment decision-making (Balmer, 2001). Investors evaluate ESG information to assess a firm's opportunities and risks, which affects investment decisions. The interaction between firm-level and country-level attributes is significant in ESG disclosure performance. Governance effectiveness, influenced by voluntary codes and social norms, is essential for reliable ESG reporting. Various sustainability reporting frameworks, such as GRI and IIRC[13], aim to provide guidelines for comparable reporting between firms. Effective corporate governance is a prerequisite for building trust and fostering innovation in the capital market. The overarching goal of ESG disclosure is to contribute to sustainable development, meet societal needs and protecting the ecosystem. Mitigating climate change and focusing on social and governance factors have become permanent features of the global sustainability agenda (Hopwood et al., 2005). The 'Triple Bottom Line'

[13] International Integrated Reporting Council

model, by emphasizing profit, people, and the planet, underscores the importance of sustainability strategy, in the terms in fact a financially secure sustainability strategy is essential for creating long-term value, reducing environmental impact through innovation, and gaining a competitive advantage. So, ESG disclosure is considered necessary for sustainable growth and provides market indicators for investment decisions.

At the beginning of the chapter, it was stated that there is an impact of cultural system on managerial decision-making processes within a country; to explain better this, we will consider a study by Helfaya, Morris and Aboud (2023) that investigates the determinants affecting higher levels of ESG disclosure, exploring the impact of board CSR orientation, CSR strategy, the Global Reporting Initiative (GRI), and country–culture dimensions on ESG disclosure practices in European firms. More specifically 21 countries and 784 companies are taken into account.

Previous studies suggest that these attributes positively influence firm CSR activities and environmental performance. Due to their long-term perspective, board CSR plan scores and comprehensive CSR strategies have been associated with improved environmental performance (Shaukat and Trojanowski, 2016).

The results indicate that firms with effective CSR orientation, long-term strategies, and a high level of board CSR orientation and strategy demonstrate a positive effect on the quality of ESG disclosure. Additionally, adherence to GRI guidelines significantly affects the level of ESG disclosure within the sample. The research explores ESG disclosure under specific pillars and finds complicate relationships to internal characteristics associated with CSR-oriented directors. Culturally, firms headquartered within dimensions exhibiting a feminine, long-term collaborative concern for social and environmental issues gets higher ESG disclosure scores. The findings establish links between firm-level and country-level factors influencing European ESG disclosure practices, aligning with legitimacy, stakeholder, signaling, agency, and institutional theories.

2.4.2 The Evolution of ESG Reporting in the European Union: from NFRD to CSRD

The increasing interest in sustainable investments and the need to improve the comparability of company-reported information for greater accountability are linked to the steady increase in the disclosure of sustainability information (Christensen et al., 2021). As a result, there has been a gradual integration of sustainability reporting with the custom of financial reporting.

Although financial reporting must comply with regulatory requirements, corporations have always been free to choose whether or not to disclose sustainability-related information. But during the past ten years, several nations, particularly those in the EU, have moved toward requiring sustainability reporting, which means businesses are now legally required to disclose their effects on the environment and society. In addition to advancing more general climate and sustainability goals, this action attempts to enhance the quality, accuracy, transparency, and comparability of information.

Previously, European businesses, especially for substantial differences in mentalities among EU member states, were free to select from a range of voluntary national and international reporting framework. The need for more open corporate disclosure led to the development of these frameworks. Among these are the IFRS Foundation and the Global Reporting Initiative, two global organizations that aim to improve and standardize reporting procedures by providing voluntary reporting standards and guidance for ESG activities. To maintain uniformity, EU regulatory initiatives for sustainability reporting have matched these global norms.

The Non-Financial Reporting Directive (NFRD) of 2014, which went from being an optional to a mandatory norm for both financial and non-financial companies, marks a shift from voluntary to mandatory reporting of non-financial information in EU sustainability reporting within the context described above (European commission, 2021). Prior to the NFRD, non-financial information disclosure was primarily voluntary worldwide, giving businesses the freedom to choose how much information about their social and environmental effects to disclose (Kinderman, 2018). The directive's goal was to standardize sustainability reporting procedures throughout EU member states. As a result, starting with the 2017 fiscal year, big EU-based public interest enterprises with

more than 500 employees were required to provide non-financial (sustainable) information, including social themes, staffing, human and labor rights, diversity policies, and business practices (Doni et al., 2020).

After the NFRD, further EU sustainability disclosure laws were established, including the Taxonomy Regulation in 2020 and the Sustainable Finance Disclosure Regulation (SFDR) in 2019. Financial market players and advisors are required by SFDR to disclose sustainability risks and investment implications. This requirement applies to both identity and product levels. In order to boost investor confidence and encourage businesses to adopt more sustainable business models, the Taxonomy Regulation creates a framework for classifying economically sustainable activities (Iozzelli and Velasco, 2023).

Despite the NFRD's intention to improve corporate responsibility and transparency, difficulties arose throughout implementation. The private sector's high adjustment costs made regulatory harmonization difficult. The diversity in ESG indicators and metrics used by companies posed challenges for comparability. Even with the introduction of the idea of double materiality, the NFRD was unable to meet acceptable standards for information reliability, relevance, and comparability. Furthermore, it did not establish the adoption of specific reporting standards, allowing companies to adopt any they saw fit. The necessity to fortify current laws gave rise to the proposal for a new Corporate Sustainability Reporting Directive, which would update the NFRD.

The CSRD (Corporate Social Responsibility Directive), recent addition to EU legislation, has taken effect in January 2023 and is in line with the EU's objectives for social responsibility, the environment, and climate change. Its goal is to improve openness by imposing more stringent reporting requirements on large businesses meaning companies with more than 250 employees and more than €50 Million in turnover and/or more than €25 Million in total assets and all listed companies to report on their sustainability. When the regulations will be fully implemented, about 50,000 EU companies—or 75% of all EU companies—will have to adhere to comprehensive EU sustainability reporting guidelines. Risks related to sustainability, climate change, biodiversity, human rights, diversity, anti-corruption, and tax transparency are only a

few of the many topics covered by mandatory disclosures. The main objectives of the directive are to provide relevant, trustworthy, and comparable information to stakeholders and investors so they may make educated decisions, allocate capital effectively, and hold businesses accountable. It aims to lower reporting costs, stop greenwashing, and improve societal ties with corporations.

Most importantly, the CSRD takes a broad multistakeholder approach, focusing on a variety of information users, including customers, policymakers, NGOs, and the general public. The double materiality perspective, which requires companies to report on their effects on the environment, society, and even on their own externalities, in addition to how ESG issues affect them, emphasizes this inclusivity (Christensen et al. 2021).

One noteworthy addition to the CSRD is the mandate that businesses follow the European Sustainability Reporting Standards (ESRSs), which adhere to specific reporting standards. In contrast to previous legislation that focused on comparability and dependability, the CSRD sets formal guidelines that specify the structure and substance of sustainability disclosures. The independent organization EFRAG created the ESRSs, which are based on current international frameworks. The initial set of standards covers general ESG considerations, organized into four main blocks.

Figure 3 illustrates the initial set of ESRSs, which include cross-cutting criteria that are pertinent to all sustainability challenges. These standards, which cover topics including corporate strategy, governance, and materiality assessments, are divided into general requirements (ESRS 1) and general disclosures (ESRS 2). The remaining three blocks provide metrics pertaining to different ESG factors and are composed of "topical standards" that are especially linked to environmental, social, and governance issues. This summary does not delve into the specifics of each standard but emphasizes the general requirements for companies and reflects on the standards' mandatory or voluntary nature.

Essentially, when a company reports using ESRSs, it must follow the general guidelines outlined in ESRS 1. It should not be seen as prescribing particular disclosure requirements; rather, it provides a framework for the preparation of disclosed information. In order to facilitate understanding of the consequences on these topics

and their influence on the development, performance, and position of the company, EFRAG mandates that companies publish all material information pertaining to environmental, social, and governance matters in accordance with ESRS. Interestingly, although the framework requires disclosure, firms have the authority to determine what constitutes materiality (Iozzelli and Velasco, 2023).

In conclusion, the examination of the CSRD has exposed a complex and often unclear legal structure pertaining to the requirements and options for sustainability standards. The European Securities and Markets Authority (ESMA), investors, and businesses will find it difficult to appropriately interpret and apply the disclosure obligations due to the arrangement's careful balancing of mandatory and voluntary aspects.

So, even if now some standards exist, there is still a lack of comprehensive information regarding how businesses will incorporate sustainability concerns into their business plans and how they will affect society and the environment more broadly. The CSRD's mixed nature essentially raises basic concerns regarding the efficacy, uniformity, and clarity of sustainability disclosures.

Instrument	Year	Scope
Non-Financial Reporting Directive	2014	Certain large EU companies and other listed companies with 500+ employers
Taxonomy Regulation	2020	Financial market participants; all companies subject to the CSRD
Sustainable Finance Disclosure Regulation	2019	Financial market participants offering sustainable investment products and financial advisers
Corporate Sustainability Reporting Directive	2022	All large EU companies and all listed companies (except listed micro-enterprises)

Fig. 2 Overview of sustainability reporting regulations in EU

Source: Mandatory or Voluntary? The hybrid nature of sustainability disclosure in the EU's Corporate Sustainability Reporting Directive (CSRD), 2023

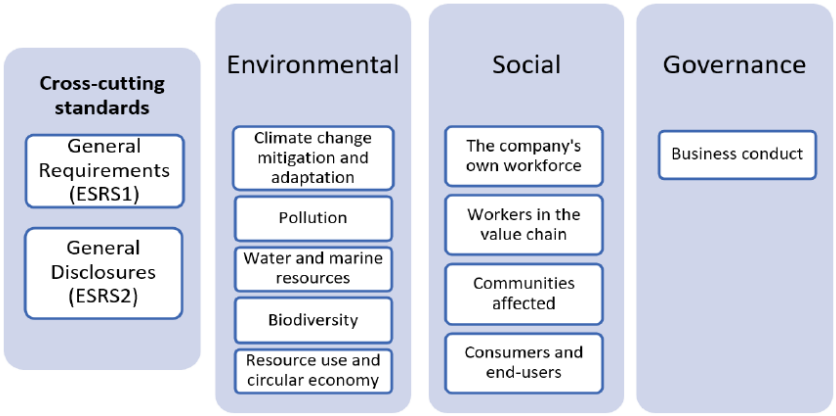


Fig 3. The EFRAG's first set of European Sustainability Reporting Standards

Source: Mandatory or Voluntary? The hybrid nature of sustainability disclosure in the EU's Corporate Sustainability Reporting Directive (CSRD), 2023

2.5 Exploring the CSR Communication Dilemma: Balancing Transparency, Motivations, and Stakeholder Trust

2.5.1 Paradox of miscommunicating CSR activities

Communication of corporate social responsibility activities is deemed crucial for an organization's success and legitimacy (Lock and Schulz-Knappe, 2019). CSR communication involves corporate messaging on an organization's CSR efforts and related processes, responding to the increasing demand from stakeholders. However, an excessive response to this demand poses the risk of generating mistrust or scepticism toward a company's CSR activities.

Although CSR communication can help create favourable opinions about a company, its success is dependent on a number of variables, for instance, businesses in sectors like fashion specifically struggle with legitimacy gaps and communication issues when stakeholders contest the companies' operating licenses due to previous misbehaviour or scandals (Shim and Yang, 2015). Other industries are considered controversial due to their product or services, it is the case of tobacco or alcohol since their product are viewed by society as dangerous to health (Fooks et al., 2011; Du and Vieira, 2012). In these cases, CSR initiatives may have limited positive effects. The reasons behind CSR initiatives, whether they are seen as intrinsic (like a sincere feeling of moral obligation) or extrinsic (like boosting sales), also affect their effectiveness (Du et al., 2010).

Industries that engage in unethical or corrupt business operations, or that have a reputation for promoting socially or environmentally irresponsible corporate practices, are also perceived as controversial. Due to unsustainable methods throughout its complex supply chains, the fast fashion industry resembles a contentious sector. From an environmental point of view, the global transportation of goods is similar to a problem in terms of CO2 emissions, and the production processes involve the use of chemicals that could endanger the safety of local water (Seuring and Müller, 2008; Caniato et al., 2012).

From a social perspective, it is associated with unethical working conditions and human rights abuses. Following the collapse of a Bangladeshi garment factory building in 2013,

public pressure increased. Fashion companies are therefore particularly obliged to participate in CSR communication since they are vulnerable to sustainability demands and attacks from NGOs and the general public (Pedersen and Andersen, 2015). Therefore, it is difficult to regain and retain legitimacy in this industry, especially given the high level of skepticism around these businesses' CSR communications (Du and Vieira, 2012). However, since the business is prevalent in daily life, it provides an appropriate background for investigating the legitimacy–credibility relationship.

Research indicates that CSR communication driven by profit has a lower positive impact than CSR driven by social reasons. Even with somewhat extrinsic motivations, honest and trustworthy CSR communication can still have a beneficial impact on public opinion.

The extent of CSR communication also plays a crucial role, as a matter of fact, communication is necessary to inform stakeholders, but excessive communication can lead to negative consequences. According to Eisenegger and Schranz (2011), stakeholder mistrust increases as CSR communication intensifies. This phenomenon is known as the CSR dilemma, which is defined by Bachmann and Ingenhoff (2016) as firms experiencing adverse outcomes while satisfying growing communication needs. Following research by Viererbl and Koch (2022) in CSR communication, persuasive knowledge, that is an awareness of persuasive strategies, becomes active, generating perceived persuasive purpose and maybe provoking reactance (Becker-Olsen et al., 2006). It is hypothesized that a high volume of CSR communication increases perceived persuasive intent compared to a smaller volume (H1a, see fig.4).

People may react negatively to persuasive communication because they have learnt coping mechanisms that make them believe that their freedom of choice is being restricted. This reactance, in turn, negatively affects the perception of a company's social responsibility (H1c, see fig.4). Therefore, a greater extent of CSR communication may result in an opposing effect, with perceptions of persuasive intent triggering reactance, negatively impacting the perception of an organization's CSR activities. This leads to the proposal of the mediation hypothesis: a high extent of CSR communication decreases the perceived social responsibility of a company, mediated by perceived persuasive intent and reactance.

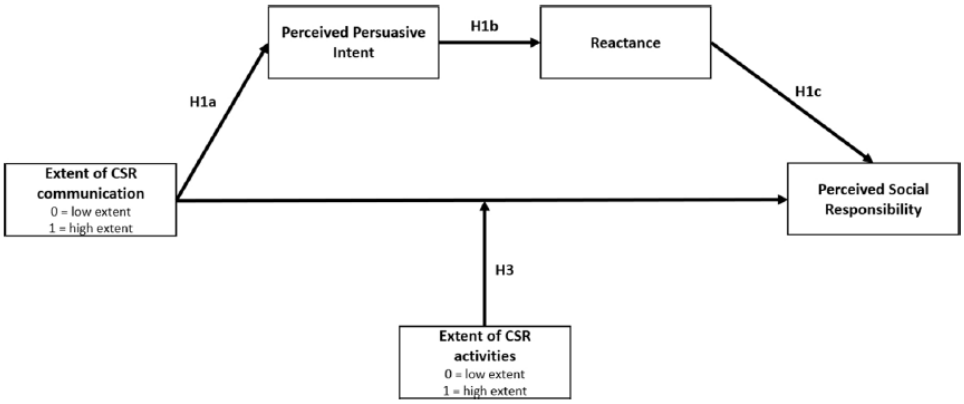


Fig 4: Conceptual model of the research

Source: The paradoxical effects of communicating CSR activities: Why CSR communication has both positive and negative effects on the perception of a company's social responsibility, 2022

2.5.2 Bridging the gap between CSR activities and communication

Examining the impact of CSR communication on public perception necessitates a consideration of the delicate balance required for positive effects. The appropriate degree of CSR communication should not be viewed as an established value, but rather as something that is determined by the actual CSR initiatives that a firm engages in. Despite this importance, the empirical exploration of the relationship between the extent of CSR communication and the extent of actual CSR activity has been limited. In order to deal with this, a study by Vierbel and Koch (2022) is considered, it consists in putting forth a methodical framework that makes use of a 2-by-2 matrix (Fig. 5) to consider the degree of CSR activities as well as the degree of CSR communication, both of which are categorized as high or low.

Within this matrix, four distinct CSR activity–CSR communication pairs emerge. Firstly, a company may not engage in or communicate about CSR in an appropriate manner, situation described as CSR omitting, or green omitting when it comes to environmental issues. This neglectful approach can lead to neutral or even negative effects on public perception, because it does not satisfy stakeholder needs for corporate social responsibility. The company, in this case, neglects its responsibility to contribute to societal goals. Secondly, excessive corporate social responsibility communication

combined with little to no CSR action is known as CSR washing (or greenwashing, in the context of the environment). In this scenario of pseudo-CSR, the company minimally participates in CSR activities but portrays itself as highly responsible, primarily for profit or to improve its reputation (Baden et all. 2009). If stakeholders perceive this communication as misleading, it may create distrust and result in more negative perceptions of the company's reputation. Third, numerous CSR activities with limited or no communication to stakeholders are considered CSR blushing (or greenblushing for environmental engagements). Similar to philanthropic corporate social responsibility (Szabo and Webster, 2021), in this situation, firms participate in CSR initiatives but remain discreet about their beneficial effects, which results in low visibility and little influence on the public's perceptions. Fourth, a company actively involved in a multitude of CSR activities and also communicating extensively is labeled CSR committing. This integrated CSR approach is considered ideal, as the organization's CSR efforts not only benefit society but, through effective communication, positively influence stakeholders' attitudes, potentially enhancing the company's reputation.

Finally, it is noted that misperceptions are created when there is a discrepancy between the amount of CSR communication and the actual CSR activity. Conversely, alignment between a high extent of CSR communication and a substantial number of CSR activities is anticipated to yield positive outcomes. Although Wagner et al. (2009) do not explicitly address the extent of communication and activity, they discuss how gaps or inconsistencies between a company's actual CSR activities and communication can negatively impact the company's image or sales. Echoing these opinions, Du et al. (2010) argue that stakeholders, although expressing a desire to learn about a company's positive deeds, they get suspicious when companies overly promote their CSR efforts. Consequently, a moderation hypothesis has been put out: a high extent of CSR communication will positively influence the perception of social responsibility only if the company is actively engaged in a substantial number of actual CSR activities (H3, fig.4).

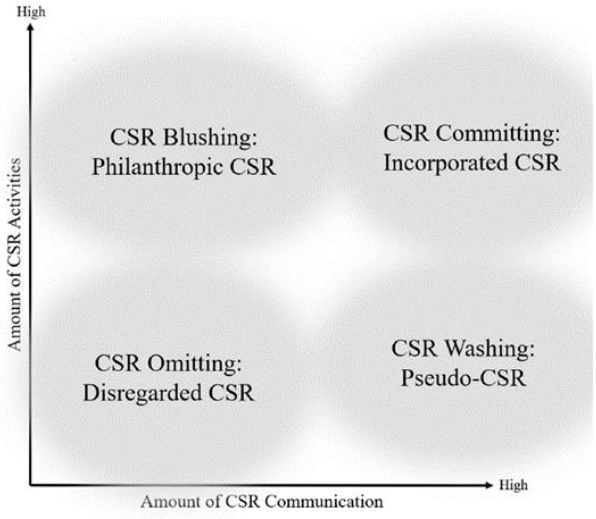


Fig. 5 relationship between the amount of CSR communication and CSR activities.

Source: The paradoxical effects of communicating CSR activities: Why CSR communication has both positive and negative effects on the perception of a company's social responsibility, 2022

CHAPTER 3

Social and environmental impact in fashion industry: sustainability issue

Sustainability in fashion industry, innovation in this sector and the corporate social responsibility, is this dissertation main focus because of its huge impact on society and the environment, as well as its crucial role in establishing global consumer culture. The fashion industry has experienced an important shift in recent years, with innovation and sustainability emerging as key forces behind this transformation. The sector, traditionally known for rapid trends and disposable fashion, is now trying to implement eco-friendly policies and encourage new ideas to reduce its impact on the environment. There is a strong need for CSR commitment of companies in controversial sector as fashion industry is. Businesses now try to prepare CSR reports which cover a wide range of relevant topics and information that outline how a business engages with its communities. This necessity derives from the fact that consumers become more conscious and require transparency to companies, which in turn are realizing the importance of sustainable and ethical business operations. The road towards a more sustainable future and the way business are trying to face with it, is the purpose that brought the decision to deepen the knowledge into this argument. It is necessary in fact to keep in mind that customers are much more likely to trust businesses that are open and transparent about their sustainable practices, so companies that take a full commitment into corporate social responsibility.

3.1 Evolution of the Fashion Industry: From Mass Production to Sustainability Challenges

In the 20th century, significant societal changes, including the dissolution of social classes and shifting family structures, led to individual liberation. This process, known as "individualization," is a reflection of the increasing requirement that people assume personal responsibility in the era of globalization (Beck, 1992). Paradoxically, individualization has resulted in the reintegration of individuals into the social sphere of

production, creating a dependence on institutions such as the labor market (Beck, 1992). People, living outside traditional family structures, are more dependent on the job market for financial support. However, this increased individualization has also brought about profound standardization.

Mass fashion emerged in the 20th century with the growth of mass industrialization, particularly in North America's ability to replicate European couture designs. The 1920s saw the fashion business expand due to two main factors: Edward Bernays's efforts and rising working class money, which encouraged mass consumption. Bernays promoted the use of propaganda to control the public and business sectors by associating mass-produced items with the unconscious needs of consumers (Curtis, 2002).

However, with the advent of mass consumption, driven by technical reproducibility and the subsequent rise of a consumer society, the waste of economic, energy, environmental, and social resources became a widespread trend. It's precisely during the 70s that sustainable fashion movement start to become popular, when some people started to promote and sustain an easy lifestyle, rejecting traditional fashion standards.

The late 1970s and early 1980s saw a decline in consumer demand and increased costs in labor, energy, and materials, prompting the need for innovative marketing strategies as a business necessity within the fashion industry. Production facilities moved from Europe and North America to Asia, intensifying the industry's "race to the bottom"—a drive for the lowest labor costs. This shift not only reduced prices but also facilitated flexible supply chains, allowing clothing to be sold at lower prices and in larger quantities. The 1980s saw the convergence of mass production and consumption, leading to hyper-consumerism, which is best exemplified by "fast fashion"—a retail approach that quickly follows trends. During the 80s sustainable fashion became a popular trend thanks also to a strong activism, especially because fast fashion has come under attack for labor violations and environmental damage, even though it is also credited with democratizing fashion by making apparel accessible to a greater number of people.

The influence of fast fashion extends across the fashion industry, making even luxury brands more affordable and diverse in their collections. The distinction between mass,

fast, and luxury fashion has blurred, giving rise to "masstige"—the convergence between mass-market and prestige retailing (Keiser and Garner, 2012). Consumers of all income levels now combine high-end and low-end clothing, demonstrating a smooth shift between commercial approaches that influence one another. The fast-fashion retail strategy, emphasizing low prices and ever-changing fashion, has become a fast-money-making business strategy for all fashion sectors.

Since 2007, when the term 'slow fashion' was coined, an acceleration of the societal movement towards ethical and sustainable fashion has grown. The 2013 collapse of the Rana Plaza factory in Bangladesh (better explained in paragraph 3.3.2) was a watershed in the fashion industry's problems awareness. In response to consumer expectations for transparency, premium and high street firms launched "eco" collections and sustainable efforts.

During the lasts years brands are doing more in sustainability terms, an example is the founding of POMP in 2019, an initiative that uses GOTS-certified organic cotton and recycling techniques to manufacture clothing with the goal of promoting circularity as a fundamental notion in modern fashion. Despite these encouraging advancements, problems still exist; for this reason in order to create a more sustainable and inclusive fashion future, it is necessary to strike a balance between industry-wide adoption of sustainable practices and conscientious consumer choices.

This historical excursus of the sector wishes to introduce the new sections, that will cover especially the environmental and social problems of the industry.

3.2 Environmental impact in the fashion industry and sustainable practices to mitigate it

The fashion industry stands out as one of the most environmentally impactful sectors, posing threat to the planet and its resources, since it contributes significantly to global waste, water consumption, carbon emissions, and greenhouse gas production,

according to UNCTAD[14]. Projections indicate a potential 60% increase in greenhouse gas emissions within the next 12 years, amplifying the industry's role in global warming. This context, combined with concerns about uncontrolled consumerism and low clothing recycling rates, underline the critical need for Corporate Social Responsibility (CSR) and innovation in the fashion sector.

Gardetti and Torres (2013), analyzing the relationships between the textile and apparel industries, highlight the vertical connections between textiles and apparel, presenting them as a single subject for the purposes of this discussion. The industry, described by the European Union, includes a wide range of activities from raw material transformation to the production of textiles used in various applications, including garments, sports equipment, household items, and medical textiles. The fashion industry, characterized by constant price pressures, intense competition, and global sourcing, faces challenges in adhering to CSR rules, particularly in clothing factories. The dynamic and rapidly evolving nature of this sector, characterized by ongoing innovation and technical advancements, offers both opportunities and problems, particularly for less developed nations.

3.2.1 Pollution

The World Economic Forum claims that the production of clothing pollutes rivers and streams, reduces the availability of water, and accounts for 10% of worldwide carbon emissions. In addition, washing some clothes releases microfibers into the ocean, which is equal to 50 billion plastic bottles, and 85% of textiles are thrown away every year. Common materials like polyester, which make up 60% of clothing, release two to three times as much carbon dioxide into the atmosphere as cotton does. Consequently, some fibres used in textiles like polyester, polyamide, acrylic, polyurethane, and polyethylene which are highly consumed and disposed, bring to the accumulation in freshwater, soil, and oceans, threatening ecosystems and causing ecological imbalances and animal deaths (Zambrano et al., 2020). The fashion business generated 92 million tons of

[14] United Nations Conference on Trade and Development, an international body within the United Nation Secretariat that supports developing nations' interests in global trade.

garbage, over one million tons of CO2 emissions, and large volumes of freshwater consumption in 2015.

The environmental impact extends throughout the supply chain, with transportation networks and non-biodegradable packing materials causing additional pollution. After reaching consumers, fashion items require substantial water, energy, and non-renewable resource consumption for maintenance. While there are reasons in favor of using natural fibers to lessen the release of microfibers during washing cycles, synthetic fibers, especially polyester, present sustainability issues because they are made using toxic substances and fossil fuels. An example from the European Environment Agency stated that 35% of the principal microplastics discharged into the environment are attributed to the washing of synthetic clothing, and a single laundry load of polyester clothes can discharge 700,000 microplastic fibres that can end up in the food chain. Over 14 million tons of microplastics have accumulated on the ocean floor as a result of washing synthetic items. In addition to this worldwide issue, the pollution caused by the clothing industry has a disastrous effect on the ecosystems, wildlife, and general public's health in the areas where the factories are located. Workers in the industry in fact, may be affected by airborne microplastics originating from synthetic textile materials which are caused by wear and friction from clothing, carpets, and furniture, as well as production operations like spinning and weaving. Recent autopsies have revealed the presence of microplastics in human lung tissues, suggesting that inhaling these microfibers can cause inflammation and oxidative stress in the alveoli of the human lungs (Amato-Lourenço et al., 2021). Therefore, it is imperative to rethink textile processes in order to reduce or eliminate the negative consequences that arise from the existence and consumption of microplastics derived from microfibers.

3.2.2 Water consumption

The huge need for freshwater throughout the whole production process, from fiber cultivation to the completion of textile products, is a critical concern for the textile industry. Water is a major resource needed for fiber cultivation; 4,600 tons are required annually for every kilogram of fiber produced (Leal Filho et al., 2019).

Beyond the production stages, the industry uses 200 tons of water for every ton of textile items produced by dyeing and finishing technology. An example may be that for making a single cotton t-shirt, 2,700 litres of fresh water are required according to estimates, enough to meet one person's drinking needs for 2.5 years. (European Parliament, 2020). In the industrial sector, water is predominantly employed as a solvent for chemicals and dyes, a medium for chemical and dye transfer to fibers and fabrics, and for washing and rinsing processes. Other industrial processes, including steam drying, boiler operations, cooling water, and facility cleaning, also demand substantial water volumes (Raja et al., 2019). The textile industry ranks among the top ten water-consuming industries, contributing significantly to the generation of wastewater. Cotton makes about 40% of apparel but employs significant land use, fertilizer and pesticide application, and genetic modification are also involved in the production of cotton, and even if other natural fibres made from vegetable cellulose are biodegradable, they are not necessary a more ecological choice. Since cotton requires a lot of water to grow, it poses an environmental threat in nations like Uzbekistan, where cotton production has caused the Aral Sea to dry up after 50 years. And "organic cotton" does not appear to be all that much better for the environment; it also consumes a lot of water and is sometimes harvested in developing countries under questionable working conditions. One solution to this waste of water could be employment of synthetic fibers, but, despite requiring less water and energy, they have disadvantages, particularly when it comes to polyester, which is made from natural gas, coal, limestone, and petroleum, and also release a big quantity of microplastics, as stated before. Every year, 98 million tons of crude petroleum are needed for its production, or 1% of the oil produced globally (Statista, 2023). By 2050, the fashion industry may consume 300 million tons of oil due to the rising trend in consumption.

Therefore, it is difficult to determine whether using synthetic materials instead of natural ones actually reduces the environmental impact of textile production. In addition, textiles go through a number of chemical dye processes, utilizing more than 15,000 chemical agents throughout the manufacturing process. The "wet process," which uses a lot of water, causes effluent that is high in chemicals to enter lakes and rivers, which accounts for 20% of industrial water pollution.

The sustainability of the entire textile production chain depends on efficient water management. Textile companies should place a high priority on reducing water usage, which calls for equipment and process design optimization in order to attain sustainable practices.

3.2.3 Waste

Unwanted clothing is now disposed differently, with goods being thrown away instead of being donated. Because the methods needed to turn used clothing into virgin fibers are still developing and recycling is challenging, less than half of all old clothing is collected for recycling or reuse, and just 1% of used clothing is recycled into new garments, as stated by the European Environment Agency (2019). Every year, Europeans utilize around 26 kg of textiles and trash about 11 kg of them. Although they can be transported outside of the EU, the majority of used clothing (87%) is either burned or ends up in landfills (European Parliament, 2023). Despite a double rise in clothing production between 2000 and 2015, the average use of an item of clothing has decreased. The globe currently has enough clothing to last for the next six generations. Factors contributing to the sector's rise include the EU's 30% price drop from 1996 to 2018 (in relation to inflation), which was made possible by the growing use of cheap synthetic fibers derived from fossil fuels and the relocation of production to regions with weak labor and environmental regulations (Simon, 2023). The following rise of rapidly changing fashion trends, supported by widespread social media use and ongoing digital advertising, leads to "style consumption" as opposed to consuming to satisfy physical necessities. Studies show that perceived value and poor fit account for 63% of clothing discards rather than the actual quality of the item (Mörsen, 2023). According to sustainable consumption corridors for fashion, a sustainable level of consumption is estimated to be five new garments per person annually (Coscieme et al., 2022). The forecast-driven strategy frequently leads to overproduction; data indicates that 30% of clothing manufactured is not sold to customers, raising doubt on the EU's Sustainable and Circular Textiles Strategy (European Commission, 2022).

In this way, to save waste and preserve their reputation, high-end fashion businesses have started selling unsold products to staff members, friends, and family (Napier and Sanguineti, 2018). However, the disposal of surplus items remains problematic, since it frequently involves destroying or burning unsaleable goods in order to take advantage of tax incentives (example is in Italy, Italian Presidential Decree No. 441/97, mandate 193/E of 23/7/98, allows fashion companies deductions for unsold merchandise, which serves as a tax incentive). Such actions are motivated by the need to protect brand exclusivity and stop copying, even if recycling would be more economical and environmentally friendly.

Furthermore, the fashion industry's carbon emissions surpass those of international flights and maritime shipping combined. According to the United Nations Environment Programme, analysts project a 50% increase in greenhouse gas emissions during the next ten years without sustainable restructuring, possibly using a quarter of the global carbon budget. The current textile model, based on a linear economy and excessive consumption, significantly contributes to humanity's ecological footprint. This perspective emphasizes the need to examine the dialogue between the fashion industry's influence on the environment and the reciprocal influence of consumers on fashion trends and industry practices.

Indeed, something is changing, especially in Europe where, in line with EU's 2050 climate neutrality goal under the Green Deal[15], the European Commission proposed in March 2022 the first package of measures to speed up transition towards a circular economy, as announced in the Circular Economy Action Plan[16]. The proposals include increasing the use of sustainable products, educating customers about the green transition, reviewing the building product legislation, and developing a plan for sustainable textiles. Approving a resolution on February 9, 2021, the Parliament requested stricter recycling regulations as well as legally enforceable 2030 targets for material consumption and use. A modification to the laws on persistent organic pollutants (POPs) was authorized by Parliament in October 2022 with the aim of lowering the quantity of hazardous

[15] Referring to the set of strategies and action plans proposed and adopted by the European Commission to reduce greenhouse gas emissions by 55% by 2030 and achieve climate neutrality by 2050.
[16] It is one of the main building blocks of the European Green Deal, Europe's new agenda for sustainable growth.

chemicals found in waste and industry processes. The new regulations will prohibit certain chemicals, impose stricter limitations, and prevent contaminants from being recycled (European Parliament, 2023).

3.3 Social impacts in the fashion industry: labour rights and measures to tackle it

The following paragraph will cover the issue of labour rights. For workers, especially those in the textile industry, the absence of labor protections and enforceable laws exacerbates social issues inherent in a production model that progressively lowers costs (and consequently wages) with each added link in the supply chain. This means that as more subcontractors are involved in producing a fashion item, wages at the source of production decrease. The opacity of the supply chain, facilitated by the subcontract model, makes it difficult for buyer companies to monitor working conditions within factories of their numerous suppliers, especially when the identity of sub-suppliers is unknown. This lack of supervision increases the risk of human rights violations by producer-suppliers.

Human Rights Watch estimates that the $2.4 trillion global footwear and clothing market supports millions of jobs globally. Products from this industry are sold to retailers in the US, Canada, Europe, Japan, and Australia after being produced in a number of nations, including Asia, Latin America, and Eastern Europe. There are reports of widespread labor violations in the factories that make these goods. Globally, factory owners and managers often participate in practices that include firing pregnant employees or refusing them maternity leave, taking retaliatory action against unionization attempts, forcing employees to work overtime with the threat of losing their jobs, and covering up instances of sexual harassment of female employees by male supervisors or coworkers.

The following chart (Fig. 6) presents a summary of the nations that have been ranked for worker rights violations according to the International Trade Union Confederation's

global rights index[17] (ITUC, 2023). The rankings show the degree of respect for workers' rights on a scale of 1 to 5+, where 1 represents the best grade and 5+ the worst. It's crucial to remember that this graphic includes all industries, not only the clothing industry. However, considering the size of the clothing business, the graphic is helpful in figuring out how common human rights abuses are in this field. The amount of information available can be debilitating when trying to understand the scope of ongoing human exploitation in the fashion industry and identify important human rights concerns in the supply chain. In order to give a brief summary, particular attention will be given to four main themes that sum up violations of human rights that occur in the fashion industry: women discrimination and harassment, unsustainable wages and unsafe working conditions, and lastly, modern-day slavery and child labor.

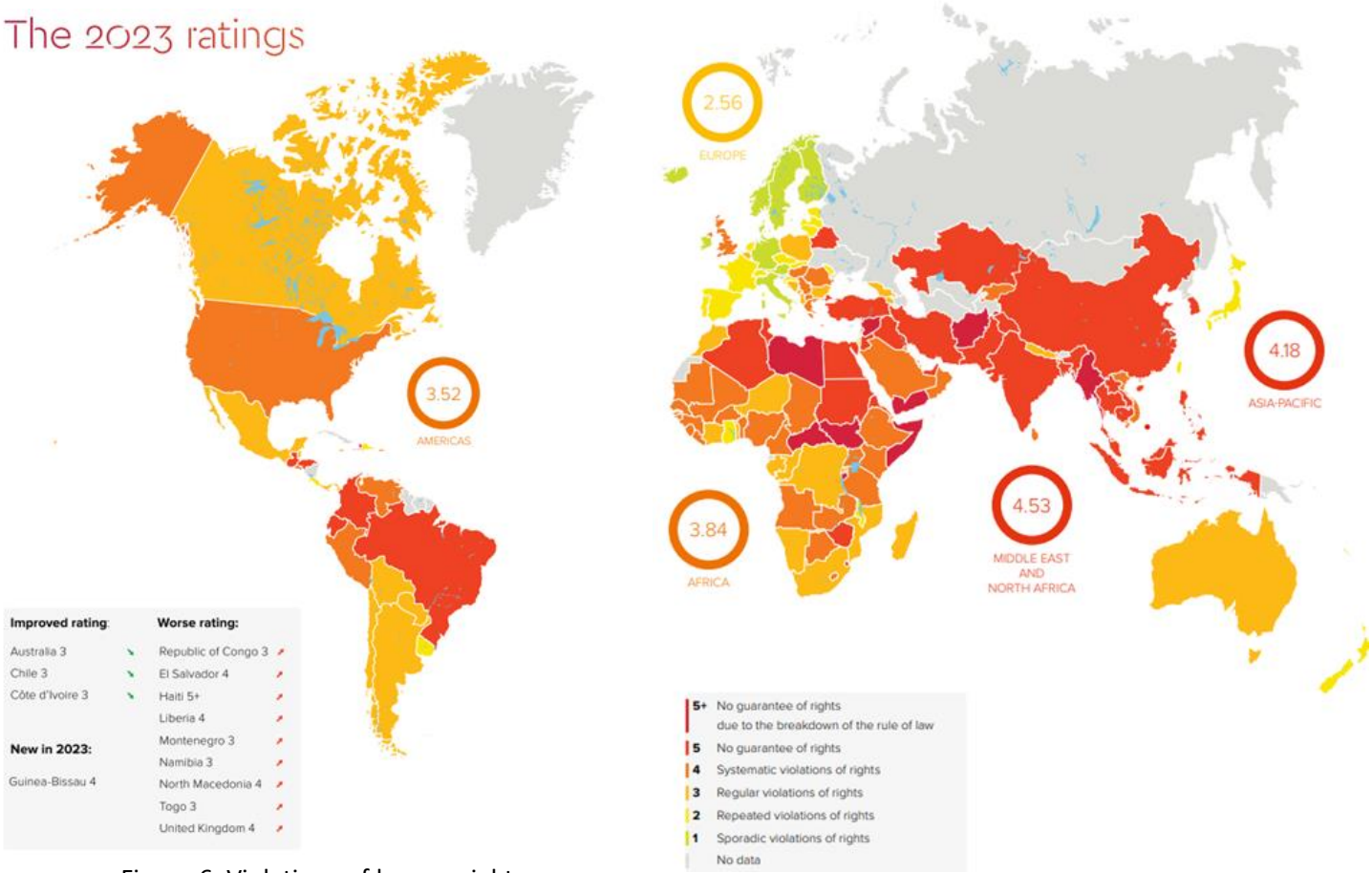


Figure 6: Violations of human rights

Source: ITUC Global Rights Index, 2023

[17] ITUC Global Rights Index depicts the world's worst countries for workers by rating countries.

3.3.1 Women discrimination and harassment

The majority of the workforce in the garment industry is represented by women, making them the most impacted group by human rights issues within this sector. The extensive discrimination faced by women in countries involved in garment production renders them particularly vulnerable to abuse and exploitation (Niebank, 2018). Although discrimination is known as an overall problem and can take many forms, it is especially visible as a gender issue in the fashion industry. In Myanmar, a survey across 16 garment factories revealed alarming rates of sexual harassment, with 42.5% of women workers experiencing it at work, and 40.3% facing harassment during their commute. Additionally, physical and verbal abuse was reported by 10.9% and 15.6% of women in the workplace (ILO, 2019). In Indonesia, a recent survey by Better Work showed that about four out of five workers said they were concerned about sexual harassment or touching in their workplace. Responses to the survey indicated that some workers took proactive measures, including 4.3% leading strikes, 36.7% discussing harassment with their manager, and 20.9% talking to their trade union representative.

Apart from discriminatory practices, harassment is a widespread issue in the fashion business. It is usual for bosses to employ such tactics to persuade employees to work harder, especially from suppliers in less developed nations. Many employees experience harassment on a daily basis. It can take many different forms, including as verbal abuse, physical hurt, mental manipulation, intimidation, and threatening behavior. A female worker's account of abuse in an H&M supplier plant, where the supervisor physically abused her for not meeting production objectives, was detailed in a research on gender-based violence in garment supply chains. The study, which was published in June 2018, involved interviewing more than 540 workers from manufacturers that supply Gap and H&M. Incidents of harassment were reported, such as workers being called stupid, mocked for their pace of work, and threatened with contract termination. The brands' head offices' demands for quick turnarounds and cost-saving measures were connected to the accusations of abuse. H&M and Gap both expressed serious worry and promised to conduct additional research, but they both denied having any prior knowledge of these incidents (Kashyap, 2019).

Harassment is visible at corporate levels as well as throughout the whole value chain; it is not limited to manufacturing settings. The fashion industry's intense competition and competitiveness led to unreasonable demands, intimidation, and bullying.

3.3.2 Unfair wages and unsafe working conditions

A living wage is an amount of money that, in theory, a person or family can afford to cover their basic needs, such as food and housing, with the goal of maintaining a decent standard of life and keeping people out of poverty. Here the definition provided by the United Nations universal declaration of human rights (article 25.1): "*Everyone has the right to a standard of living adequate for the health and well-being of himself and of his family, including food, clothing, housing, medical care, necessary social services, and the right to security".*

Despite challenges in defining a universal living wage due to demographic variations, the UN's Universal Declaration of Human Rights emphasizes the right to just and favorable remuneration for all workers, ensuring a dignified life for themselves and their families (United Nations, 2020).

Unfair wages are a clear indicator of the fashion industry's violation of human rights, as they primarily affect garment workers. The International Labor Organization assessed the average monthly salary of garment factory workers in ten Asian nations; the results showed that wages varied by gender and that the average monthly salary was less than $200 (Niebank, 2018). The rise of fast fashion and the associated unrealistic demands on suppliers by brands contribute to low compensation for garment workers. The minimum wages in India, Pakistan, Vietnam, and China are described as "abysmal" by the Asia Floor Wage Alliance, attributes the problem to factors like inadequate capacity, scarce resources, and negative governmental attitudes toward labor.

Relating to this topic, this dissertation wishes to take into consideration a recent episode in Bangladesh, that the media hasn't given enough attention to. Since the final week of October 2023, 4.4 million workers in the ready-made garment industry in Bangladesh have been involved in a power struggle with the country's labor force. Bangladesh is a

major global manufacturer of fast fashion, second only to China, producing millions of tons of apparel annually to satisfy the demands of the most well-known clothing brands in the world. These brands are drawn to this tiny South Asian nation because the labor required to fulfill their orders is cheap. While the majority of fast fashion firms sourcing from Bangladesh declare that they support living wages, they are only obligated to pay the legal minimum wage, which is one of the lowest in the world and has been fixed at 8,000 taka (about 72$) since 2018, to the workers who make their clothing. This is why between October and November 2023, Bangladesh has been swallowed in violent protests as thousands of garment workers take to the streets to call for increased pay for the four million textile workers who work there. Some workers lost their lives as result of the fight between protestors and police. Unions there say police have used tear gas, rubber bullets and the protests have turned hostile. Protests continued and escalated for weeks, until in mid of November when State Minister Monnujan Sufian made an announcement after the new wage structure was considered at a meeting at the Ministry of Labour and Employment: the minimum salary for garment workers rose to 12,500 taka per month, a 56.25 percent increase. The new salary has been implemented since 1st December 2023. Although, the agreement reached is far below the 23,000 taka a month workers say they need to keep their families from starvation (The Guardian, 2023).

The other big issue concerning fashion industry in poor countries is related to the lack of regulation and unsafe working conditions that workers experience.

The lack of regulation and oversight, both public and private, has contributed to industrial accidents, such as the 2012 fire in the Ali Enterprises textile factory in Karachi, Pakistan, and the 2013 collapse of the Rana Plaza in Bangladesh, which led to approximately 1100 deaths and 2500 non-fatal injuries. Both incidents involved failures to meet building and safety standards, and the production was for major Western fashion brands.

Private initiatives like the Accord on Fire and Building Safety in Bangladesh and the Alliance for Bangladesh Worker Safety emerged in response to these incidents (Jacometti, 2016). However, these initiatives face challenges in terms of legal status,

legitimacy, implementation, and enforcement. While they aim to improve factory safety, they have limitations, including a five-year term and a focus solely on building safety, leaving issues like low wages and poor working conditions unaddressed. Moreover, these agreements are limited geographically to Bangladesh and do not impact safety conditions in other countries in the fashion supply chain. In addition, industrial accidents have continued since the Rana Plaza disaster, highlighting the absence of a well-functioning labor inspection system and effective enforcement mechanisms (Martin, 2013).

Usually, a factory's financial situation is not the only thing that suffers from the way brands procure resources and make purchases. In fact, in an effort to save money, it pushes suppliers to engage in dubious business dealings with unlicensed vendors and unethical labor practices. This is a significant issue since it contradicts the brands' efforts to promote fair and respectful working conditions throughout the supply chain. Seven auditors with five to twenty years of experience conducting social audits were interviewed by Human Rights Watch, and they all expressed frustration with the lack of advancements in factory working conditions. This problem is exacerbated by the cheap costs that companies pay for clothing and the lack of assistance factories receive in dealing with non-compliant activities (Kashyap, 2019).

Violations related to overtime are a widely known but concealed industry secret. In order to pass compliance audits, factories falsify the reporting of their real working hours and use inventive techniques to get around laws governing overtime pay. For example, laborers in Myanmar alleged that factories were "stealing minutes" by adjusting "hourly" performance requirements to 45 or 50 minutes each. In India, workers from a factory revealed that during the low production season, the factory compelled them to use paid leave instead of paying overtime wages (Kashyap, 2019). According to another survey, 51% of manufacturing workers in Myanmar worked more than 48 hours per week. Similarly, for garment workers in Uganda where average weekly hours varied from 48 to 65. Ugandan garment workers are obliged to work long hours without regular shift periods to be able to complete their tasks, which causes them to work themselves to fatigue (Global Slavery Index, 2023).

3.3.3 Forced labour and child labour

Forced labor and child labor are two of the biggest challenges causing human rights violations in the fashion business, in addition to issues like discrimination, harassment, low pay, poor working conditions, and long work hours. Even though it's a factor that no widely recognized international business in the world wants to be connected to, these problems continue to exist in concerning numbers. According to the 2023 Global Slavery Index report, there were 28 million forced labor victims worldwide, up from the 24.9 million of the 2018 report; and $147,9 billion worth of imported clothing into G20 nations may have been made using forced labor. The same report shows that 12 million workers in a modern slavery condition are children (Global Slavery Index, 2023). Figure 7 shows the products that the world buys from workers under modern slavery conditions. Garments are the second most purchased products made with modern slavery work. Following, figure 8 shows value of at-risk goods imported by G20 countries. In some countries as China, India, South Africa, Brazil, Saudi Arabia, and Mexico, garments are the second good most imported at risk.

Journalist Shraysi Tandon, who has written widely about forced labor and human trafficking in the factories and supply chain of the fashion business, stressed that premium and exclusive labels have also been linked in modern-day slavery, not just the fast fashion industry. Forced labor is frequently hidden in subcontracted supply chain layers that involve tier 2[18] and tier 3[19] vendors. As a result, those in charge of finalizing details like buttons or soles on costly products could be victims of trafficking and go unnoticed (Suhrawardi, 2019).

Issues with forced labor and human trafficking frequently surface early in the supply chain, especially when it comes to raw materials, as in the case of silk cocoon cultivation, that has been associated with forced labour in Uzbekistan, while in Myanmar, children have experienced forced labour on rubber plantations (Global Slavery Index, 2023). Cotton production has a long history of slavery, and continues to be harvested by men, women, and children working in conditions comparable to modern slavery. Smaller

[18] tier 2 suppliers are the sources where tier 1 suppliers get their materials.
[19] Usually tier 3 suppliers provide resources to the tier 2 suppliers.

hands are thought to cause less damage to crops, consequently children are hired to pick cotton. Cotton was produced in Benin, Burkina Faso, China, Kazakhstan, Pakistan, Tajikistan, Turkmenistan, and Uzbekistan through the use of forced labour, however the conditions leading to exploitation may differ. In Pakistan, a poll conducted in 2021 among cotton field labourers revealed that 27% of them said they would be unable to quit their jobs if they found another one, and 25% reported seeing under-15-year-olds working on cotton farms during school hours. These cotton farms frequently kept their employees' identity cards and mostly relied on temporary labourers hired through third parties; these methods make workers more vulnerable and raise the possibility of modern slavery arising. Some regimes forced their population to labour in the cotton industry, including Turkmenistan, China, and previously Uzbekistan.

Recent studies have provided insight into the existence of contemporary slavery in China's Xinjiang province, a major centre for the world's cotton production. Concerns regarding forced labour have been raised by the Chinese government's detention of over a million Turkic minorities in “re-education camps”. These measures have ramifications for international retailers that source cotton from this region (Costa, 2019).

Child labor remains a serious problem in the garment industry. This social problem remains deeply rooted in its production model, which relies on outsourcing labor to developing countries with lower manufacturing costs and lax regulations. The complexity of legal and ethical challenges in such conditions is acknowledged, but it is still a common practice considering factors like families depending on minors' salaries from textile factories. Work can increase household income and provide a more cost-effective alternative to inadequate education, but the long-term consequences of work include poverty persistence due to low-paying jobs and a lack of knowledge. In addition, companies who want to reduce labor expenses may find child labor to be a desirable alternative because children are frequently paid less.

The fashion industry is being pushed to greater transparency by recently passed legislation in the US Senate and New York, as well as by laws in California, the UK, Australia, and the EU. Even with more focus, luxury clothing brands are not doing

enough to address the issue of modern slavery. According to a Walk Free and WikiRate study from December 2022, 48% of businesses interacted with supply chain workers, and 67% collaborated with programs that addressed modern slavery. In addition, luxury brands underperformed in addressing the risk of forced labor, with a living wage gap of 53% compared to 38% for non-luxury brands, even though only 29% of them committed to paying a living wage (Global Slavery Index, 2023).

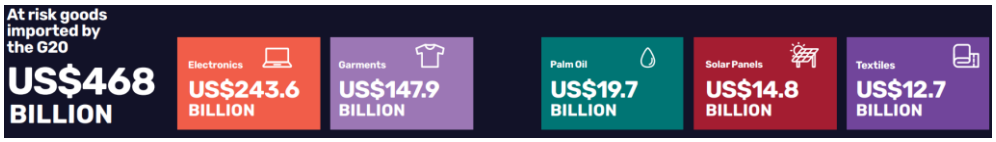


Figure 7: At risk goods imported by the G20 Source: Global Slavery Index 2023

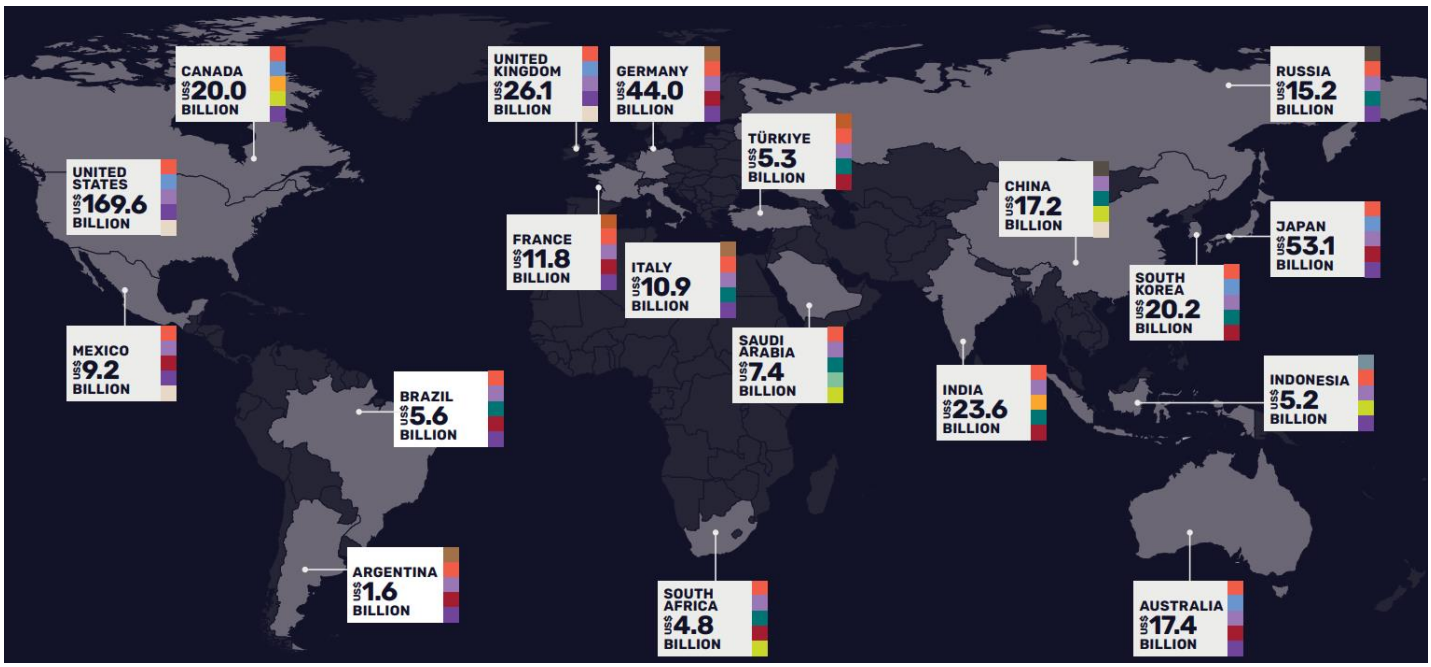


Figure 8: Value of at-risk goods imported by G20 countries

Source: Global slavery index 2023

Legend:

3.4 Environmental certifications-standards applicable by fashion industries

The fashion industry is putting more and more emphasis on sustainability in response to these issues, especially in the creation of textiles and clothing. Sustainability deals with the intricate environmental dynamics that affect human well-being and cross local, national, and international boundaries with ecological, economic, and sociopolitical aspects. Companies must make a significant commitment to acting morally through Corporate Social Responsibility (CSR), which benefits their employees, families, communities, and society as a whole. Consumer perceptions and purchase decisions are influenced by CSR, which puts pressure on businesses to match customer sentiments with CSR initiatives. A lot of fast fashion companies have started CSR programs for sustainability since they understand how important it is for customers to evaluate a company's CSR efforts before making a purchase.

The key point is that consumers have been behaving more responsibly in recent years, and businesses understand that sustainability is essential to their ability to compete (Ciasullo et al., 2017).

Third-party certified labels and free-form sustainability statements are the two main forms of sustainability communication that Turunen and Halme (2021) suggest for consumers. According to the same authors, third-party sustainability certifications imply that sustainable practices have been applied at the product level, which is why they are perceived as trustworthy and reliable. On the other hand, general statements regarding sustainable projects and commitments that are not instantly verifiable and comparable are reported in free-form communication. Environmental claims appeal to customers' emotions while certificates appeal to their reason (Turunen and Halme, 2021).

A certification is a formal document that evaluates a status or degree of accomplishment in relation to pre-established standards. Within the environmental context, a product, method, or material might be certified in accordance with the standards pertaining to

environmental circumstances. According to a PEFC[20] study (PEFC/GfK Global Consumer Survey, 2014), four out of five respondents want firms to use certification labels on products to highlight their sustainability efforts. This is because the labels act as a substitute for true commitment.

From a business perspective, environmental certifications stimulate innovation and increase performance (Iannone and De Chiara, 2019). According to retail strategy professional Ana Andjelic, incorporating certificates on product labels is "[...] a competitive edge, as it quickly communicates to consumer its values," as reported by Forbes (Moore, 2019). Certifications are described as "a seal of approval" and "a proof of commitment for more sustainable and responsible practices" in the same article.

The ISO classifies certifications into three categories (Koszewska, 2021).

- Type I is a voluntary ecolabel that is based on numerous criteria and evaluated by third-party authorities.
- Type II comprises manufacturer self-declarations and without an independent supervision system.
- Type III is a third-party verified declaration based on quantified environmental data.

The majority of certifications that are environmentally friendly are of category I, including GOTS and EU Ecolabel. (Koszewska, 2021).

Sustainability in the fashion business, is an evolving problem that includes environmental and social factors across multiple stages of an extensive and distributed supply chain. Multiple standards and certifications have been developed in response to the various sustainability concerns, for example in the textile industry alone, there are more than 100 labels (Ecolabel Index, 2024). They cover a wide range of topics, some of which overlap; also, no certification can handle all problems related to social or environmental sustainability (Turunen and Halme, 2021). One significant disadvantage

[20] PEFC, the Programme for the Endorsement of Forest Certification, is a leading global alliance of national forest certification systems. It is a global non-governmental, non-profit organization whose mission is to advance sustainable forest management by utilizing independent third-party certification.

of this status is that businesses and consumers find it very challenging to understand them (Changing Markets Foundation, 2018).

The goal of this dissertation is to give an overview of the current state of environmental sustainability certifications and standards in the fashion industry, both focusing on material certification and social. One of the most polluting stages of the production process for textiles and apparel is the sourcing and processing of raw materials, for this reason the first certifications presented are materials related. The most important certifications in the sector have been chosen, describing them to capture their goals and needs.

3.4.1 GOTS - Global Organic Certified Standard

Figure 9: GOTS logo

Source: Global Standard Website, 2024

The Global Organic Textile Standard (GOTS) is one of the certifications most frequently mentioned in academic articles about the fashion industry's sustainability.

The official website provides detailed information on the standard, beginning with its goal, which is as follows: *"the aim of the standard is to define world-wide recognised requirements that ensure the certified organic status of textiles, from the harvesting of the raw fibre, through environmentally and socially responsible manufacturing up to labelling in order to provide credible assurance to the end consumer. Textile processors and manufacturers are thus enabled to export their organic fabrics and garments with one certification accepted in all major markets". (GOTS, 2024)*

The GOTS certification encompasses textile products, manufacturing activities, and chemical products related to the textile industry. Its creation aimed to establish a global framework, ensuring standardization and recognition across diverse markets. This objective has been achieved through continuous evolution and improvement, involving input from various stakeholders. The credibility of the GOTS standard is maintained

through independent auditors who conduct regular on-site inspections, eliminate non-compliant companies and imposing penalties on those misusing the GOTS logo. Notably, the GOTS certification is one of the most stringent, which only has mandatory requirements and applies to products that use at least 70% certified organic fibers throughout the entire supply chain.

While the GOTS certification does not directly assess raw material cultivation, only materials approved in the IFOAM Family of Standards are considered organic. The standard defines organic fibers as those grown without synthetic pesticides, insecticides, herbicides, and GMOs, adhering to the principles of organic agriculture.

The GOTS label usage guidelines distinguish between two grades: "Organic" products made with a minimum of 95% organic fibers and "Made with organic material" products made with a minimum of 70% organic fibers. Beyond environmental sustainability, the certification takes care of critical aspects in the fashion industry's supply chain, safeguarding workers' labor conditions and prohibiting harmful chemical agents (GOTS, 2024).

Additionally, beyond the explicit goal of promoting environmental sustainability, the GOTS certification plays a crucial role in overseeing various vital aspects within the fashion industry's supply chain. This includes safeguarding the working conditions of laborers and outlawing dangerous chemicals that might endanger the health of both workers and consumers. As a result, companies obtaining GOTS certification can provide tangible evidence of their commitment to environmental and social sustainability without succumbing to greenwashing practices. Simultaneously, conscientious consumers aiming to make informed purchasing choices can be assured that GOTS-certified articles adhere to rigorous and consistently audited criteria.

The GOTS website outlines key requirements for achieving certification, categorized into environmental and social criteria:

Environmental Criteria: (GOTS, 2024)

- “Separation from conventional fibre products and identification of organic fibre products”

- “Use of GOTS approved colourants and auxiliaries in wet-processing only”
- “Processing units must demonstrate environment management, including wastewater treatment”
- “Technical quality parameters for colour fastness and shrinkage for finished goods required”
- “Restrictions on accessories”
- “Restrictions on additional fibre materials”
- “Environmentally hazardous substances prohibited in chemical inputs”
- “Evaluation of toxicity and biodegradability for chemical inputs”

Social Criteria: (GOTS, 2024)

- “Employment is freely chosen”
- “Freedom of association and collective bargaining”
- “Child labour shall not be used”
- “No discrimination is practised”
- “Occupational health and safety (OHS)”
- “No harassment and violence”
- “Remuneration and assessment of living wage gap”
- “Working time”
- “No precarious employment is provided”
- “Migrant workers”

While social criteria compliance is mandated at all stages of the certification process, adherence to environmental criteria may vary depending on the production process stage. The number of GOTS-certified sites increased from 12,338 in 2021 to 13,549 in 2022, a data growing steadily as noted in figure 11 (Materials Market report,2023).

The certification process spans various stages of textile production as noted in figure 10. The process initiates with textile fiber processing, such as ginning for cotton, involving the removal of seeds and debris. Crucially, organic fibers must be meticulously separated from conventional ones to prevent contamination, requiring worker training and precise separation systems.

The subsequent stage is spinning, where fibers are transformed into yarns, ensuring the separation of conventional fibers, with synthetic fibers strictly prohibited. The yarn is then woven or knitted into fabric, often combining different fabrics for specific characteristics, ensuring a minimum of 70% organic fibers. Natural sizing agents are preferred, and machine oils must be heavy metal-free.

The delicate wet-processing phase involves pre-treatments, coloration, and finishing, defining the textile's final features. Chemical inputs, like dyestuffs and auxiliaries, must be GOTS-approved and free from banned substances. Wastewater treatment during this stage must adhere to stringent environmental criteria.

Manufacturing, encompassing cutting, assembling, sewing, and ironing, produces the final item. Accessories must comply with the Restricted Substances List or be Oeko-Tex Standard 100 certified.

The last trading stage is also GOTS certified, ensuring the entire supply chain meets strict criteria. Business to business companies must be certified if their turnover from GOTS-certified products exceeds €20,000 from, while retailers may choose to publish their certification on product labels, but it is not required.

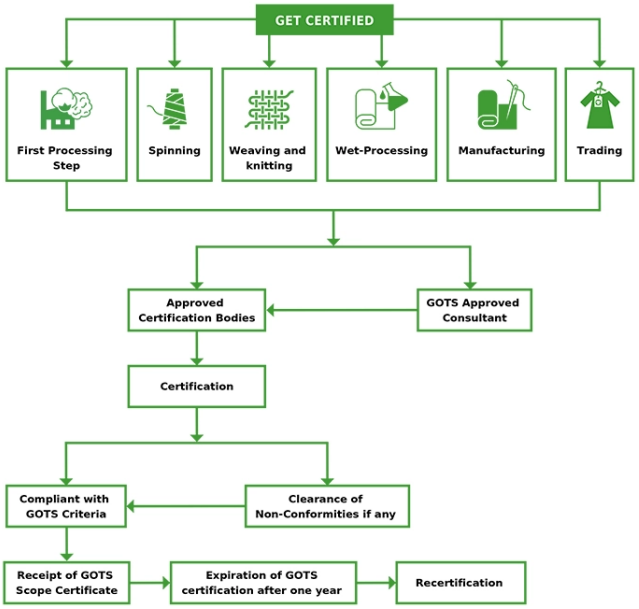


Figure 10: GOTS certification process

Source: GOTS website, 2023

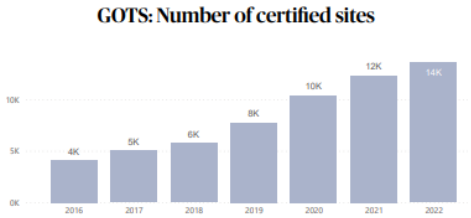


Figure 11: GOTS certified sites over the years

Source: Materials Market Report, 2023

3.4.2 Oeko-Tex Standard 100

Figure 12: Logo Oeko-Tex Standard 100

Source: Oeko- Tex, 2024

Oeko-Tex is a collaborative organization comprising 17 independent institutes from Europe and Japan. Its primary goal is to develop testing procedures and regularly update threshold limits for harmful substances in the textile and leather industries. Over the years, six distinct labels have been established:

1. STANDARD 100 and LEATHER STANDARD certify textile and leather products free from harmful substances to human health and environment.

2. MADE IN GREEN assesses the production process for ecological and social sustainability, in addition to product safety.
3. STeP certifies textile and leather production activities implementing sustainable practices.
4. DETOX TO ZERO, linked to Greenpeace's DETOX campaign, analyzes chemical management and wastewater quality in the textile and leather sector.
5. ECO PASSPORT identifies chemicals, dyes, and auxiliaries in the textile and leather industry with no adverse impacts on the environment and human health.

The most widely used certification is STANDARD 100, it guarantees that labelled products are tested at each production level, ensuring the absence of harmful substances. The modular testing system covers raw materials, semi-finished products, and finished products, including accessories. Oeko-Tex partner institutes conduct the evaluation tests, and the certification is valid for one year.

Tests are conducted on annually updated criteria that regulate substances, both prohibited by law (such as azo dyes, carcinogenic dyes, nickel, formaldehyde) and those not yet regulated. These criteria surpass national standards, ensuring global applicability. Substance use restrictions vary based on four product classes:

1. Product Class 1: Children's products.
2. Product Class 2: Products in direct skin contact (e.g., underwear, shirts).
3. Product Class 3: Products with limited skin contact (e.g., jackets).
4. Product Class 4: Fabrics and products for textile furnishing.

Limit values are proportional to the product type and its skin exposure, with the most stringent values applied to Product Class 1 (Oeko-Tex, 2024).

3.4.3 GRS- Global Recycle Standard & RCS- Recycled Claim Standard

Figure 13: GRS logo

Figure 14: RCS logo

Souce: Textile Exchange website, 2023

The Recycled Claim Standard (RCS) and the Global Recycled Standard (GRS) are presented together because they are two leading standards for textiles made with recycled materials.

The Recycled Claim Standard (RCS) is an international, voluntary standard that outlines the criteria for certifying the sustainable production of textiles and products utilizing recycled materials. Both standards are promoted by Textile Exchange, but GRS has a wider approach. The Recycled Content Standard is meant to be used for any product that contains at least 5% recycled material and aims to encourage their use to mitigate extensive resource consumption. Distinguishing itself from the RCS, the GRS not only assesses products made from recycled materials but also ensures that the production process minimizes harm to the greatest extent possible by addressing social and environmental requirements and adopting the ZDHC's list of Manufacturing Restricted Substances.

According to the Materials Market Report (Textile Exchange, 2023), the number of sites obtaining GRS certification increased significantly from 25,763 in 2021 to 34,178 in 2022, and in general have growing notably during last years, as we can note in figure 15, this to outline the strong power that certifications have gain in recent years.

The GRS's objectives, outlined in the Textile Exchange Global Recycle Standard report (2020), include aligning definitions across multiple applications, tracking and tracing recycled input materials, providing a decision-making tool for customers (both brands and consumers), reducing the harmful impact of production on people and the

environment, ensuring recycled materials in the final product, driving innovation to address quality issues in using recycled materials.

To achieve GRS certification, all stages in the supply chain, from production to trade, must be audited by a third-party certification body, ensuring the chain of custody. Only material collection and concentration phases are subject to self-declaration and not directly certified.

The standard applies to products with a minimum of 20% recycled content, as defined by ISO 14021. For a product to be labelled with the GRS logo, the final item sold to the consumer must contain at least 50% recycled content. The standard accepts both pre- and post-consumer materials, covering waste generated by manufacturing processes (pre-consumer) and items discarded by users in recycling bins and sorted by recycling facilities (post-consumer) (Wesam, 2016).

Textile Exchange started the first stages of a new upgrade of the GRS and RCS in April 2021, trying to create a more harmonized standard system. After many consultations occurred in 2023, in 2024 will be published the new final standard, that will replace the old standards and be mandatory in 2026.

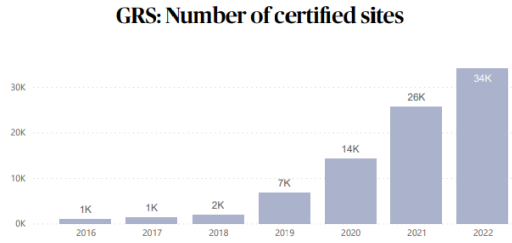


Figure 15: GRS certified sites over the years

Source: Materials Market Report, 2023

3.4.4 BCI- Better Cotton Initiative

Figure 16: BCI logo

Source: BCI Website, 2024

The Better Cotton Initiative (BCI) is a collaborative program aiming for sustainable

cotton production with a focus on environmental and social aspects. It emerged from round-table discussions on cotton growing conducted by WWF in 2005, gaining support from organizations like adidas, Gap, H&M, and others.

The standard preparation phase lasted three years, and in 2010 it was implemented, first in West and Central Africa and then in Brazil, Pakistan, India, and other mixed countries. Better Cotton is now produced in 22 nations globally, which makes approximately 22% of the total amount of cotton produced. In the 2022-23 cotton season, 2.2 million licensed Better Cotton Farmers grew 5.4 million tonnes of Better Cotton. The main concerns of BCI are the significant negative consequences of the cotton business, including soil degradation, water pollution and consumption, and the use of pesticides and fertilizers. Socially, the industry has been marked by exploitative labor practices and chemical exposure. BCI aims to mitigate these effects by training cotton farmers, smallholders, and large-scale workers, imparting best practices in soil and water management while enhancing social welfare conditions.

Farmers can achieve BCI certification by adhering to the Better Cotton Principles and Criteria, grounded in seven key principles outlined by BCI in 2021.

Figure 17: Better cotton principles. Source: BCI website, 2024

1. **Crop protection:** Farmers must adopt an "Integrated Pest Management" approach, emphasizing pest control with limited pesticide use. Chemical pesticides are discouraged, except those specified in international conventions, and their use is reserved for trained individuals, with proper protective measures and disposal procedures.

2. **Water:** The Water Stewardship criterion focuses on sustainable freshwater management, ensuring environmental, social, and economic sustainability. This involves using fresh water within sustainable limits, allocating water equitably, and maximizing water productivity.

3. **Soil health:** Proper soil management is crucial for better outputs and reduced pests. The BCI soil plan involves analysing soil types, maintaining and enhancing soil structure and fertility, and using cover crops to nurture and protect the land between cotton sowings.

4. **Biodiversity:** BCI-licensed farmers must identify and map animal and plant species, microorganisms, restore degraded areas, apply Integrated Pest Management, and prevent soil erosion to preserve and enhance biodiversity.

5. **Fiber quality:** Cotton fiber quality is essential, correlating with market demand. BCI promotes cleanliness in terms of weeds and impurities, emphasizing the efficiency of the spinning process. While BCI encourages best practices for optimal output, no minimum score is required for certification.

6. **Decent work:** BCI addresses working conditions, aiming to stop child labor, ensure equal job opportunities, and combat employment discrimination. Farmers must guarantee safe, healthy, and protected working conditions, along with fair wages and the freedom of unions for collective bargaining.

7. **Management system:** BCI mandates a common management system for farmers to ensure adherence to criteria and principles, facilitating tracking of areas for improvement.

BCI's chain of custody relies on the "mass balance system," allowing Better Cotton to be mixed with conventional cotton while ensuring that the amount of Better Cotton sold aligns with the amount purchased. Compared to product segregation models, this system is easier to use even though it does not offer complete traceability. BCI is currently developing a full-traceable system to track every step of the supply chain.

Between October 2021 and February 2023, Better Cotton conducted a review of the Better Cotton Principles and Criteria (P&C), resulting in the adoption of Principles and Criteria v.3.0 as the upcoming farm-level standard. This revised standard will be applicable for licenses starting from the 2024/25 cotton season, following a one-year transition.

As there are significant changes required in certain areas during the transition from P&C v.2.1 to P&C v.3.0, some indicators will become effective only from the 2025-26 season. This extended timeframe allows producers more time to establish the necessary systems and approaches to ensure compliance and mitigate the risks of any undesired negative effects. The review principles of BCI will be: Management, Natural Resources, Crop Protection, Fibre Quality, Decent Work, and Sustainable Livelihoods. In addition, the P&C v.3.0 emphasises the relevance of both gender equality and climate change for all Principles and includes them as crosscutting priorities which should be respected throughout. The P&C recognise that there are differences based on farm size categories (Smallholders, Medium Farms, Large farms) and recognizes diverse production methods. Differently form before, now all indicators are mandatory for licencing purposes.

Continuous improvement is a key part of the Better Cotton ToC (BCI Website, 2024).

3.4.5 Bluesign

Figure 18 : Bluesign logo

Source: Bluesign website, 2024

Bluesign certification, a component of the Bluesign System, was established by Bluesign Technologies AG in Switzerland in 2000. Originally created to enhance the safety and sustainability of the textile industry, the program continues to focus on creating a competitive advantage for businesses in the long term.

Bluesign adopts a comprehensive approach with the following objectives (Bluesign website, 2024):

- Ensuring the highest product safety by restricting hazardous chemical usage
- Responsible and efficient utilization of resources (chemical materials, water, and energy)

- Limiting the environmental and health impacts of textile manufacturing

For a product to carry the Bluesign PRODUCT label, all components must be Bluesign APPROVED, originating from a brand classified as a Bluesign SYSTEM PARTNER. The certification process begins with Input Stream Management, involving on-site assessments to evaluate adherence to stringent criteria on chemical usage. The Bluesign SYSTEM BLACK LIMITS and Bluesign SYSTEM SUBSTANCES LIST define prohibited substances and usage thresholds, while the RESTRICTED SUBSTANCES LIST outlines testing methods for legally restricted chemicals. These documents are regularly updated to ensure compliance with the latest scientific knowledge.

By excluding harmful substances from the early stages, Bluesign aims to guarantee the final product's safety. The focus is on proving that the product or its components have the lowest ecological footprint, adhering to social standards throughout the supply chain. On-site assessments and consulting services concentrate on resource productivity, energy efficiency, emissions reduction, water quality, and worker well-being. Bluesign collaborates with third-party auditors to ensure transparent, comprehensive, and independent evaluations.

3.4.6 OCS- Organic Cotton Standard

Figure 19: OCS logo

Source: Textile exchange, 2024

The Organic Content Standard (OCS), promoted by Textile Exchange, certifies that the natural fibers in a product, from both animal and plant sources, originate from organic farming. Similar to Textile Exchange's GOTS certification, OCS includes chain of custody verification, tracking organic material through the production chain to the final business-to-business transaction. However, OCS differs from GOTS by not certifying aspects such

as animal welfare, material safety, environmental performance, and social well-being of workers in the supply chain.

Annual OCS audits are carried out by third-party certification organizations; these audits are only applicable to goods that contain at least 5% organic fiber.

Products with OCS certification display one of two labels (Textile Exchange, 2024):

- OCS Blended: if organically grown material ranges from 5-94%
- OCS 100: if organically grown material exceeds 95%

As for GOTS certification, OCS does not certify the cultivation step, starting its process from the first processor. The organic material must be farm-certified according to standards like USDA National Organic Program, Regulation (EC) 834/2007 & EU 2018/848, or any IFOAM Family of Standards-approved standard. For cotton, OGM tests are conducted.

Chain of custody procedures guarantee the integrity of the organic material at every stage and include appropriate identification, segregation, and record-keeping.

The certification aims to encourage sustainable organic agriculture, with certified farms growing by 47% in 2019, indicating a significant increase compared to previous years (Quick Guide to the OCS, 2020).

The number of OCS-certified sites is quite stable ranging from 11,885 in 2021 to 12,131 in 2022, although it increased a lot during the past years, as shown in figure 20 (Materials Market report, 2023).

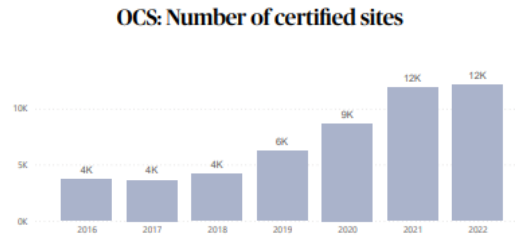


Figure 20: OCS certified sites over years

Source: Materials Market Report, 2023

3.4.7 EU Ecolabel

Figure 21: Eu ecolabel logo

Source: Eu-ecolabel website, 2024

The EU Ecolabel, established in 1992 by the European Commission under Regulation N. 66/2010, aims to guarantee environmentally sustainable products and services throughout their life cycle. Applicable to various product categories, including textiles, the label customizes sustainability criteria for each product type, focusing on the most environmentally impactful stages.

Third-party auditors assess each life cycle phase, from raw material sourcing to product disposal or recycling.

Companies that want to get certified must design products with minimal environmental impact, adopting a circular economy perspective that considers both the beginning and end of the product's life cycle. Every four years, the criteria are revised to take into account new developments in raw materials, manufacturing techniques, and the utilization of resources. The duration of certification varies between three and five years, depending on the level of innovation within the product category.

It's crucial to remember that the standard does not cover social responsibility or concerns of animal protection (such as forbidding animal testing).

3.4.8 RDS- Responsible Down Standard

Figure 22: RDS logo

Source: Textile Exchange website, 2024

The Responsible Down Standard (RDS) is a global, voluntary framework focusing on animal welfare within the duck and geese supply chain, ensuring responsible management from certified farms to the end product's chain of custody.

Independent third-party certification bodies conduct annual audits to certify individual sites, and the material's journey is monitored using transaction certificates in line with the Textile Exchange's Content Claim Standard (CCS)[21].

Key objectives of the Responsible Down Standard include preventing down and feathers from sources where animals undergo unnecessary harm, encouraging ethical practices in the down and feather industry, educating and advancing the supply chain for continuous improvement, offering companies a tool to ascertain product content and make accurate claims, and establishing a robust chain of custody for certified materials throughout the supply chain.

The Standard is relevant to sites in the supply chain dealing with down and feather material specifically from waterfowl while materials sourced from wild birds and recycled down cannot receive certification.

The Standard is applicable to products that incorporate a minimum of 5% RDS material, calculated as a percentage of the down or feather material, however, finished products can only be labelled as RDS Certificates if 100% feather and down is certified.

3.4.9 RWS – Responsible Wool Standard

Figure 23: RWS logo

Source: Textile Exchange website, 2024

[21] Content Claim Standard (CCS) is the foundation of all Textile Exchange standards. It is chain of custody standard that gives businesses the capacity to confirm that a final product has one or more certain input materials.

The Responsible Wool Standard (RWS), offered by Textile Exchange, is a voluntary certification ensuring cruelty-free wool production.

Its primary objectives are to guarantee animal welfare, promote sustainable land management practices, and enhance social sustainability in wool farms. The standard focuses on preserving animals' well-being and their grazing environment, following globally recognized standards known as the Five Freedoms. These standards, which are globally recognised to preserve animal welfare, include: Good Nutrition, Good Environment, Good Health, Appropriate Behavior, and Positive Mental Experiences.

Certification requirements prohibit the cruel practice of mulesing, which involves removing skin in the perianal zone and/or the tail in order to prevent infections and fly attacks. The animal is put through terrible suffering during this treatment, which is carried out without anesthesia by using liquid nitrogen or utilizing shears. The standard also evaluates responsible land management practices, emphasizing soil health, biodiversity, and protection of native species through regenerative procedures. Additionally, social welfare is a crucial element, necessitating safe and healthy working conditions for certification.

The RWS ensures a transparent material chain of custody, tracking certified wool from farms to the final product. Compliance with Content Claim Standard requirements throughout the production process guarantees the certified wool's traceability.

To display the RWS logo, a product must be composed of 100% certified wool.

Textile Exchange, responsible for setting these standards, engaged various stakeholders, including farmers, animal welfare specialists, land management experts, and fashion brands, resulting in a holistic perspective. Textile Exchange also introduced the Responsible Mohair Standard (RMS) in March 2020 and the Responsible Alpaca Standard (RAS) in April 2021, based on RWS criteria to protect goats and alpacas, respectively.

3.4.10 ZDHC – Zero Discharge of Hazardous Chemicals

Figure 24: ZDHC logo

Source: Roadmap to zero website, 2024

ZDHC, which stands for Zero Discharge of Hazardous Chemicals, is an international multistakeholder program controlled by the ZDHC Foundation, with over 320 signatories.

Originating from Greenpeace's 2011 Detox campaign, which highlighted water pollution caused by chemical releases from textile, leather, and footwear industries, the program was established by brands and retailers committed to eliminating hazardous substances from the supply chain by 2020.

The program's objectives encompass replacing or eliminating hazardous chemicals, ensuring process transparency, and promoting best practices. This holistic approach involves all supply chain participants, requiring every supplier of a signatory brand to meet ZDHC requirements. The process considers inputs, production, and outputs.

The initial step involves avoiding harmful substances listed in the Manufacturing Restricted Substance List (MRSL), regularly updated for resource alignment. The Chemical Management System (CMS) document outlines a framework and technical section for harmonizing entities in the supply chain, emphasizing the crucial role of chemical management in manufacturing processes. The final step evaluates outputs, conducting quality tests on wastewater and sludge as defined by the Wastewater Guideline document, which establishes concentration limits to ensure water quality. Additionally, a programmatic document addresses atmospheric emissions to minimize environmental impact.

Key principles of the ZDHC program include the elimination of hazardous chemicals, transparent risk assessment processes, effective tools, best practices, continual guideline updates through multi-stakeholder collaboration, and ongoing monitoring and improvement via internal audits at the factory level.

The program defines three Gateway checktools, widely used tools to verify chemical and wastewater reports. ZDHC Performance InCheck is a performance method simple to comprehend, which shows how a facility's chemical inventory complies with ZDHC MRSL standards. ZDHC ChemCheck is a product passport designed to verify ZDHC MRSL compliance for chemical compositions. Lastly, ZDHC ClearStream is a readily legible facility performance report of ZDHC wastewater conformance utilized by leading brands (Road map to zero website, 2024). Hence, it is clear that ZDHC provides the highest standard for eliminating harmful substances but does not function as an independent certification. Other certifications use the ZDHC guidelines as the reference point for managing chemicals that pose risks.

Analysing the brands to zero report (2023) by ZDHC, it is shown the balance of previous years and the objectives for next years. The new ZDHC 2023-2030 Impact strategy will expand efforts to eliminate hazardous chemicals from textile, apparel, leather, and footwear industries. Building on the previous strategy (2018-2022), they are accelerating impact beyond core industries, sharing insights across manufacturing sectors. Brands in the Roadmap to Zero Programme have been accredited by UN bodies and open the way for broader engagement. Adopting an end-to-end approach, they focus on sustainable chemical management from farm to product end-of-life. Leading Signatory Brands in the Brands to Zero Program and brands in the Roadmap to Zero Program serve as the foundation for the 2030 Impact Strategy's partnerships with businesses and the industry.

There have been numerous goals achieved in 2022 regarding he improvements of production conditions by ZDHC globally. In particular, 100% of ZDHC Signatory Brands are committed to adopting the ZDHC MRSL and 86% of them require their suppliers to adopt and implement ZDHC Wastewater Guidelines. Moreover, 2525 suppliers published wastewater test reports (based on reports for ZDHC MRSL parameters) for the October 2022 reporting cycle and 75% of them were fully compliant with all ZDHC MRSL requirements. Some example of signatory brands include Asos, Benetton, Burberry, C&A, Decathlon, Gap Inc, H&M, Hugo Boss, Inditex, LVMH, Levis Strauss & Co, Mango, Nike, Primark, Puma.

3.5 Social certification-standards applicable by fashion industries

At the bottom of paragraph 3.3, this dissertation fully outlined the importance of environmental certification for fashion businesses. Not only environmental certifications are critical for consumers, consequently, companies across diverse industries are embracing social certification programs as integral components of their business strategies through making a significant commitment to acting morally through Corporate Social Responsibility (CSR).

The decision to adopt CSR initiative and certifications is motivated by various factors, one of that is ethical reputation, since consumer perceptions is key to trust ethical behaviour adopted by businesses; even though customers sometimes do have doubts about the truthfulness of CSR initiatives. A company's CSR efforts must be genuine and consistent with its basic principles in order to eliminate these worries. Positive opinions from a variety of stakeholders are a good indicator that a CSR initiative is valid, for this reason they should obtain customer loyalty and trust, and improving brand perception (Safeer and Liu, 2022).

The desire to keep an ethical reputation requires action, in this way social certification showcases a commitment to responsible business practices, enhancing a company's image and building trust among consumers, investors, and partners who value socially responsible organizations. As pointed out before, since consumers increasingly demand transparency, companies need to adopt social certifications to meet this expectation and demonstrate their dedication to fair labor practices and ethical standards.

Access to international markets is an additional strong point. Some ethical and social standards must be followed in order to enter many foreign markets. Businesses that use social certifications guarantee compliance, which makes it easier for them to enter international markets and boosts their competitiveness.

Legal compliance, corporate governance, and contribution to Sustainable Development Goals (SDGs) are additional factors influencing adoption. Social certifications generally correspond with or exceed regulatory standards related to labor and human rights, assuring compliance and boosting company governance. Moreover, by contributing

directly to SDGs, companies demonstrate a wider commitment to global sustainability initiatives and responsible business conduct.

In conclusion, businesses are adopting social certifications because they strategically recognize the advantages they offer. These certifications are essential tools for bringing about positive change in the corporate landscape, from hiring employees and ethical alignment to market access and reputational development. Social certifications play a crucial role in promoting sustainable and ethical practices as businesses recognize their responsibility for the well-being of society. Below this dissertation aims to analyse the most important social certification available in the market to assess their commitment to the themes outlined.

3.5.1 FairTrade

Figure 25: Fairtrade logo

Source: Fairtrade website, 2024

Fairtrade's strategy gives workers and farmers more power over the course of their lives and how much they may invest in the future. Fairtrade, which connects producers and consumers, is positioned as a leader in the worldwide movement for fair trade. Choosing Fairtrade allows people to create change with their daily decisions. There are over 1930 Fairtrade certified producer organizations in 70 countries, comprising more than 2 million farmers and workers under the Fairtrade umbrella (Fairtrade Monitoring reporting overview, 2023).

Products bears the Fairtrade Mark comply with independently validated international standards, with over 60 percent of consumers familiar and 80 percent holding a positive perception.

Farmers and laborers are guaranteed equal participation in Fairtrade's global governance holding 50 percent of the vote and contributing to decision-making, as well as active participation at all levels, starting with local organizational choices.

Fairtrade is a unique project that prioritizes the needs of small-scale farmers and workers who are frequently left out of the global trading system. The Fairtrade system involves regional networks, national organizations, Fairtrade International, and FLOCERT as the certifier, ensuring a comprehensive approach to ethical trade. This strategy yields several significant advantages for Fairtrade farmers and workers:

1. **Fair Prices:** Fairtrade ensures that the prices paid aim to cover the average costs of sustainably producing crops, providing a vital safety net when market prices drop.

2. **Fairtrade Premium:** An extra sum of money paid on top of the selling price, the Fairtrade Premium is directed towards investing in business or community projects selected by the producers.

3. **Decent Working Conditions:** Fairtrade guarantees that producers work in environments that respect their dignity by banning discrimination, forced labor, and child labor.

4. **Access to Credit:** Producers have access to advance credit ahead of harvest time, providing financial support when needed.

5. **Future Planning:** Fairtrade enables producers to plan more securely for the future, fostering stronger relationships with buyers.

Fairtrade adopts a holistic approach, recognizing that sustainability encompasses social, economic, and environmental facets. The Fairtrade initiative campaigns for changes in the conventional international trade system and ensures payment of a higher price premium than international market prices for commodities. The Fairtrade minimum price acts as a floor price, covering average production costs and ensuring a living wage. The Fairtrade premium counts 201,6 million paid to producers in 2021. Environmental practices focus on ecologically sound methods, waste management, and the prohibition

of hazardous materials. Social considerations range from democratic self-organization to non-discrimination, providing a comprehensive framework for ethical trade.

The most well recognized ethical certification mark in the world is the Fairtrade Mark, which is linked with integrity and adherence to Fairtrade Standards. Independent certifiers like FLOCERT audit producers, traders, and companies to verify compliance with economic, social, and environmental standards. Through its robust assurance system, Fairtrade ensures the effectiveness and independence of certifying bodies, aligning with the international sustainability standards outlined in ISEAL's Assurance Code. Beyond the traditional FAIRTRADE Mark, specific product Marks cater to diverse categories. For example, the FAIRTRADE Cotton Mark indicates fairly produced and traded raw cotton and the FAIRTRADE Textile Standard assures ethical textile and clothing production.

Fairtrade's commitment extends to transparency and traceability, ensuring that products maintain separation from non-certified counterparts throughout the supply chain.

In a world where conscious consumerism is gaining momentum, Fairtrade emerges not just as a certification but as a movement. It gives consumers a tangible way to support fair practices, ethical trade, and the well-being of farmers and workers around the globe. The FAIRTRADE Mark serves as a symbol for the story of sustainability, equality, and empowerment that unfolds from farm to shelf.

3.5.2 WFTO - World Fair Trade Organization

Figure 26: WFTO logo

Source: WFTO website, 2024

The World Fair Trade Organization (WFTO) is the global organization that evaluates companies fully engaged in Fair Trade practices. WFTO, made up of innovative Small and Medium-sized Enterprises (SMEs), envisions a new economy and joins together as an activist group of entrepreneurs supporting a fair and sustainable global community. Fair Trade Enterprises, operating in 84 countries and impacting over 1 million livelihoods globally, present a transformative alternative to exploitative business models. The objective is to revolutionize the sector by expanding Fair Trade Enterprises and eliminating unsustainable practices in various industries such as fashion, houseware, food, and beauty products.

The mission, as a global membership organization, is to support members in achieving ethical markets.

The WFTO promote an alternative business approach, where profit aligns with people and the planet: it is a triple bottom line approach where members prioritize well-being, environmental preservation, and sustainable profit. The scope is also to foster a new economy that prioritizes justice at all levels, supporting Fair Trade Enterprises as influential forces for positive change.

This holistic approach addresses systemic issues in the current economy, promoting sustainable business practices in line with the Fair Trade Principles. Now, the current economic system prioritizes short-term profits over long-term sustainability, inequality, and environmental damage. Fair Trade Enterprises set a great example, advocating for sustainable and future-proof business models that prioritize fair wages, environmental stewardship, and community development. In this way the objective is to foster change, by encouraging businesses to adopt similar principles and practices, contributing to a more equitable economic system.

WFTO members adhere to the 10 Fair Trade Principles, showing a commitment to social, environmental, and economic considerations. These principles (figure 27) encompass poverty reduction, transparency, fair payment, child and forced labor prevention, non-discrimination, good working conditions, capacity building, information disclosure, promotion of Fair Trade, and climate action/environmental protection. Through these principles, Fair Trade Organizations aim to create positive impacts, support workers and

producers, and foster sustainable practices. The WFTO Guarantee System assesses entire businesses, ensuring alignment with the 10 Principles and the 2030 Agenda for Sustainable Development. The Fair Trade Standard guides Fair Trade Enterprises, emphasizing continuous improvement in their management and operations.

Figure 27: 10 Fair Trade Principles

Source: WFTO website, 2024

3.5.3 FAIR WEAR

Figure 28: Fair Wear logo, 2024

Source: Fair Wear website, 2024

Fair Wear was founded in 1999 with the bold objective of improving working conditions in the clothing industry. Although the organization has made progress, problems still exist.

Fair Wear, as a true multistakeholder project, connect manufacturers, labor unions, brands, factories, workers, NGOs, and other industry influencers. Reaching a high level of alignment is essential to advancing equity for all in the fashion industry. Its cooperative strategy involves closely collaborating to create a critical mass for change,

offering active and practical support to guarantee workers actively participate in improving and monitoring their working conditions. In an ideal world, garment workers would be well-informed, well-represented, and able to speak out when their rights are being violated. It is mandatory that brands adopt OECD principles for human rights due diligence across the industry, for this reason the organization advise and evaluate them. In order to achieve this objective, power imbalances must be eliminated. Employees should be free to organize or join a union, and their elected representatives should be given the authority to effectively engage in "Social Dialogue" on their behalf. By creating a fair and impartial "Sourcing Dialogue," producers may negotiate with brands on an equal basis and break away from transactional partnerships. Suppliers need to be seen by brands as true partners in business, accepting shared responsibility and actively participating in due diligence on human rights.

For this, the collaboration with the organization 140 member brands, helps to develop practical solutions, showcasing progress in enhancing working conditions within their supply chains. Their efforts, publicly assessed, serve as inspiration for the entire industry.

As an independent, not-for-profit foundation, Fair Wear ensures independence through a multi-stakeholder board representing industry associations, trade unions, and NGOs. The Board and Committee of Experts (CoE) balance various interests, aiming for Fair Wear's ultimate goals. Transparency and equal access to information are valued, but confidentiality is maintained for strategic and political considerations related to human rights promotion.

The global garment industry, with around 75 million workers, has the capacity to become a force for good. Various parties are actively collaborating towards a sector that is positive for both people and the planet, despite its complexity. Fair Wear addresses issues such as low wages, precarious employment, gender-based violence, health and safety breaches, and the inability to form unions, committing to real change. To assure a positive impact, Fair Wear aligns its work with internationally recognized standards, negotiating tripartite agreements with workers at the center. The Code of Labor

Practices, derived from ILO Conventions and the UN's Declaration on Human Rights, remains fundamental.

Labor Standards:

1. Employment is freely chosen
2. Freedom of association and the right to collective bargaining
3. No discrimination in employment
4. No exploitation of child labor
5. Payment of a living wage
6. Reasonable hours of work
7. Safe and healthy working conditions
8. Legally binding employment relationship

As explained before, Fair Wear maintains tight relationships with trade unions, political bodies, business associations, and civil society organizations. The board of the organization, which is made up of a variety of delegates from labor unions, industry groups, and non-governmental organizations, promotes a visionary but realistic approach while maintaining ties to industrial working conditions and supply chains. The most important collaborations:

1- **Sustainable Textile Initiative: Together for Change (STITCH):** STITCH, a five-year collaboration between six groups, including Fair Wear, was established in 2021. Its goal is a global textile and clothing industry that respects human rights, with a special emphasis on the rights of workers to fair salaries, safe working conditions, and associations. The collaboration makes use of the strengths of several partners to achieve a broad impact.

2- **Strategic Partnership for Garment Supply Chain Transformation (2016-2020):** a multi-stakeholder collaboration that was completed and formed by Mondiaal FNV, Fair Wear, CNV International, and the Dutch Ministry of Foreign Affairs. It

promoted evidence-based discussions on subjects like social dialogue, gender-based violence, and living wages.

3- **European Citizens' Initiative (ECI) on Living Wages:** Fair Wear is part of a coalition presenting an ECI in 2022, urging the European Commission to address the issue of living wages in the garment, footwear, and textile sector. The strategy suggests an EU trade framework and sector-specific due diligence to guarantee living wages across the whole global supply chain.

4- **The Industry We Want (TIWW):** TIWW, a collaboration of Fair Wear, ETI, and SAC, seeks to establish a new standard in the apparel sector. It brings together many stakeholders to support successful companies, worker dignity, and a beneficial environmental impact. The emphasis is on encouraging cooperation and exchanging effective solutions**.**

5- **Common Framework for Responsible Purchasing Practices (CFRPP):** The CFRPP was created by Fair Wear and other Multistakeholder Initiatives to provide guidance on responsible purchasing habits. It provides MSIs, brands, and policymakers with a point of reference for recognizing and putting into practice responsible purchasing practices.

6- **Asia Garment Hub:** Fair Wear is a part of the Asia Garment Hub, an online community and digital platform that focuses on sustainable practices and decent work in Asia's apparel and textile industries. The Hub wants to link the dots and present the expertise (Fair wear website, 2024)

Fair Wear's dedication to cooperation and its active participation in these programs demonstrate a thorough strategy to address issues in the apparel industry and encourage constructive change.

Fair Wear operates particularly in some specific countries due to the concentration of its member production in these regions. The key countries include Bangladesh, Bulgaria, India, Indonesia, North Macedonia, Myanmar, Romania, Tunisia, Turkey, and Vietnam. Fair Wear is involved in each one of them in different ways.

For instance, the clothing sector of Myanmar has suffered greatly because of the military takeover that occurred there in February 2021. Over 200,000 workers have lost their

employment, consequently over 150 factories closed due to political instability. The frequency of labor rights violations has increased, including forced overtime, violence against women, and hazardous working conditions. Despite increasing costs, the minimum wage stays low, and it is getting harder and harder to address worker rights as things get worse. Since its establishment in 2016, Fair Wear has emphasized human rights due diligence and responsible disengagement in its practices. The group conducts stakeholder consultations, provides assistance, and keeps a close eye on the situation. International reactions have also called for immediate action to safeguard workers and reestablish democracy, including reports from the ILO. Fair Wear emphasizes human rights and ethical business practices in its policies and operations in Myanmar, which are adjusted to the evolving circumstances.

In Bangladesh, one of the most discussed countries for labour rights since its importance for clothing sector, has had impressive growth but faces persistent challenges. Even in the aftermath of catastrophes like Tazreen[22] and Rana Plaza, problems including excessive overtime, low pay, limits on workers' rights, and gender inequality still exist. With 32 member brands, Fair Wear has been operating in Bangladesh since 2007 and focuses on gender issues, safety, and transparency. Their Enhanced Programme tackles gender-based violence, encourages responsible shopping, and addresses factory safety. Collaborative initiatives prioritize Fair Wear's Human Rights Due Diligence (HRDD) policy and emphasize systemic change. The group also assists member businesses that are in line with the International Accord for Health and Safety and guides Report Word fair cost estimates with the "Fair Price App"[23]. In conclusion, Fair Wear strives for long-lasting systemic reforms while addressing issues in Bangladesh's garment sector through a comprehensive strategy.

India, is historically an important country for garment production. 45 million people are employed in the textile and clothing industry facing strong labor challenges such as excessive working hours, unofficial employment, anti-trade union sentiment, and inadequate minimum salaries. With a 34% gender pay difference, few job possibilities

[22] In 2012, a big garment factory fire in the Ashulia district on the outskirts of Dhaka (Bangladesh) destroyed Tazreen Fashion factory causing more than 100 deaths and over 200 injuries.
[23] ensure that prices paid are enough to cover all labour expenses.

for women, and unreported sexual harassment, gender inequality is widespread. Fair Wear, which has been operating in India since 2003 and has 160 factories and 40 member brands, deals with these problems. Initiatives include creating internal complaints committees, interacting with stakeholders for lobbying, and offering training courses on the prevention of gender-based violence. Fair Wear collaborates with local partners, studies the effects of COVID-19 on female laborers, and provides factories with resources such as the Fair Price App. The main goals are to encourage compliance with labor laws and human rights due diligence.

Lastly a country where Fair Wear does not operate since longtime, but that recently has faced numerous challenges, Turkey. Devastating earthquakes struck Turkey and Syria in February 2023, impacting 21 facilities that supply Fair Wear members. Fair Wear is evaluating the harm, collaborating with regional organizations, and providing assistance to impacted employees, such as a local hotline for complaints. Turkey, the world's eighth-largest exporter of clothing, has a labor shortage due to the high number of unregistered workers. Additionally, a significant number of Syrian refugees reside in the nation, many of them engage in dangerous employment. Fair Wear is somehow new in Turkey, since it operates in the country since 2022, but is specialized in helping Syrian refugees who work in the garment industry by providing training and human rights protection initiatives. Research on corporate practices with a focus on gender equality and decent wages is one of Fair Wear's activities. Even with the recent earthquakes that have affected their operations, Fair Wear is still dedicated to enhancing worker rights, safety, and due diligence in Turkey's apparel industry (Fair Wear website, 2024).

3.5.4 SAI – Social Accountability International

Figure 29: SAI logo

Source: Sai website, 2024

Social Accountability International (SAI) is a global non-governmental organization dedicated to promoting workplace human rights that was founded in 1997. The vision is focused on the prevalence of decent work universally, recognizing that socially responsible workplaces not only benefit businesses but also safeguard fundamental human rights.

SAI empowers workers and managers across various businesses and supply chains through initiatives such as the multi-industry SA8000® Standard, Social Fingerprint®, TenSquared, and other training programs.

SAI originated as a multi-stakeholder initiative involving representatives from the private sector, governments, NGOs, labor unions, and academic institutions. Governed by a multi-stakeholder Board of Directors and Advisory Board, SAI believes that addressing human rights at work necessitates input and collaboration from a variety. The involvement of stakeholders from diverse backgrounds is a crucial aspect of many SAI programs.

SAI offers assurance services for various social accountability credentials through its accreditation division, SAAS. These services give clients the assurance that social accountability credentials are awarded with a high degree of quality and integrity.

When in 1997 SAI introduced the SA8000 Standard, it was one of the initial auditable social certifications for ethical workplaces in any industry. Now, SA8000 Standard is founded on The Universal Declaration of Human Rights, ILO treaties, national legislation, and other globally recognized principles of decent labor. The custodians of the system conduct a thorough and collaborative revision process for SA8000 every 5 years to ensure its alignment with the highest social standards amidst evolving norms, industries, and contexts. Over the years, thanks to the experience with the SA8000 Standard, company codes of conduct, industry standards, and other social certification programs have been developed.

In 2023, SAI initiated a comprehensive revision of the SA8000 Standard for Decent Work. This standard serves as the foundation for all SAI programs aimed at advancing human rights for workers worldwide. The revision aims to maintain the SA8000 Standard as a leading benchmark for ethical workplaces throughout the value chain, reflecting

evolving human rights risks and best practices. Opportunities for participation and input include in-person and online stakeholder workshops globally, as well as an online public comment period. SAI is committed to inclusivity and transparency throughout the revision process, actively seeking feedback from workers and their supporters, particularly those with personal experience of human rights abuses at work.

From July to October 2023, SAI conducted 13 workshops across 10 countries to gather feedback on initial draft materials. Nearly 250 participants from SA8000-certified companies, audit firms, government agencies, and human rights and workers' rights organizations attended, contributing diverse perspectives. SAI is currently analyzing and addressing the feedback and will announce new opportunities for involvement in the standard revision process in 2024 (SAI website, 2024).

3.5.5 ETI - Ethical Trading Initiative

Figure 30: Ethical Trading Initiative logo

Source ETI website, 2024

The Ethical Trading Initiative (ETI) has been operating for more than 20 years and is a cooperative force that brings together businesses, NGOs, and trade unions to fight human rights violations in workplaces across the globe. Fundamentally, ETI sees a world free from exploitation and abuse, one that respects human rights, upholds dignity, creates opportunity, and eliminates abuse.

ETI capitalizes on the diversity and growth of its membership base in order to further its objective of standing up for the most vulnerable workers. According to ETI, ethical trade is when suppliers, retailers, and brands take ownership of improving working conditions and follow labor regulations that include rights to unionize, safety, salaries, and working hours.

Global companies, multinational trade unions, labor rights groups, and development charities are among the organizations that make up ETI's membership. The partnership

has exceptional credibility and influence due to its years of expertise and united purchasing power. Establishing best practices in ethical trade, encouraging stakeholder engagement, influencing policy, increasing awareness, and encouraging member companies' ethical trade performance to continuously improve are some of the key efforts.

Around the world, ETI is involved in a number of projects that support refugees, address conflict-affected areas, advance sustainable textile methods, and manage the effects of natural catastrophes on laborers. The goal is to improve varied supply chains by means of advocacy campaigns, strategic partnerships, and continuing programs that demonstrate a dedication to the welfare of the global labor force (ETI website, 2024).

3.5.6 SAC- Sustainable Apparel Coalition & Higg Index

Figure 31: Sustainable apparel coalition logo & Higg Index logo

Source: Sustainable apparel coalition website, 2024

In the realm of sustainable fashion, the Sustainable Apparel Coalition (SAC) is a leader in collaborative effort and innovative vision. In 2009, CEOs from top international corporations were invited by Walmart and Patagonia to collaborate on creating an index that would evaluate the environmental effect of their products. While in 2010, many organizations from all over the apparel sector came together to start working cooperatively on a standardized method of measuring sustainability, which would eventually become the Higg Index.

SAC is a non-profit association and has definitely a global reach, since comprises 300 esteemed brands, retailers, manufacturers, NGOs, and academic institutions all over the world with over $845 billion in annual revenue. SAC with all its brands is committed to

shape an industry that not only thrives economically but also support the planet and its people.

The goal is to create an industry that gives back more than it takes, and this is at the core of what SAC does, by involving multi-stakeholder engagement, to obtain exponential impact. The result of the collaboration with its members is a groundbreaking tool, the Higg Index which serves as a global approach to effectively measure and evaluate the social and environmental impacts of value chains and products.

The HIGG Index established in 2011 thanks to collaborative efforts by top brands, retailers, and manufacturer; it is now the industry's most widely used standard measurement framework for the clothing and footwear industry, being adopted by more than 24,000 companies worldwide. This innovative approach addresses important issues like labor conditions, carbon emissions, and water use, offering a solid dataset to help develop green policies.

The Higg Index involve five tools divided in:

- Product tools → with the aim to understand the environmental impacts of different production choices when designing a product:
    - Higg Materials Sustainability Index (Higg MSI)
    - Higg Product Module (Higg PM)
- Facility tools → with the aim of identify opportunities for continuous sustainability improvement in manufacturing facilities:
    - Higg Facility Environmental Module (Higg FEM)
    - Higg Facility Social & Labor Module (Higg FSLM)
- Brand and retail tools → the aim is to find ways to improve business operations' sustainability over time:
    - Higg Brand & Retail Module (Higg BRM)

Members of SAC are part of a global community in over 36 countries, uniting retailers, manufacturers, policymakers, and NGOs. In fact, the focus is not solely on improving individual companies but stimulate industry-wide transformation, turning sustainability from a choice into an imperative (SAC website, 2024).

"Evolution for Impact," which unites the three interrelated pillars of SAC Nature Positive Future, Decent Work for All, and Combat Climate Change, is the guide for transformation. These pillars, which acknowledge the connected threads of a complicated tapestry, form a cohesive plan for industry transformation. Nature Positive Future goal is to contribute positively to biodiversity, natural ecosystems, and the communities in which SAC operate. The commitment to Decent Work for All ensures that every worker deserves respect and safe working conditions. Acknowledging the urgency of climate change, Sac is committed to a minimum 45% reduction of GHG emissions by 2030.

Sustainable Apparel Coalition is not just an alliance, but it is a force propelling the industry towards positive change.

CHAPTER 4

Benetton Group's Integrated Report: A Deep Dive into Sustainability Practices

4.1. Story of the Group

Figure 32: Benetton Group logo

Source: Benetton Group website

Benetton Group, founded in 1965 in Ponzano Veneto, Treviso, by four brothers: Luciano, Giuliana, Gilberto, and Carlo Benetton. Initially named "Maglierie di Ponzano Veneto dei fratelli Benetton", the family initial enters into knitwear occurred in 1955 with the Edizione Company[24]. However, economic difficulties prompted Luciano, the eldest brother, to seek employment in a Treviso clothing shop. This experience provided him with valuable insights into customer preferences and highlighted inefficiencies in the shop's management.

The realization that customers needed comfortable and functional clothing led to the realization of the iconic "sweater." Giuliana's creation of a distinctive yellow sweater for Gilberto unintentionally triggered a trend, prompting the brothers to abandon their existing jobs and concentrate on producing colored sweaters. At the beginning, they started the production only for local retailers, then the success of this business led to further expansion across Italy opening its first store in Belluno in 1966, followed by locations in Paris in 1969, in Europe, and after all over the world.

In the 1980s, Benetton experienced significant global growth, marked by store openings in New York, Tokyo, and Eastern Europe. The export at the time constituted 60% of the turnover. After, Benetton started a diversification of the product portfolio with the introduction of T-shirts and jeans under various brands. Benetton evolved in 2005 into

[24] "Edizione", founded in 1955, is the company through which the Benetton family has diversified its investments.

one of the world's premier clothing companies, operating in 120 countries with over 5,000 stores.

Despite encountering challenges in the sports segment, Benetton maintained a strong presence in the casual wear market, emphasizing cost leadership and product identity. The group expanded into complementary activities, such as sales of raw materials and advertising services.

Benetton's success lies in its ability to appeal to young consumers with an innovative image, offering quality products at competitive prices. The company operates under various brands, including United Colors of Benetton, UnderColors, Sisley, and Playlife (dismissed today). Over time, Benetton embraced an internationalization strategy, using licensing agreements, joint ventures, and foreign subsidiaries to cautiously enter new markets. Benetton Group employs two distinct development and production methods: commercialized and industrialized. In the past, the industrialized method involved approximately 70% of the production, while now accounts for about 40%, this channel involves producing the product in company-owned factories, specifically Olimpias, with locations in Tunisia, Serbia, and Croatia. This method allows to keep prices down while maintaining high standards of quality. On the other hand, the commercialized approach differs, as the garment is outsourced and purchased from third-party suppliers, this channel makes use of cheap labor from Asian nations, which offers cost advantages but frequently comes at the expense of performance and product quality. In this scenario, for technical and stylistic factors, Benetton maintains control and decision-making authority even while vendors manufacture the product directly.

Beyond its business endeavors, Benetton emphasizes environmental responsibility and societal well-being. In the 1980s, the company transitioned from a family-run entity to a managerial one, hiring specialized managers to guide its internationalization strategy. The group's dedication to combining economic growth, social commitment, and ethical business practices underscores its vision for a globally connected, sustainable, and responsible future. This multifaceted approach has positioned Benetton as a significant player in the fashion industry, blending innovation, global presence, and a commitment to societal and environmental welfare.

4.2 Overtime and nowadays introduction of CSR reporting and sustainability In Benetton Group

This last chapter of this thesis will focus on corporate social responsibility and sustainability of a specific company: Benetton Group. Sustainability needs to be at the core of companies interests. A lot of companies during years understood the importance of CSR reports to share with stakeholders important features about the company, especially for companies in controversial sector as fashion industry is. Corporate social responsibility covers a wide range of relevant topics and information that outline how a business engages with its communities.

The CSR reports disseminated by companies typically start by articulating the company's objectives and future goals concerning social and environmental performance. These reports frequently provide transparency regarding industry-specific social and environmental events, various policies, adopted practices, and philanthropic initiatives. Some companies incorporate sections summarizing notable achievements and successes, while openly addressing concerns or risks. Corporations can create a complete reporting framework by disclosing a clear goal, together with a comprehensive action plan and quantifiable indicators (Adams, 2004). This approach offers a clearer understanding about how firms uphold accountability and demonstrate a commitment to improving environmental and social impacts. The key characteristics that drive successful CSR reporting include transparency and maintaining an open communication channel with stakeholder groups.

CSR reports are accessible on company websites, the Global Reporting Initiative (GRI) database, and in corporate annual reports. They generally follow a similar structure, starting with a letter from corporate leadership, a company introduction, annual objectives, and quantitative targets, followed by a performance summary and an action plan for the future (Lydenberg and Wood, 2010). Companies may have different goals when it comes to sustainability; some may prioritize minimizing their negative effects on the environment, while others may focus on improving working conditions all the way up the value chain.

By the way, not all the businesses choose to share CSR reports, even if, as stated in paragraph 2.4.2, the disclosure is going to be mandatory.

Benetton group while globally expanding has always being engaged into social commitment. The Group, through its early multicultural advertising efforts, underlined its attention to subjects such as the battle against racism and the significance of integration. The business has consistently demonstrated a commitment to preserving moral principles and the environment, including human rights engagement. Benetton Group has conducted advertising campaigns against the culture of hatred, such as "Unhate" in 2011. Furthermore, it has collaborated with other internationally respected non-profit groups on a number of topics, including the preservation of animal species, the protection of refugees from Kosovo, and world hunger. Benetton Group continues to be committed to becoming a socially conscious business, taking into account economic, environmental, and social factors. The business promises to protect the rights of the current and future generations while promoting sustainable development in the areas in which it conducts business. For over fifty years, Benetton's values translate into the desire to become an agent of social change, emphasizing attention, dialogue, and cooperation to enhance the interests of all stakeholders. Benetton Group's internationalization has an effect on the entire world, which forces the business to adopt sustainability initiatives on several fronts. By including social and environmental factors and focusing on all spheres of influence, these strategies seek to create long-term shared value both inside and beyond the organization.

The Benetton Group uses a number of strategies to improve sustainability, such as constant supply chain monitoring and a focus on social and environmental issues. Anyone establishing a partnership with the corporation is required to follow its Code of Conduct. Benetton prioritizes the final product over the supply chain, guaranteeing sustainability requirements in manufacturing procedures as well as end-user safety. Benetton's sustainability strategy takes into account social engagement, environmental concerns, sustainable supply chains, and stakeholders. The corporation connects its plans with international norms on human rights and corporate social responsibility, trying to integrate sustainability into all elements of its operations.

Today, the group is dedicated to becoming a socially, environmentally, and economically responsible global business that develops with the communities in which it works since it takes proactive measures to meet its social and environmental objectives, allocating 1% of its yearly revenue to sustainability initiatives.

The first way to show Benetton commitment into sustainability is related to GREEN B, a comprehensive sustainability project that includes all of the company's brands' sustainability initiatives. It represents a dedication to social and environmental responsibility and reflects the ideals of the business. GREEN B encompasses initiatives to increase the distribution of sustainable products, create a supply chain that is socially and environmentally responsible, and improve waste management and energy efficiency in corporate offices and retail locations. The letter "B" from the founders' last name is combined with the recognizable green color of Benetton's emblem to create the symbol "GREEN B," which stands for the core of sustainability. Inspired by Benetton's knit stitch, the bee logo (Fig. 33) represents individual efforts within a cooperative hive, demonstrating the company's dedication to sustainability. The project will demonstrate Benetton's dedication to generating value while respecting the environment and people and will be evident in stores, internet platforms, clothing tags, and the Integrated Report.

The focus of this dissertation will be a punctual analysis of Benetton group integrated report (2022). Glancing at figure 34, a summary of the projects and initiatives carried on by the company with the principal features are displayed. In the same section of the report (p.15), all the main objectives related to Sustainable Development Goals (SDGs) are shown, with the areas that have been under major scrutiny. Report exhibits in fact, that the company chose to associate its actions with the SDGs closest to its core business and strategic action areas (Fig. 35).

This dissertation has the aim to provide a more thorough analysis of the integrated report that was just mentioned, along with a summary of the company's sustainability objectives, the measures the company is currently employing to address the environmental and social challenges discussed in Chapter 3, and outline the

certifications the company has acquired to advance its Corporate Social Responsibility (CSR).

Figure 33: Green B logo

Source: Benetton Group Website, 2024

Figure 34: Projects and initiatives of Benetton Group in 2022

Source: Integrated report of Benetton Group (2022)

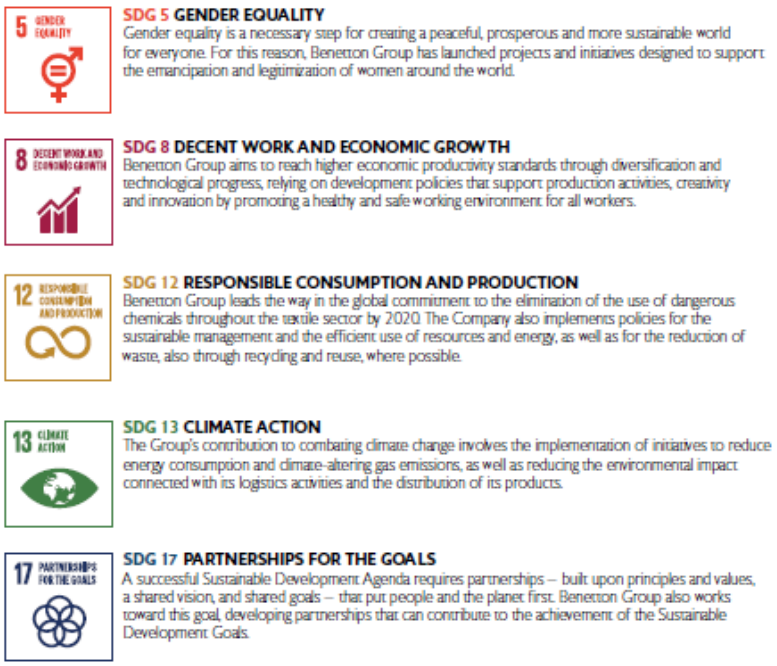


Figure 35: SDGs pursued

Source: Integrated report of Benetton Group (2022)

4.3 Sustainable Materials: Guidelines And Certifications

In line with sustainable development goal 12, related to responsible consumption and production, 80% of the fibers used in Benetton Group goods are derived from natural sources, and half of the materials used are monofiber, which is easier to recycle. Benetton Group is dedicated to reducing negative impacts on society and the environment at all stages and processes when acquiring the raw materials used in its collections. The sourcing process needs to adhere to both international and local regulations and should not damage biodiversity or the environment. Benetton Group approved their "preferred" material[25] usage guidelines in 2019 and the company relies on third-party certification methods (if available) to define the "preferred" materials in order to guarantee the integrity of sourcing procedures. The Forest Stewardship Council (FSC)[26], the Responsible Wool Standard (RWS), the Responsible Down Standard (RDS), the Global Organic Textile Standard (GOTS), the Global Recycled Standard (GRS), the Responsible Content Standard (OCS), and the Responsible Claim Standard (RCS) are the standards employed in the certification procedures. Even though these standards are actively employed from Benetton group to reach its sustainability goals, the company is not certified to all of these standards. This scenario will be better outlined in the following paragraphs.

In order to track its progress, Benetton Group contributes to the Textile Exchange's Corporate Fiber and Materials Benchmark (CFMB) and consult the Material Change Index (Materials change index, 2023) to orient its sourcing strategy. With a grade range of 1 to 4, this index provides useful information about the company's performance in terms of business integration, performance branding, circular economy, and impact areas (Fig. 36). Additionally, Benetton is following the development of PFM matrix[27], Preferred Fiber and Material Matrix, which combines quantitative and qualitative data that allows for detailed comparisons within each particular material category. The

[25] fiber or raw material that, compared to the conventional alternative, continuously reduces impacts and increases benefits for the environment, people, and climate by taking a comprehensive approach to changing production processes.
[26] an international, non-governmental organisation with the aim to promote responsible management of the world's forests.
[27] Preferred Fiber and Materials Matrix - Textile Exchange

impact criteria encompass human rights, animal welfare, water contamination, and soil health. Some goals of Benetton group include:

- 75% of materials will be sustainable by 2025
- 100% of the cotton used will be sustainable by 2025
- 30% of wool will be recycled by 2030
- 100% of recycled or bio-based synthetic fibers by 2030
- 100% of man-made fibers from low-impact suppliers by 2030

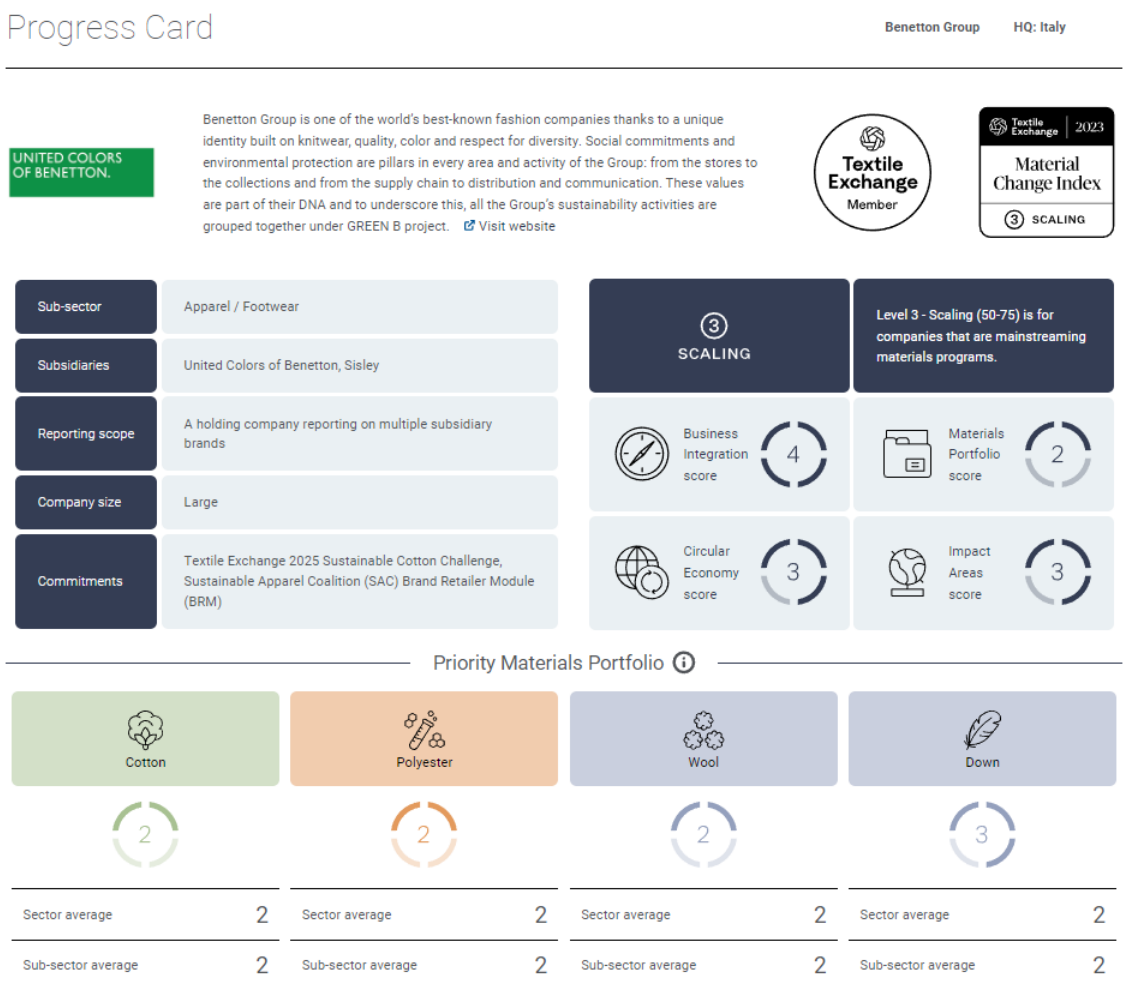


Figure 36: Material Change index of Benetton group 2023

Source: Textile Exchange, 2023

4.3.1 Certifications on natural fibers: Cotton

Approximately 70% of the volume produced by the Benetton Group is made of cotton. Chapter 3 outlined very well all the negative influence on environment and society of the employment of conventional cotton, as the amount of water used, the generation of carbon dioxide. As a result, the Benetton Group started a phase of change in recent years that will result in the use only of sustainable cotton, like organic, recycled or Better Cotton.

In 2022, 12% of the cotton used by Benetton was organic cotton. Organic cotton is produced from non-genetically modified plants that are cultivate in accordance with organic agricultural methods, free of chemical pesticides, fertilizers, or GMOs, and so having less environmental effect. Organic cotton is sourced by Benetton from verified supplier channels. These independent certification programs, already mentioned in chapter 3, track the origin of organic cotton.

Not only organic, but Benetton Group has been using more recycled cotton since 2019. Recycled cotton is a sustainable fiber made from textile scraps that are obtained from pre-consumption[28] and post-consumption[29]. These are collected, color-sorted, chopped into little pieces, frayed, and then used again to create fresh pre-colored yarns. The company is able to make products that are durable and of high quality while having a minimal environmental impact thanks to a carefully studied blend of recycled raw materials (at least 20%) from approved supply chains and virgin fibers.

Since 2017 Benetton Group is part of Better Cotton, the biggest initiative in the world dedicated to cotton sustainability. The Group acquires cotton that has been processed and farmed by farmers who have received training to reduce the use of pesticides and fertilizers, use water and soil sustainably, and adhere to the principles of equality in labor relationships. According to estimates based on the overall yearly need for cotton,

[28] Waste materials generated during the processes of production and manufacturing before the finished product reaches the end consumer. Include: factory scraps, fabric cut-offs, or residue of material used during the production of a specific product.

[29] Materials derived from products that have already been used and discarded by consumers, such as plastic bottles, old clothes, fishing nets, feathers from old pillows, and objects that can no longer be used for their intended purpose.

the percentage of better cotton in 2022 was 43%. Another big step towards CSR has been made with the OCS, since Benetton from October 2023 has been certified with OCS certification.

To affirm its dedication to organic and recycled cotton, Benetton showcases labels on the finished garments produced and displayed in stores. These labels serve to certify the origin of the garments, aligning with the principles of the GREEN B collection. To add these tags on clothes (example is figure 37), the raw material needs to be certified as GOTS or OCS by suppliers by providing a scope certificate, whose use is better explained in the next paragraphs.

Thanks to the Preferred Fiber & Materials Matrix it is possible to state how important is for owners of sustainability standards systems to assess performance in a standardized way and it also help brands to make informed material sourcing decisions. The matrix assesses various standards systems on a 100-point scale divided by different area performance, with an overall area (climate, water chemistry etc) scaling from one to four, providing a comprehensive overview within specific material categories. Any comparisons should be made within the same material category. Regarding cotton, following figure 38, many certifications are taken into consideration, and each one is performing differently.

Figure 37: label Organic Cotton

Source: Own material

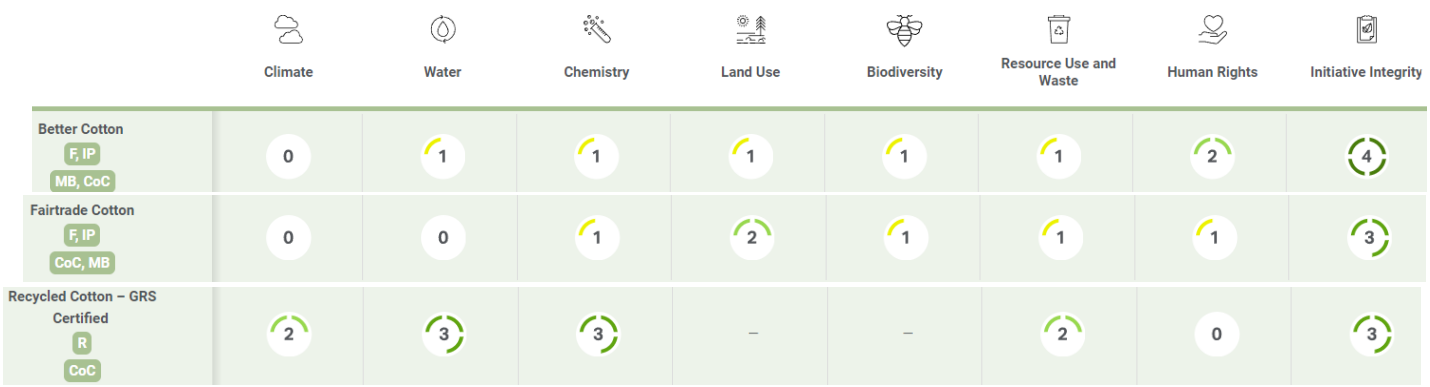


Figure 38: certification score per area Cotton

Source: Preferred fibre and material matrix, Textile exchange 2024

4.3.2 Certifications and program: Wool

Benetton Group fully recognizes the excellence of wool, a naturally sustainable material, and has a long history of producing knitwear made in Italy. Wool is solid biodegradable, and requires less cleaning in colder climates. A growing percentage of recycled wool is used in Benetton Group collections, allowing for a reduction in raw material use in keeping with the circular economy's principles.

In 2022, Benetton Group renewed its partnership with The Woolmark Company, an Australian brand dedicated to creating and encouraging a more conscientious use of wool and reassuring manufacturers and customers that wool is a sustainable choice for the fashion industry. Over a million Extra Fine Merino clothing items from the Fall-Winter 2022 UCB range have their quality and sustainability certified as a result of the cooperation.

Moreover, Benetton Group became the first fashion company in Europe to join the International Wool Textile Organization (IWTO) in 2017. This membership enables Benetton Group to influence contemporary issues like recycling, yarn quality, traceability, and animal protection while also helping to make the wool supply chain more transparent and sustainable.

Some items in the Children's collections have been made with recycled wool as of the Fall-Winter 2021 collection. Wool keeps all its characteristics and is recyclable, much as other textile fibers. Italy is the global leader in the recycling of wool. Recycling is a deliberate decision that helps to prevent possibly harmful production stages, preserve raw materials, and reduce the amount of trash. The recycled wool clothing line from Benetton Group combines recycled and virgin fibers (at least 20%) from approved supply chains to provide both a lower environmental impact and the quality that customers expect from Benetton products.

Similar to labels for cotton, to highlight its dedication to recycled wool, Benetton adds labels to the finished clothing that is shown in stores. Always according to Green B principles, wool must be certified by GRS or RCS from supplier to apply the tag on the finish garment (example fig. 39)

Figure 39: Recycled wool label

Source : own material

As earlier, some wool certifications. Except for RCS, and the woolmark program, Benetton Group is not yet certified for any particular certification related to wool. Responsible Wool Standard, from the analysis of Preferred fiber and material matrix, result one of the prominent certification on wool (figure 40).

	Climate	Water	Chemistry	Land Use	Biodiversity	Resource Use and Waste	Human Rights	Animal Welfare	Initiative Integrity
Recycled Wool – GRS Certified R CoC	2	2	1	–	–	2	0	–	3
Recycled Wool – RCS Certified R, CoC	1	1	0	–	–	0	0	–	3
Responsible Wool Standard F	0	0	1	2	2	0	0	4	3

Figure 40: certification score per area: Wool

Source: Preferred fibre and material matrix, Textile exchange 2023

4.3.3 Certifications and programs: Down and feathers

Since 2017, Benetton group has been certified by the Responsible Down Standard (RDS), a process that ensures that down feathers originate from geese and ducks kept for food in accordance with animal welfare principles and criteria. Furthermore, some of regenerated feathers was incorporated into the 2022 collections of the company.

In United Colors of Benetton's collections, a portion of the duck and goose feathers are regenerated. They are collected from earlier goods, then cleaned, sterilized, sifted, and combined to find the ideal ratio of warming power to lightness. This procedure, which feeds the positive cycle of recovery and reuse, is rigorously regulated, verified, and repeatable.

Tags for jacket in responsible down have equal treatments as cotton and wool (figure 41). The product need to be certified by supplier for RDS (fig. 42) and subsequently, the vendor provides its Scope Certificate for the down and feathers and transaction certificates on the product shipped. Each year, the company is checked by an audit. Below an example of the scope certificate provided by a supplier for outwear category of Benetton group.

Figure 41: tag for responsible down

Source: own material

Control Union Certifications B.V.
P.O. Box 161, 8000 AD Zwolle
The Netherlands
http://www.controlunion.com
certifications@controlunion.com
tel.: +31(0)38-4260100

Scope Certificate

Scope Certificate Number

Control Union Certifications B.V.
certifies that

Ha Hae corporation
License number :

has been audited and found to be in conformity with the

Responsible Down Standard (Version 3.0)

Product categories mentioned below (and further specified in the product appendix) conform with the standard(s):
Unisex apparel (PC0005), Children's apparel (PC0004), Men's apparel (PC0001), Women's apparel (PC0002)

Process categories carried out under responsibility of the above mentioned organization for the certified products cover:
***Packing (PR0020), Trading (PR0030), *Manufacturing (PR0016), *Warehousing, distribution (PR0031)**
*The processes marked with an asterisk may be carried out by subcontractors.

This certificate is valid until: 2024-12-20
Audit criteria: Responsible Down Standard V3.0, Content Claim Standard V3.1, Textile Exchange Standards Claims Policy V1.3

Place and Date of Issue
SEOUL, 2023-12-21
Last Updated:
2023-12-21

Signature of Authorized Person

Oh, Ms. I. (Inez (Ye Jee))

Certification Body

Standard

Certification Body Licensed by: Textile Exchange; Licensing Code: CB-CUC
Certification Body Accredited by: Sri Lanka Accreditation Board [CP 004-01]
Inspection Body: Control Union Korea Co., Ltd.

Figure 42: supplier RDS scope certificate

Source: Own material

4.3.4 Recycling initiatives

Fossil materials are non-renewable resources that are utilized to make synthetic fibers, and demand for them has been growing increasingly on a global scale. For following years, as resulted from integrated report (2022), Benetton Group plans to keep using synthetic fibers that have been recycled from pre- or post-consumption sources. In order to ensure maximum traceability for customers, the company decided to use recycled materials certified in line with Textile Exchange standards.

For instance, nylon, a polymer made in a lab, is highly valued in the textile industry for its strength, flexibility, and low weight, although being hard to recycle. Recycled materials can be used to create new fibers that have the same qualities as the originals but with less environmental effects and CO2 emissions. A number of items from United Colors of Benetton, especially the beachwear line, are composed of ECONYL®, a nylon

fiber that is entirely recycled from garbage and manufacturing waste. ECONYL® uses less extra raw material while retaining the same qualities and functionality as nylon.

Then, one of the synthetic fibers that is most frequently employed by the textile industry is polyester. Benetton Group decided to support textiles with at least 20% recycled polyester from approved supplier chains that attest to the origin and recycling of production waste and materials that would otherwise end up in landfills.

A certain number of the down jackets produced by Benetton Group are constructed with recycled polyester wadding that comes only from approved supply networks. To be more precise, it is created by recycling regular PET bottles; around 26 33-cl bottles are needed to stuff a man's jacket. Polyester recycling uses significantly less water and energy than producing virgin polyester, which not only reduces the quantity of plastic that would need to be disposed of in landfills but also reduces the usage of nonrenewable resources like petroleum.

One key point this dissertation wish to clarify is that Benetton Group has obtained the Recycled Claim Standard (RCS) for recycled materials, effective from October 2023, however, the company is not certified itself for Global Recycled Standard (GRS), since GRS certification entails more stringent criteria, outlined in paragraph 3.3.3.

Similarly, Benetton Group is not fully certified for the Global Organic Textile Standard, as GOTS requires all supply chain steps to be certified, from sourcing of raw materials to distribution of finished garments. Benetton Group's certification is limited to the materials used in its products, meeting GOTS standards.

At the bottom of first paragraph of this chapter, this thesis outlined the differentiation between the two distinct production methods Benetton Group employs: commercialized and industrialized. Since this distinction, also the method of awarding certifications, which is discussed now, is different. In the case of the commercialized products, the vendor provides its Scope Certificate, covering the declared product categories which in the case of cotton, wool and recycling initiatives are GOTS, OCS, GRS, RCS, along with a Transaction Certificate for the shipped merchandise. Meanwhile, in the industrialized approach, Benetton Manufacturing Tunisia ensures that the fabrics are covered by both the Scope Certificate and the Transaction Certificate.

Figure below 43-44-45-46 shows some scope certificates of Benetton group commercialised vendors for each certification discussed.

Control Union Certifications B.V.
Meeuwenlaan 4-6 , 8011 BZ , Zwolle , Netherlands , NL
+31 38 426 0100
www.controlunion.com

SCOPE CERTIFICATE

Scope Certificate Number:

Control Union Certifications certifies that

Dice For Ready Made Garments (Dice 1)

License Number:

Cairo , Egypt , EG

has been audited and found to be in conformity with the
Global Organic Textile Standard (GOTS)
- Version 6.0 -

Product categories mentioned below (and further specified in the product appendix) conform with the standard(s):
Product categories: Children's apparel (PC0004), Men's apparel (PC0001)

Process categories carried out under responsibility of the above mentioned company for the certified products cover:
Dyeing (PR0008)*, Knitting (PR0015)*, Embroidery, embellishment (PR0009), Manufacturing (PR0016), Trading (PR0030), Warehousing, distribution (PR0031)
*The processes marked with an asterisk may be carried out by subcontractors.

This certificate is valid until:
2024-04-09

Place and date of issue:
Zwolle, 2023-05-03
On behalf of the Managing Director
Ibrahim Alrashdy | Certifier

Certification Body

Standard's logo

Figure 43: supplier scope certificate for GOTS

Source: own material

TAIWAN IDFL LABORATORY AND INSTITUTE LIMITED
8F., No. 312, Sec. 2, New Taipei Blvd., Xinzhuang Dist., New Taipei City 242032 Taiwan

SCOPE CERTIFICATE

Scope Certificate Number.

IDFL
certifies that

MASCO TEX LTD.

MASCO TEX LTD.

LICENSE NUMBER

Dhaka, Bangladesh

has been audited and found to be in conformity with the

Organic Content Standard (OCS) (Version 3.0)

Products categories mentioned below (and further specified in the product appendix) conform with the standard(s):
Men's Apparel (PC0001); Women's Apparel (PC0002); Babies' Apparel (PC0003); Children's Apparel (PC0004); Home Textiles (PC0010); Worn Accessories (PC0012)

Process categories carried out under responsibility of the above mentioned organization for the certified products cover:
Embroidery (PR0009); Pre-treatment (PR0021); Manufacturing (PR0016); Knitting (PR0015); Dyeing (PR0008); Printing (PR0023); Finishing (PR0012); Embellishment (PR0009)

This certificate is valid until: 2024-10-21
Audit criteria: Organic Content Standard V3.0; Content Claim Standard V3.1; Textile Exchange Standards Claim Policy V1.1

Place and Date of Issue (YYYY-MM-DD)
TAIWAN IDFL LABORATORY AND INSTITUTE LIMITED, 2023-10-22
Last Updated: 2023-10-22

Certification Body
IDFL License No: CB-IDF

Standard

Wilford Lieber, CEO

Certification Body Licensed by: Textile Exchange (TE) ; Licensing Code: CB-IDF

Figure 44 : supplier scope certificate OCS

Source: own material

Control Union Certifications B.V.
Meeuwenlaan 4-6 , 8011 BZ , Zwolle , Netherlands , NL
+31 38 426 0100
www.controlunion.com

SCOPE CERTIFICATE

Scope Certificate Number:

Control Union Certifications certifies that

Zhangjiagang Free Trade Zone Kailian International Trade Co., Ltd.

License Number:

has been audited and found to be in conformity with the
Global Recycled Standard (GRS)
- Version 4.0 -

Product categories mentioned below (and further specified in the product appendix) conform with the standard(s):
Product categories: Dyed yarns (PC0029), Greige yarns (PC0030)

Process categories carried out under responsibility of the above-mentioned company for the certified products cover:
Trading (PR0030), Dyeing (PR0008)*, Spinning (PR0027)*
*The processes marked with an asterisk may be carried out by subcontractors.

This certificate is valid until:
2023-11-13
Audit criteria:
Global Recycled Standard V4.0; Content Claim Standard V3.1; Textile Exchange Standard Claims Policy V1.2

Place and date of issue:
Zwolle, 2022-11-14
Last updated: 2022-11-14

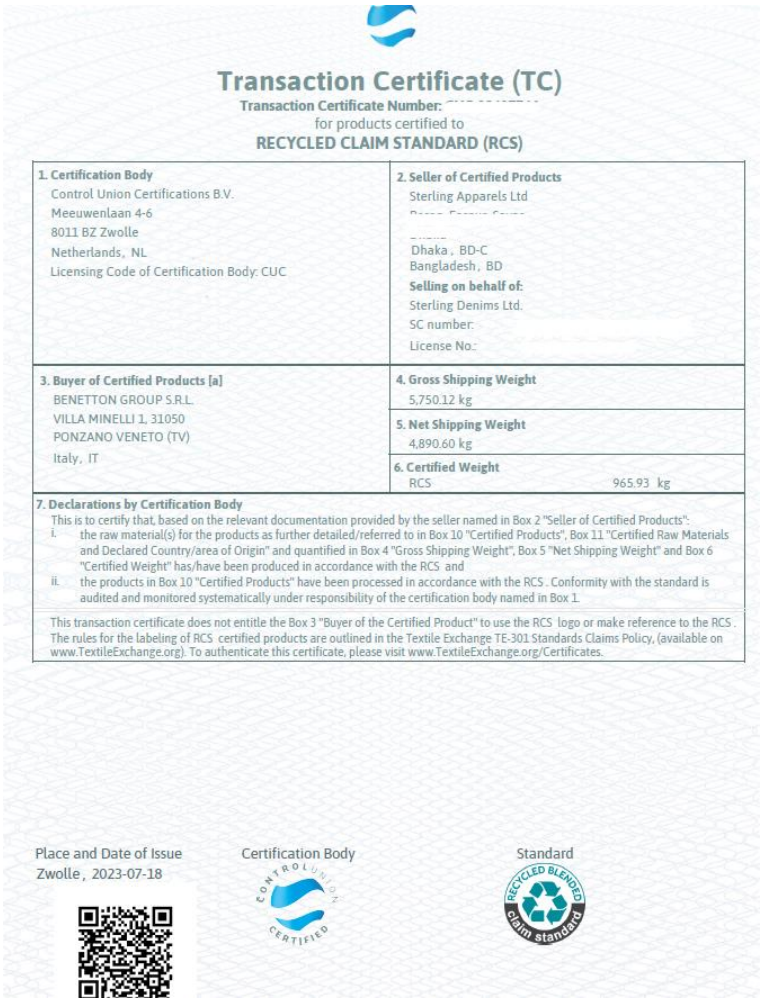
Certification Body

Standard's logo

Global Recycled Standard

Figure 45: supplier scope certficate GRS

Source : own material



Transaction Certificate (TC)

Transaction Certificate Number:
for products certified to
RECYCLED CLAIM STANDARD (RCS)

1. Certification Body
Control Union Certifications B.V.
Meeuwenlaan 4-6
8011 BZ Zwolle
Netherlands, NL
Licensing Code of Certification Body: CUC

2. Seller of Certified Products
Sterling Apparels Ltd
Dhaka , BD-C
Bangladesh, BD
Selling on behalf of:
Sterling Denims Ltd.
SC number:
License No.:

3. Buyer of Certified Products [a]
BENETTON GROUP S.R.L.
VILLA MINELLI 1, 31050
PONZANO VENETO (TV)
Italy, IT

4. Gross Shipping Weight
5,750.12 kg

5. Net Shipping Weight
4,890.60 kg

6. Certified Weight
RCS 965.93 kg

7. Declarations by Certification Body
This is to certify that, based on the relevant documentation provided by the seller named in Box 2 "Seller of Certified Products":
i. the raw material(s) for the products as further detailed/referred to in Box 10 "Certified Products", Box 11 "Certified Raw Materials and Declared Country/area of Origin" and quantified in Box 4 "Gross Shipping Weight", Box 5 "Net Shipping Weight" and Box 6 "Certified Weight" has/have been produced in accordance with the RCS and
ii. the products in Box 10 "Certified Products" have been processed in accordance with the RCS. Conformity with the standard is audited and monitored systematically under responsibility of the certification body named in Box 1.

This transaction certificate does not entitle the Box 3 "Buyer of the Certified Product" to use the RCS logo or make reference to the RCS. The rules for the labeling of RCS certified products are outlined in the Textile Exchange TE-301 Standards Claims Policy, (available on www.TextileExchange.org). To authenticate this certificate, please visit www.TextileExchange.org/Certificates.

Place and Date of Issue
Zwolle, 2023-07-18

Certification Body

Standard

Figure 46: supplier scope certificate RCS

Source : own material

4.4 Social Sustainability initiatives by Benetton Group

Benetton Group chooses its suppliers based on social, ethical, and environmental standards in addition to the competitiveness and quality of the items they supply, since suppliers are crucial partners for the Benetton Group in safeguarding human rights. For this reason, they conduct regular testing, selection, training, and evaluation in order to make sure that everyone involved in the supply chain receive fair and appropriate treatment. Benetton Group updated and released a statement in 2020 reaffirming its commitment to upholding human rights. The statement was based on Section 54 of the

Modern Slavery Act of 2015 and detailed the steps taken to actively promote respect for human rights and to prevent and mitigate the risk of all forms of slavery along the supply chain.

4.4.1 Benetton Code of Conduct

Every individual or company that conduct business with Benetton commits to adhering to Group's Code of Conduct, which is based on respect for environmental preservation and human rights. The Group's Code of Conduct implements the most pertinent international standards, with special reference to the UN Guidelines on Business and Human Rights of June 2011 and the Communication from the European Commission on the revised strategy on Corporate Social Responsibility of October 2011. In order to facilitate suppliers' operational implementation of the Code of Conduct and make it easier to understand, the Guidelines for Benetton Group's Code of Conduct for Manufacturers are also available on the Group's website in multiple languages. These guidelines outline Benetton's expectations with regard to workplace safety, respect for workers' rights, and environmental protection, as well as offering operational solutions and real-world examples.

4.4.2 Higg Index and Facility Social and Labor Module: FSLM

The Sustainable Apparel Coalition (SAC) is the largest global alliance of fashion brands and textile producers that promotes sustainable production. Since 2017, Benetton Group is part of the coalition. Additionally, the Higg Index is a series of tools developed by the SAC that the Group began using in 2018 to help suppliers, retailers, and brands evaluate their sustainability performance. In particular, Benetton Group encourages its suppliers to utilize the Higg Facility Tool, a self-assessment tool for evaluating social and environmental performance. In the social domain, the company adopted the Higg Facility Social and Labor Module (FSLM) in 2021 as a tool to evaluate the social performance of its suppliers.

According to the Group's Code of Conduct and the most recent industry standards, the module's main objectives are the verification and promotion of safe and equitable

working conditions across the supply chain as well as the evaluation of the efficacy and efficiency of the social management systems. Along with actively working with other brands, suppliers, worker representatives, and associations to define a common standard to assess social impacts and track progress in ensuring safe and dignified working conditions, Benetton is committed to preserving the human rights of both its direct and indirect workers.

The opportunity to reduce the effort required in audit operations and focus resources on improvement initiatives and data comparison led to the confirmation of the Higg FSLM module, which replaced the prior CSR program based on an internal application. In order to do this, the Converged Assessment Framework (CAF), a standard assessment instrument created by a multi-stakeholder project called the Social & Labour Convergence Program (SLCP) framework, is included in the contents of the Higg FSLM. Specifically, the FSLM module evaluates the following areas:

- Recruitment procedures
- Working hours
- Wages and benefits
- Treatment of workers
- Freedom of association and representation of workers
- Health & Safety
- Termination of the employment relationship
- Management system

All producers of finished garments (tier 1[30]) are obliged to implement the Higg FSLM module, with a focus on those based in regions where upholding the rights of people and laborers is considered more vulnerable (example for Benetton group is Myanmar which is constantly monitored). Suppliers must first complete a self-assessment module, which is then verified on-site by an auditing company certified as a Verification Body and

[30] Partners that the company directly conduct business with

recognized worldwide. In the event of errors or omissions, the audit corrects the provided data and confirms the accuracy of the information. With audits conducted in a public or semi-announced way, the tool not only focuses on identifying nonconformities but also on monitoring the management system for social concerns and working conditions. Lastly, the supplier might choose to distribute the platform module to other stakeholders (retailers, brands, and other manufacturers).

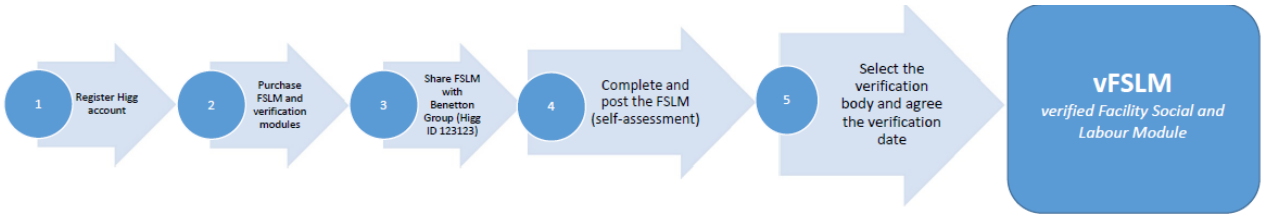


Figure 47: FSLM Process

Source: Own elaboration

Benetton Group, committed to analyzing potential risks associated with child and forced labor, regularly revises its assessments, placing a strong emphasis on human rights protection. All suppliers, including those in EU member states, undergo on-site third-party audits to verify compliance with workers' rights laws and the effectiveness of supervisory bodies' controls. Additionally, Benetton Group requires producers of finished goods to submit the Higg FSLM module annually, expecting continual performance improvement. To support this, the company assists suppliers in the remediation process through ongoing monitoring, revised remedial plans, and proof of resolved non-conformities. The company also prioritizes capacity-building initiatives, promoting the ongoing development of its suppliers.

Maintaining a zero-tolerance policy, Benetton addresses critical and high-risk non-conformities immediately, involving the Sustainability function in the evaluation of the FSLM module. Ratings (pass, pass with recommendation, fail) guide suppliers in addressing non-conformities, with dialogue initiated with worker representatives. In cases of a "fail" result, Benetton collaborates with suppliers to remediate issues, and commercial relationships may be terminated if deadlines or corrective actions are not met, or if zero-tolerance non-conformities arise. Exit strategies consider each supplier's specific circumstances, ensuring minimal impact on workers through steps like internal alignment, transparent communication, and ongoing monitoring of worker impacts.

Benetton Group is committing to gradually expand the scope of its FSLM operations throughout its supply chain, and in 2022, tier 2 wet process providers voluntarily requested the Higg FSLM module. Benetton Group evaluated the social performance of 263 finished product manufacturers in total. About 57% of these took corrective action to address the found non-conformities, while 9 business partnerships were terminated. Benetton shared the FSLM module with 39 wet process providers.

Tier 1 facilities - overall results by region						
	BANGLADESH	INDIA	FAR-EAST	EMEA	TUNISIA	TOTAL
PASS	93%	33%	82%	54%	78%	78%
PASS WITH RECOMMENDATION	7%	56%	14%	36%	8%	9%
TOTAL	100%	89%	96%	90%	86%	87%

Wet process facilities (Tier 1 & 2) - overall results by region						
	BANGLADESH	INDIA	FAR-EAST	EMEA	TUNISIA	TOTAL
PASS	54%	-	58%	100%	-	58%
PASS WITH RECOMMENDATION	38%	-	33%	0%	-	35%
TOTAL	92%	-	91%	100%	-	**93%**

Figure 48: table of evaluation of the FSLM module

Source: Benetton Group website, 2024

4.4.3 Global Partnerships and Commitment: Non-discrimination and association freedom & Accord on Fire and Building safety in Bangladesh

According to Benetton Group, every business must be dedicated to rejecting discrimination of any kind and making sure that its employees are treated fairly and with respect at all times. Through the disclosure procedure, two employee allegations of discrimination were received in 2022 and were successfully resolved. Seven instances of underrepresentation of workers in 2022 were noted. Other non-conformities have to do with workers' unfamiliarity with representative bodies and procedural problems.

In September 2021, Benetton Group reaffirmed its commitment to the previous agreement adhering to the International Accord for Health and Safety in the Textile and Garment Industry, which was signed in May 2013, after the universally remembered incident of Rana Plaza, cited in chapter 3. Benetton was among the first signatories of the Accord, an autonomous initiative that encompasses some 200 fashion firms globally, international trade unions, the International Labor Organization (ILO), and many non-governmental organizations. The goal of the Accord is to ensure the safety of all

Bangladeshi garment manufacturing workers. It also requires transparent local textile supply chains and independent inspections. The principal aspects of the agreement include:

- an impartial inspection program supported by the signatory companies, incorporating workers and trade union associations;
- clear and open communication of the inventory of production facilities, inspection reports, and corrective action plans;
- the commitment of the signatory companies to guarantee the successful execution of the corrective action plans and to sustain continuous business relations;
- the creation of democratically elected health and safety committees in every factory to identify the primary hazards concerning workers' health and safety;
- the augmentation of workers' competencies via an extensive training program;
- the enforcement of complaint procedures and the entitlement to decline to work in hazardous conditions.

The list of factories part of the Accord is publicly available[31] and they are categorized based on the proportion of corrective activities that have been carried out. As for Benetton's suppliers, by mid-2022, 45% had finished their remediation process, 14% were following the Accord's schedules for plan implementation, and 41% were working toward their goals but had missed some deadlines. 96% of the major problems with the fire safety system and 100% of the problems with the electrical and structural components have been fixed in comparison to the original non-conformities.

[31] https://bangladeshaccord.org.

	2020	2021	2022
GRI 414-1 New suppliers that were screened using social criteria			
Total number of suppliers	57	55	98
of which:			
Suppliers screened for their social impact	31	22	59
% of new suppliers screened for their social impact	54%	40%	60%
GRI 414-2 Negative social impacts in the supply chain and actions taken			
Total number of suppliers	576	547	536
of which:			
Suppliers screened for their social impact	187	235	263
Suppliers identified as having significant negative social impacts, real and potential in relation to the company	35	38	21
Suppliers identified as having significant negative social impacts, real and potential in relation to the company with whom improvement actions have been agreed to mitigate social impacts	23	26	12
% of suppliers identified as having significant negative social impacts, real and potential in relation to the company with whom improvement actions have been agreed to mitigate social impacts	66%	68%	57%
Suppliers identified as having significant negative social impacts, real and potential in relation to the company with whom relations have been terminated after the assessment	12	12	9
% of suppliers identified as having significant negative social impacts, real and potential in relation to the company with whom relations have been terminated after the assessment	34%	32%	43%

Figure 49: suppliers screened by social criteria and actions implemented

Source: Integrated report Benetton group, 2022

Another initiative Benetton Group supports, is linked to the development of textile recycling in Bangladesh by using waste from production processes to create new goods, as part of the Circular Fashion Partnership. The alliance aims to create economic value in Bangladesh by expanding the market for recycled fibers by facilitating commercial and circular collaborations between fashion companies, textile manufacturers, and recycling specialists. Following training, a few of the suppliers of the Benetton Group joined the program in 2022 and started gathering trash from the cotton industry to be recycled and resold.

4.5 Environmental Sustainability initiatives by Benetton Group

A more environmentally conscious supply chain aims to provide better working conditions and environmental protection. The Benetton Group's efforts in this domain have demonstrated efficacy in mitigating the ecological consequences of its supply chain.

4.5.1 Detox Commitment

Since 2013, Benetton Group and Greenpeace's Detox Program have collaborated to address the textile sector toward the complete elimination of dangerous chemicals from

production, protecting consumer safety as well as the welfare of regional communities globally. The commitments outlined in the Detox Commitment include the full elimination of 11 groups of hazardous chemicals, the adoption of a Restricted Substances List (RSL), and the publication of at least 80% of the wastewater test results pertaining to suppliers involved in the wet processes (dry cleaners and laundries, for example). Benetton joined the ZDHC group in 2013 too, in an effort to avoid isolated and ineffectual initiatives and to foster collaboration in order to find a shared solution for the textile industry. In order to strengthen its commitment to environmental sustainability, Benetton joined the Sustainable Apparel Coalition (SAC) in 2017 as a result of their interactions with other businesses and the partnership that resulted from their collaboration with ZDHC (see figure 50).

According to Greenpeace's report "Self Regulation: A Fashion Fairytale," Benetton has been confirmed as one of the leaders of the Detox Campaign in 2021, as it was in 2016 and 2018. Actually, Benetton is among the top companies when it comes to supply chain transparency and distancing off from fast fashion. Apart from being transparent in disclosing achievements and results, the report also shows the ongoing work made in the direction of the total elimination of dangerous chemicals. The remarkable outcomes and awards collected over time transformed the initial involvement in roundtables into a genuine dedication to implementing the SAC and ZDHC initiatives. These tools, that Benetton request to use from its suppliers are better outlined in the next paragraphs.

Figure 50: Benetton group programs over years

Source: Benetton Group website, 2024

4.5.2 Zero Discharge of harmful Chemicals: ZDHC Program

As a 2013 member in the Zero Discharge of harmful Chemicals (ZDHC) Program, Benetton Group works with brands worldwide to remove harmful chemicals from the textile sector. Developing instruments for responsible chemical management, establishing industrial process standards, addressing environmental discharges, and encouraging training and benchmarking are all part of the ZDHC's all-inclusive strategy. Benetton is committed to reducing the negative effects that its supply chain's wet processes have on the environment. Reducing the amount of ecologically and health-hazardous chemicals used in industrial processes is one of the main goals, with the aim of having all wet process providers fully compliant with ZDHC MRSL criteria by 2030. The ZDHC MRSL lists prohibited chemicals to make sure processes and final goods are free from dangerous impurities. Benetton requires its suppliers to employ only items that are verified by the ZDHC Gateway module to be ZDHC MRSL compliant.

Benetton Group is committed to the Zero Discharge of Hazardous Chemicals Programme, specifically emphasizing wastewater management through the ZDHC Wastewater Guideline. Every Benetton wet process supplier must conduct wastewater analyses in accordance with the ZDHC Guideline and publish the findings on the ZDHC Gateway. Since the program's inception in 2013, over 80% of Benetton's wet process production has been monitored, demonstrating the protocol's success. This represents ZDHC member brands' common goal of creating a sustainable supply chain, maintaining a channel of communication with suppliers, and becoming well-known in the market. The disclosure take place through the ZDHC Gateway with two modules: Chemical module for producers that have to share compliance to MSRL list, and Wastewater module containing test report. Benetton recommends that suppliers actively interact with the Gateway in order to obtain information and verify compliance.

Benetton also takes part in the ZDHC Signatory Brand Leader Program, demonstrating their support for the ZDHC community's goal of implementing and evaluating sustainable practices in the leather, textile, and footwear sectors. The Leader Programme seeks to promote concrete changes and overall program advancement by

improving comprehension, efficacy, and consistency in the application of ZDHC instruments.

4.5.3 Higg Index and Higg Facility Environmental Module: FEM

In the previous paragraph, this dissertation cited the Higg Index with Higg FSLM, part of the tools made accessible by the SAC. Beside Higg FSLM, Benetton employs also the Higg FEM (Facility Environmental Module), to evaluate suppliers that participate in wet process production. The Higg FEM is structured as a supplier self-assessment module that can also be validated by a third-party entity approved by SAC. It consists of about 80 questions and allows Benetton Group to monitor a number of activities, such as the adoption of environmental management systems, the use of water and energy, waste management, emissions into the atmosphere, and the use of chemicals.

The brand does not carry out audits or follow-up visits, but the supplier is part of a continuous process of transparency and improvement that is evaluated annually. Put differently, the Higg FEM bypasses the conventional "pass or fail" mentality and offers standards that let businesses identify their vulnerabilities and potential courses of action. Through its application, Benetton Group is able to evaluate a significant portion of its suppliers, roughly 90% by volume, who are involved in wet processes each year. This indicates the providers' dedication to calculating and minimizing their environmental effects.

In conclusion, from both social and environmental point of view, Benetton, as an active member of the Sustainable Apparel Coalition (SAC), in 2021 completed the Higg Brand Retail Module (Higg BRM) for the calendar year 2020. This module, verified by the independent organization TÜV Rheinland, serves to assess social and environmental impacts, meeting transparency requirements. The Higg BRM, already explained in chapter 3, is a comprehensive tool developed by SAC to measure overall sustainability performance. It facilitates reporting sustainability data in a simple, reliable, and comparable manner, evaluating sections such as management system, brand, retailer, stores, operations, and logistics, each with Environment and Social Scores. Benetton is

committed to annual improvement in its social and environmental performance measured by Higg BRM.

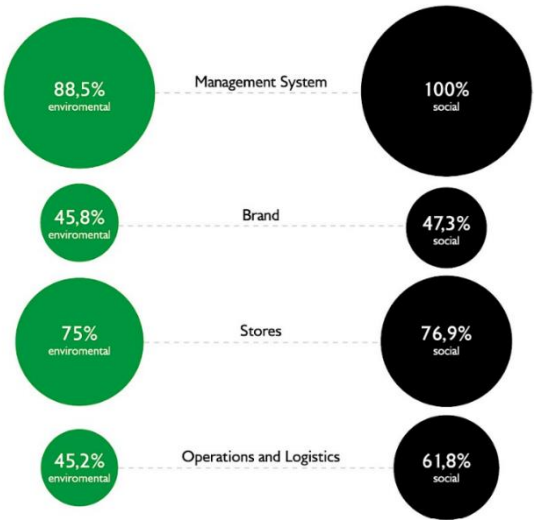


Figure 51: BRM score in 2020

Source: Benetton group website, 2024

	2022
GRI 308-1 New suppliers that were screened using environmental criteria	
Total number of suppliers of which:	32
New suppliers screened for their environmental impact	8
% of new suppliers screened for their environmental impact	25%
GRI 308-2 Negative environmental impacts in the supply chain and actions taken	
Total number of suppliers	223
of which:	
Suppliers screened for their environmental impact	118
Suppliers identified as having significant negative environmental impacts, real and potential in relation to the company	28
Suppliers identified as having significant negative environmental impacts, real and potential in relation to the company with whom improvement actions have been agreed to mitigate environmental impacts	28
% of suppliers identified as having significant negative environmental impacts, real and potential in relation to the company with whom improvement actions have been agreed	100%
Suppliers identified as having significant negative environmental impacts, real and potential in relation to the company with whom relations have been terminated after the assessment	-
% of suppliers identified as having significant negative environmental impacts, real and potential in relation to the company with whom relations have been terminated after the assessment	-

Figure 52: suppliers screened by environmental criteria and actions implemented

Source: Integrated report Benetton group, 2022

Data limited to suppliers with wet processes managed by Benetton Group S.r.l.

4.6 Safety and durability initiatives

Enhancing safety and durability has been a key focus for Benetton through the B-Long strategic project, a continued effort in 2022. This initiative aims to uphold Benetton's quality standards and ensure the longevity of materials used in garment production. B-Long facilitates monitoring of fabrics and colors in around 70% of United Colors of

Benetton products. Tests are carried out by accredited third-party laboratories, which improve project approval and material procurement procedures and act as essential cross-checks between various production facilities. Positive test results, confirm that the company's quality standards are being followed.

The Timeless Edition concept, implemented in select stores, offers products from past collections that maintain relevance due to their enduring quality and style, which goes beyond seasonal fashion trends. This approach aligns with Benetton's commitment to reducing waste and promoting sustainable and responsible fashion.

B-Care, an online consumer guide dedicated to United Colors of Benetton customers, that provides maintenance tips for clothing. With written instructions and video lessons, the guide offers helpful tips on how to take care of clothes at home to prolong their life, covering tasks such as sewing buttons, repairing items, and proper laundry techniques to prevent shrinking or damage.

In 2022, Benetton India's initiative "Clothes for a Cause" collected over 170,000 quality items returned by customers, which were then donated to those in need in the Delhi and Gurgaon region through local NGOs, including Goonj, Ashish Foundation, and Samarpan.

The "Dress Safely" project focuses on garment quality and safety, particularly in kidswear. The Dress Safely tag, which is always included in the Sisley Young, Undercolors of Benetton, and United Colors of Benetton children's clothing brands, attests to adherence to strict standards for textile safety. It guarantees that there is no risk of suffocation or trapping associated with product details and components.

The Benetton Group is committed to safety, longevity, and industry compliance; to achieve these aims, they verify the quality of the entire process, from raw materials to the finished product. An example to the company's innovative approach to sustainability is the Remix project. Through the collaboration with students from the Footwear Polytechnic, Benetton engaged in the Remix project to design and develop new shoes using materials from previous collections. The goal was to prevent sample shoes from being discarded, showcasing the company's commitment to sustainability. The resulting

shoe collection, presented at the MICAM[32] trade show, reflects Benetton's spirit while contributing to environmental conservation.

[32] Micam is a well-known international footwear industry expo that presents collections and offers an opportunity for both business and fashion.

Conclusion

Throughout this dissertation, the key purpose has been to depict a world where sustainable innovation, Corporate Social Responsibility (CSR), and proactive measures especially in the fashion industry are not just buzzwords, but integral components of companies' operations in our current historical context.

This thesis has emphasized the importance of CSR and Environmental, Social, and Governance (ESG) practices for businesses to have a beneficial societal impact, even though they are really different in practice. CSR is shown as a self-regulated strategy which emphasise the capacity to effectively communicate sustainability commitments, develop a reputation for being a responsible corporation, increase brand credibility, foster customer loyalty, and attract top talent. While ESG goes beyond and provides a more accurate evaluation of sustainability initiatives, which is frequently required by investors. ESG helps businesses set measurable goals, showcasing progress on their sustainability journeys, comply with regulations, address societal risks like climate change, gain insights into opportunities and risks, attract investors, unlock competitive value, build stakeholder trust, and fight greenwashing. The repercussions of a low ESG rating are brought to light, particularly in areas where responsible investment standards are widely accepted.

Moreover, from this dissertation emerged the lack of consistency among the different disclosure ratings, which limit objectivity and credibility of mandated disclosure. In this way it emerged the necessity to standardize disclosure of ESG, which has been progressively adopted from numerous countries, special focus has been given to CSRD in EU.

Several key insights have emerged during the elaboration of this thesis, firstly even if corporate social responsibility (CSR) programs have become increasingly common in the fashion industry, concerns about their ability to create actual change still exist. Even with a multitude of certifications like Better Cotton Initiative, Fairtrade, GOTS, GRS etc., it is still imperative to evaluate them critically in terms of how well they handle social and environmental issues. The risk is that the proliferation of these certifications may, in

some cases, act as an appearance of sustainability (greenwashing) hiding deeper problems rather than promoting real change. As handled in the previous chapter, it results difficult that one certification alone provides all environmental and social standards we think are ideal to assess a company. For instance, it is crucial to acknowledge that selecting a truly sustainable material, entails evaluating its sustainability across the entire production process. A product labelled as organic, for example, indicates that it was cultivated using only natural resources, such as soil and water, and without the use of dangerous chemicals. But it is not possible to guarantee that the fabric has not been colored with harmful dyes or other substances as the consequences of the material's further processing and the working conditions for the staff are no longer being monitored. Similarly, when considering certifications that solely address fair wages for laborers, we lack insight into how other aspects, such as the farming process, impact the environment and human health. In such instances, a combination of different certifications may provide comprehensive coverage.

Another key point emerged is related to companies with businesses in customer-facing sector, such as fashion industry, in this cases companies who include corporate social responsibility (CSR) into their strategy have more possibility to succeed. In fact, consumers actively contribute to and encourage corporate social responsibility initiatives, which boosts financial results and improves brand reputation. On the other hand, it has been shown a strong complexity in quantifying and communicating sustainability performance due to the changing environment of CSR reporting regulations. Mandatory reporting requirements will relieve a little these issues. Overcoming these challenges is crucial to maintaining the credibility and applicability of CSR reporting frameworks.

Benetton Group case study demonstrates the advancements achieved as well as the difficulties faced in implementing sustainable practices. The company can be acknowledged for different sustainable practices as the voluntary publication of Integrated report for several years, even if yet not mandatory, inside which numerous aspects shed light on the extent of the company's commitment to CSR. Moreover, Benetton group requires that stakeholders that interact with the company need to

adhere their code of conduct; lastly, the company demonstrates its commitment through various certifications and memberships in sustainability organizations.

Although significant efforts have been made in areas such as sustainable materials sourcing with many certifications obtained, social sustainability initiatives, and environmental commitments, the effectiveness of these activities needs to be examined beyond the surface-level data. In order to be truly sustainable, strategies must be comprehensive and involve transparency, accountability, and continuous improvement in addition to compliance. This dissertation wishes to acknowledge the right achievement in this field to the company, even though still a lot can be made especially avoiding waste and in the social commitment.

In conclusion, even if there has been progress in incorporating CSR into corporate operations, there is still a long way to go before there is real sustainability.

To address challenges in the fashion industry and bolster sustainability, businesses can transition to circular business models and reducing waste by recycling resources. Also is essential to support research and development for sustainable technologies and materials. Traceability systems promote supply chain transparency, which guarantees moral production and sourcing practices. Employee training integrates CSR principles into regular operations, while stakeholder collaboration enables comprehensive sustainability projects. Providing customers with clear information about sustainable initiatives encourages loyalty and trust. Progress is guided by the establishment of specific, quantifiable sustainability targets that are in line with global norms. Establishing a close working relationship with suppliers facilitates the adoption of sustainable practices across the whole supply chain. Systemic change requires advocating for supportive policy changes at all levels of government. Last but not least, promoting an innovative and always improving culture supports continued sustainability initiatives. Closing, a dedication to sustainable innovation with a constant improvement, critical review, and stakeholder involvement are essential for managing the complexity of corporate social responsibility (CSR) in the fashion industry.

However, these initiatives need to be followed by a concerted effort to close the gap between actions and words, guaranteeing that CSR activities yield measurable advantages for the environment, the economy, and all parties concerned.

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