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Original Articles – Management Studies

The purpose as a catalyst for driving sustainability in corporate governance

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Abstract. Contemporary corporate governance is increasingly intertwined with sustainability goals. This necessitates a shift from a narrow focus on shareholder interests to a broader stakeholder-oriented approach, encompassing environmental, social, and governance (ESG) factors. The integration of ESG considerations into governance frameworks requires a clear definition of roles and responsibilities among boards of directors, shareholders, and other stakeholders. This includes establishing a "corporate purpose" that transcends profit maximization and guides the organization towards sustainable value creation. This paper offers and overview about the effective sustainability governance models that promote transparency, ethical behavior, and accountability, enabling companies to identify and manage emerging risks while capitalizing on opportunities in a rapidly evolving global landscape. This approach fosters a culture of sustainability, contributing to long-term organizational success and societal well-being.

Keywords: sustainability, corporate governance, integrated CSR, stakeholders, purpose.

1. INTRODUCTION

The call to action to achieve Sustainable Development Goals (SDGs) has become a priority for companies across all economic sectors (Latapí Agudelo et al. 2019). The United Nations' 2030 Agenda has intensified the focus on sustainability. This global plan focuses on addressing key challenges through sustainable practices, which, although not immediately affecting business operations, serve as a strategic guide for the future. In 2018, the European Commission published a "Sustainable Finance Action Plan" to promote a financial system capable of supporting sustainable development from economic, social, and environmental perspectives. Businesses are now expected to comply with environmental, social, and governance (ESG) regulations, encouraged by stakeholders and consumers who are increasingly aware of sustainability issues (Visser 2010; Freeman, Martin and Parmar 2020).The concept of sustainable development was first mentioned in the 1987 Brundtland Report, which defined sustainable development as: "Development that meets the needs of the present without compromising the ability of future generations to meet their own needs". In other words, sustainable development means meeting the needs of the current population while simultaneously safeguarding opportunities for future generations. To do this, it is necessary to quantify current resources and immediately adopt measures to ensure their availability in the future. Therefore, the management of a resource is sustainable only when, once aware of its capacity for regeneration, the resource is not exploited beyond a certain threshold, allowing for complete regeneration.

However, in addition to being difficult to apply, the Brundtland Report's definition of sustainability provides few guidelines on how to achieve sustainable development. On one hand, the definition offers limited guidance on identifying present and future needs. On the other hand, it does not provide suggestions regarding the technologies and resources needed to meet these needs (Hart, 1995; Starik and Rands, 1995). This lack of clarity in guiding toward more sustainable behavior is addressed by Elkington (1998), who, by creating the Triple Bottom Line, defined sustainable development as a reconciliation between three spheres: economic, social, and environmental dimensions.

According to the Triple Bottom Line framework, organizations should not prioritize any one of the three objectives, but must achieve them together by establishing equal and long-term relationships with their stakeholders. In other words, Elkington suggests that organizations should not focus solely on economic goals and performance aimed solely at uncompromising growth; instead, they survive in the long term by pursuing environmental and social objectives.

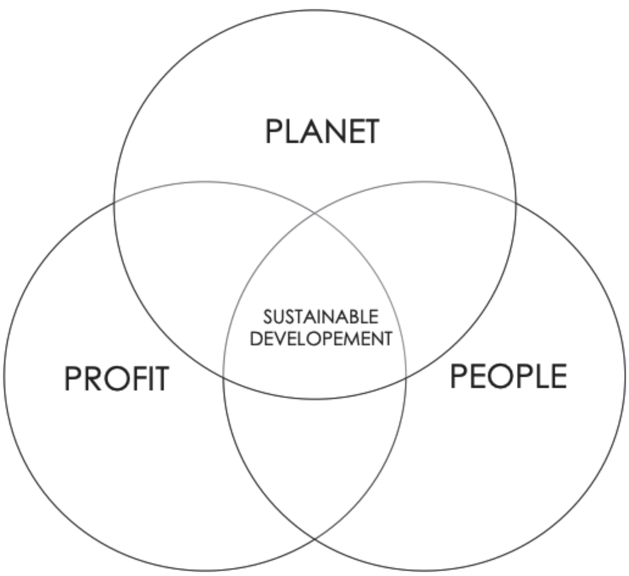

Figure 1. Triple bottom line framework. Source: Mosca & Chiaudano (2024); Mosca & Greco (2024).

Recent contributions by George Serafeim (2022) and Rupert Younger (2023) share this approach. Specifically, Serafeim (2022), in his publication "Purpose and Profit", highlights the most effective approaches to managing the three dimensions of sustainability while simultaneously creating economic value and contributing to collective well-being.

Despite years of intense academic research and institutional work, finding a globally accepted definition of corporate social responsibility (CSR) remains complicated. Many academics have long understood that CSR is a dynamic and constantly evolving concept (Vallester, 2012; Jin, 2019; Mosca & Civera, 2017).

The earliest practices related to sustainable and responsible business management date back to the Industrial Revolution (Carroll, 2009; Visser, 2010). In the mid-19th century, the public began to recognize the need to address social issues within factories, such as wages, poor working conditions, and child labor. Awareness of sustainability's role further increased in the 1920s, when the first American corporation was born. At that time, managers realized that their actions and decisions had positive or negative effects not only for shareholders but also for the well-being of employees, customers, and society at large. As a result, the first corporate code of ethics was established in 1947, and in the 1950s, the concept of CSR entered the corporate lexicon. In 1953, Bowen, considered the father of CSR, provided the first definition of CSR. In his book titled "Social Responsibility of the Businessman", the author states that CSR is a set of mandatory rules that both managers and entrepreneurs must follow when pursuing policies, making decisions, or developing strategic actions to meet the expectations and values of society. His view of CSR reflected the awareness that organizations in general, and businesses in particular, could no longer ignore the significant impact of business on communities (Carroll, 2009).

Despite the growing interest in CSR, practical outcomes were limited until the 1960s, when environmental movements spurred public recognition of the role businesses play in social and environmental conflicts (Visser, 2010). Keith Davis defined CSR in 1960 as actions that should extend beyond mere economic interests. It wasn't until the 1970s that concrete CSR programs emerged, focusing on diverse activities beyond philanthropy (Muirhead, 1999). The debate surrounding CSR during the 1970s and 1980s centered on the balance between economic interests, primarily those of shareholders, and social responsibilities towards other stakeholders, including employees and communities. In 1971, the idea emerged that within a company, the board and management, when making strategic decisions, should balance various interests: economic, social, environmental, and employee well-being.

In particular, during the 1970s and 1980s, contributions to the definition of CSR came from two opposing theories: Shareholder Theory (Friedman, 1970) and Stakeholder Theory (Freeman, 1984).

Friedman, the father of Shareholder Theory, stated in an article published in "The New York Times" (1970) that "the social responsibility of business is to increase its profits." He believed that the company's responsibility was exclusively on the economic level and that organizations should not aim to achieve anything other than the interests of their shareholders, who are the legal entities for whom the company was created. According to Friedman (1970), all meanings and implications of CSR depended solely on the willingness of companies to forgo part of their economic return to achieve social goals, exclusively in the company's interest and ultimately, that of the shareholders.

Edward Freeman introduced Stakeholder Theory, which has gained increasing relevance since the 1980s because it proposes a holistic view of CSR. As Freeman (1984) stated, the main flaw in previous theories was the idea that the sole purpose of a company was to generate profits to satisfy shareholders (Freeman, 2017), promoting a new approach to business management that required balancing the needs of all stakeholders.

Stakeholder Theory considers the company as an open social system aimed at fulfilling the interests of its shareholders while also meeting the expectations of all other stakeholders. In particular, stakeholders are organized into two categories: primary and secondary. Primary stakeholders include suppliers, consumers, investors, employees, financial institutions, associations, and communities. They represent the people or organizations whose relationship with the company is essential for its survival. Secondary stakeholders include competitors, the media, the public, public institutions, and politics. Secondary stakeholders influence the company's activities but are not essential for its survival.

Freeman, in determining this classification, also stated that companies must strive to meet the needs of all their stakeholders, not just shareholders, who are considered a special category of stakeholders. The result is a concept of CSR characterized by a broad expansion of corporate responsibilities, which go beyond their boundaries and cannot be limited to maximizing profits. According to this view, companies, in pursuing the goal of maximizing value, must not only focus on economic value, represented by profits, but also pay attention to generating broader value.

Stakeholder theory asserts that a company, in conducting its activities, is responsible for generating and increasing wealth not only for itself but, more importantly, for society and, consequently, for the economic system (Carroll, 1991). Freeman's holistic view of CSR serves as a valuable guideline, leading companies today – regardless of sector or country of origin – to adopt socially responsible behaviors that promote the well-being of all stakeholders, while still maintaining a focus on profitability, economic value, and shareholder remuneration.

Initially, CSR was considered a costly and inefficient approach from a business perspective. However, it has now become one of the most widely accepted theories and approaches globally, embraced by large organizations, publicly traded companies, privately held firms, and professional investors alike. Today, most companies establish specific guidelines and dedicated departments focused on sustainability.

The degree of orientation toward the stakeholder approach varies from company to company. According to scholars, in many cases, companies implement superficial CSR actions aimed more at improving corporate reputation and satisfying stakeholder demands than at actively contributing to well-being by reshaping the traditional business model into a more sustainable one (Civera et al., 2018; Hoque et al., 2018). Freeman refers to this type of sustainable approach as residual CSR.

Residual CSR, for example, occurs when companies limit their CSR efforts to actions aimed at complying with voluntary or mandatory regulations and standards. Due to their limited impact on the well-being of the social environment in which the organization operates, so-called residual CSR activities have been recognized as only partially effective in achieving a high level of sustainability commitment within a company. Freeman (1984) suggests implementing integrated CSR to achieve tangible and positive CSR development. Unlike residual CSR, integrated CSR is rooted in stakeholder theory. Through integrated CSR actions, companies go beyond simply responding to bureaucratic obligations or complying with legal standards and codes of conduct. In integrated CSR, companies aim to incorporate environmental and social issues into their strategies, governance, and daily management actions.

Therefore, it is only through an integrated CSR approach that a company can simultaneously meet both stakeholder interests and its financial objectives. By leveraging the definitions of residual and integrated CSR proposed by Freeman et al. (2010), it is possible to

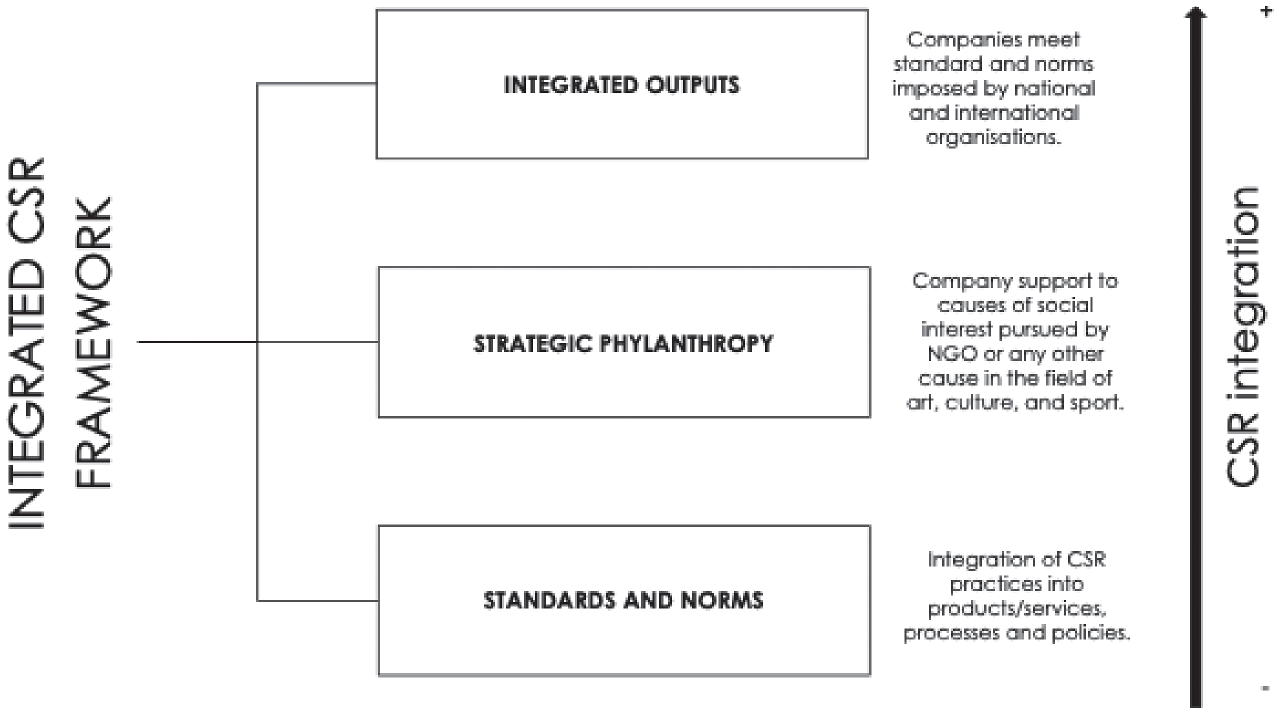

Figure 2. Integrated CSR framework (Mosca et al., 2018). Source: Mosca & Chiaudano (2024); Mosca & Greco (2024).

identify a framework to distinguish which activities represent effective CSR integration models and which do not. This framework structures the integration of corporate responsibility into three dimensions: standards and norms, strategic philanthropy, and integrated outcomes.

Thus, a company's social responsibility efforts grow when an organization shifts from a residual approach, primarily focused on compliance with standards and norms, to strategic philanthropy and, ultimately, to integrated results.

2. CRITICAL ISSUES IN THE APPLICATION OF THE INTEGRATED CSR APPROACH

The theory outlined in the previous section, along with the academic studies proposed by scholars in ethics, management, and social responsibility, clearly indicates that there is compatibility between social responsibility, a stakeholder-focused approach balancing interests, and profitability. Furthermore, studies show that socially responsible actions by organizations lead to higher returns on the capital invested by shareholders in the company. Thus, it is a mistake to view the relationship between shareholders and other stakeholders as a trade-off between interests, as these interests are closely related and often coincide. Despite this understanding, many still see challenges and do not comprehend or agree with the integrated CSR approach. The main considerations, worthy of significant attention and careful observation, relate to the fact that sustainability and unconditional adherence to an integrated CSR approach require substantial investments that a company may not necessarily be able to sustain, at least in the short term. Furthermore, many scholars observe that sustainability and unconditional adherence to an integrated CSR approach can only be pursued by an organization in a context of economic development adequate to support these investments and if the organization has solid long-term prospects and adequate profitability. In the absence of these conditions, the organization will necessarily have to focus solely on creating economic value, prioritizing profits while sidelining sustainability aspects.

Another relevant consideration is that investments in sustainability often do not generate immediate economic returns and represent costs, especially for small and medium-sized enterprises (SMEs) that do not foresee a reasonable return on such investments within a short timeframe; these are often perceived as expenses. For the reasons mentioned above, these investments are systematically postponed unless they are mandatory to comply with binding regulations. Additionally, when government measures and/or regulators impose overly restrictive sustainability requirements, this can create a competitive asymmetry, giving an advantage to companies operating in market areas where such investments are not mandatory, and regulations are less stringent. In other words, excessive regulation creates a competitive disadvantage for companies that are subject to such regulation.

Particularly, concerning governance aspects, some observe that boards of directors, more generally the governing bodies of companies, are currently appointed by controlling shareholders who tend to be very sensitive to generating economic value unless they have a strong orientation toward sustainability issues. This exclusive focus on profit might slow progress towards the social responsibility goals of organizations. To mitigate this risk, it is crucial to develop governance models that allow shareholders to retain their central role in appointing corporate governing bodies while also balancing the interests of other stakeholders. This is a particularly delicate point, as it must be remembered that it is currently the shareholders in the more advanced legal systems and modern capitalism who have the final say on the appointment of the components of corporate governing bodies. In companies with a narrow shareholder base, such as small and medium-sized enterprises that do not have shares listed on regulated markets, the appointment of governing bodies rests solely with shareholders. To address the issues raised in the previous points, it is essential to identify governance models for both large companies, which must adhere to corporate governance codes that provide precise guidelines for governance in general and particularly for sustainability governance, as well as for closely-held unlisted companies, for which it is more challenging to achieve a balance between the interests of shareholders and other stakeholders. Certainly, to achieve a model that provides for balanced corporate governance oriented towards an appropriate purpose, there are at least three key points that should be considered. A clear definition of governance roles. It is necessary to allocate responsibilities among all parties involved in managing ESG issues, particularly the boards of directors, shareholder groups, C-Level managers, employee representatives, and, if present, stakeholder committees. A composition of boards and rules of operation for boards of directors that are shared by all stakeholders. It is essential that there is a composition and a set of rules that make it possible and understandable to analyze the various risks and interests, taking into account both macro and micro environmental factors; this also means balancing the interests of shareholders with those of closer stakeholders.

A climate of trust and ethical behavior at all levels of the organization. Since the organizational structure is based on the delegation of authority and trust between parties, this requires ethical behavior from all individuals involved in the organization, aimed at instilling an ethical approach and a balanced orientation towards creating sustainable value.

3. TOWARDS AN INTEGRATED MODEL OF SUSTAINABILITY GOVERNANCE

The reasons why companies need to restructure their organizational framework by adopting a sustainability governance model are manifold. In addition to helping the company establish clear objectives and ensuring that the organization's actions and decisions align with sustainability principles – leading to improved performance in terms of reducing environmental impact, promoting social responsibility, and creating long-term value – effective sustainability governance can help identify and manage risks associated with all the critical issues related to climate change, social and ethical matters, and consequently protect the company from potential legal penalties, financial losses, and reputational damage. Stakeholders, in fact, are becoming increasingly aware of sustainability issues, have higher expectations regarding the management of ESG factors by organizations, and feel the need to be increasingly informed about the actions companies are taking. In this sense, an appropriate model of sustainability governance promotes corporate responsibility towards the environment, society, and stakeholders, also contributing to improving the company's reputation and creating an organizational culture based on sustainable values. Furthermore, companies that adopt sustainability governance models can benefit from the creation of sustainable and innovative products and services, making them more competitive in the market and opening the door to new business opportunities. Moreover, particularly concerning larger companies whose shares are listed on regulated markets, it has been demonstrated that a tangible sensitivity, proven by actions and the attainment of ESG Ratings, towards ESG issues leads to an increase in share value and a broader group of stable, long-term investors in the company's shareholder base. It is also worth mentioning the opportunity for sustainable companies to have, under equal financial conditions, access to credit on more favorable terms compared to competitors. Adherence to the regulatory framework for companies presupposes that they have an effective sustainability governance model. In this regard, the new Corporate Governance Code for listed companies reiterates from Principle I of Article 1 the centrality and importance of the Board's role, stating that "the administrative body leads the company towards sustainable success," understood as "the objective that guides the actions of the administrative body, which consists in creating long-term value for shareholders, taking into account the interests of other relevant stakeholders for the company" (Italian Committee for Corporate Governance, 2020).

In summary, a sustainability governance model is essential for helping companies comply with increasingly stringent regulatory obligations, as well as effectively integrating sustainability into the business strategy, thereby allowing them to address emerging challenges, leverage sustainable business opportunities, and respond to the growing expectations of stakeholders. The acceleration towards sustainable development leads to defining or often even creating a new within the governance bodies, rules, processes, and competencies that enable the company to effectively manage and monitor its social and environmental impact. Although the link between socio-environmental issues and Corporate Governance is now widely recognized, there is still considerable uncertainty about how to integrate social and environmental aspects into decision-making processes (Minciullo, Zaccone, & Pedrini, 2022).

The method of managing sustainability at the corporate level has a starting point: the purpose, from which derives the function that the organization assigns to ESG factors, and consequently its orientation towards sustainability. In particular, it can be said that a company is guided by a purpose if it is publicly committed to a goal beyond profit maximization and if it routinely sacrifices short-term profits to the pursuit of this purpose (George, Haas, McGahan, Schillebeeckx, & Tracey, 2021), meaning if it is publicly committed to a goal that goes beyond maximizing profit and if it regularly sacrifices short-term profits in pursuit of this higher purpose. Therefore, the purpose can be defined as the aim, principle, or ultimate goal that guides the enterprise, based on which it is possible to explain the rationale behind the actions taken by it (Jones, 2016).

However, the corporate purpose is often confused with the mission and vision. While the mission is what a corporation does (David, David, & David, 2014), meaning what the company does and allowing it to be distinguished from others (Pearce II & David, 1987), the vision is the projection of the company into a future scenario (Castro & Lohmann, 2014); for purpose, on the other hand, it refers to why a corporation does what it does (Jones, 2016), the ultimate goal of the actions undertaken by the organization, representing the reason for its existence.

Historically, organizations did not pay much attention to what their broader objectives were beyond creating value for their shareholders.

The debate, first academic and later widespread in business regarding Corporate Social Responsibility, introduced from the 1970s by numerous scholars, among whom E. Freeman stands out, has brought organizational responsibility to the forefront. Throughout the 2000s, organizations, management, and even capital holders became aware of the need to assign a broader and longer-term objective that goes beyond short-term economic results.

Obviously, the intensity with which an organization adopts a socially responsible approach is graduated by the sustainability of its shareholders, the macroenvironment, and microenvironment in which it operates, and the attitude of the CEO and top management. However, the path taken is irreversible in a context where, especially large corporations, have assumed an economic dimension and an impact capacity that in many cases is greater than that of sovereign states themselves.

Depending on the corporate purpose adopted, it is possible to identify three different approaches, management methods, and levels of integration of sustainability – or better, ESG factors – within organizations, which are captured within the three dimensions that make up the Integrated CSR Framework (Mosca & Civera, 2017; Mosca, Civera, & Casalegno, 2018) as detailed below.

The first dimension of the Integrated CSR Framework, "standards, norms & labels," includes all sets of national and international standards, norms, and labels that a company is required to implement to compete globally and represents a more residual approach to sustainability management.

Companies that limit themselves to being compliant with standards, norms, and legal requirements are driven towards social responsibility by the need to align with an increasingly stringent regulatory framework on ESG issues, but they have not yet entered a consciously proactive approach.

Companies that merely fulfill the obligations prescribed by law will therefore perceive sustainability as a component of business risks, that is, as a marginal risk that is managed and monitored in accordance with the evolving regulations to which the company is subject.

The second dimension of the Integrated CSR Framework, "strategic philanthropy," represents a greater level of integration of ESG factors within the company. The more the activities undertaken are consistent with the company's core business, the more the approach towards ESG issues can be considered integrated (Mosca & Civera, 2017). This still partial, albeit positive, integration of ESG factors leads companies to perceive sustainability as a substantial risk to be managed and monitored through actions that go beyond mere compliance with legal standards. This approach highlights a progression

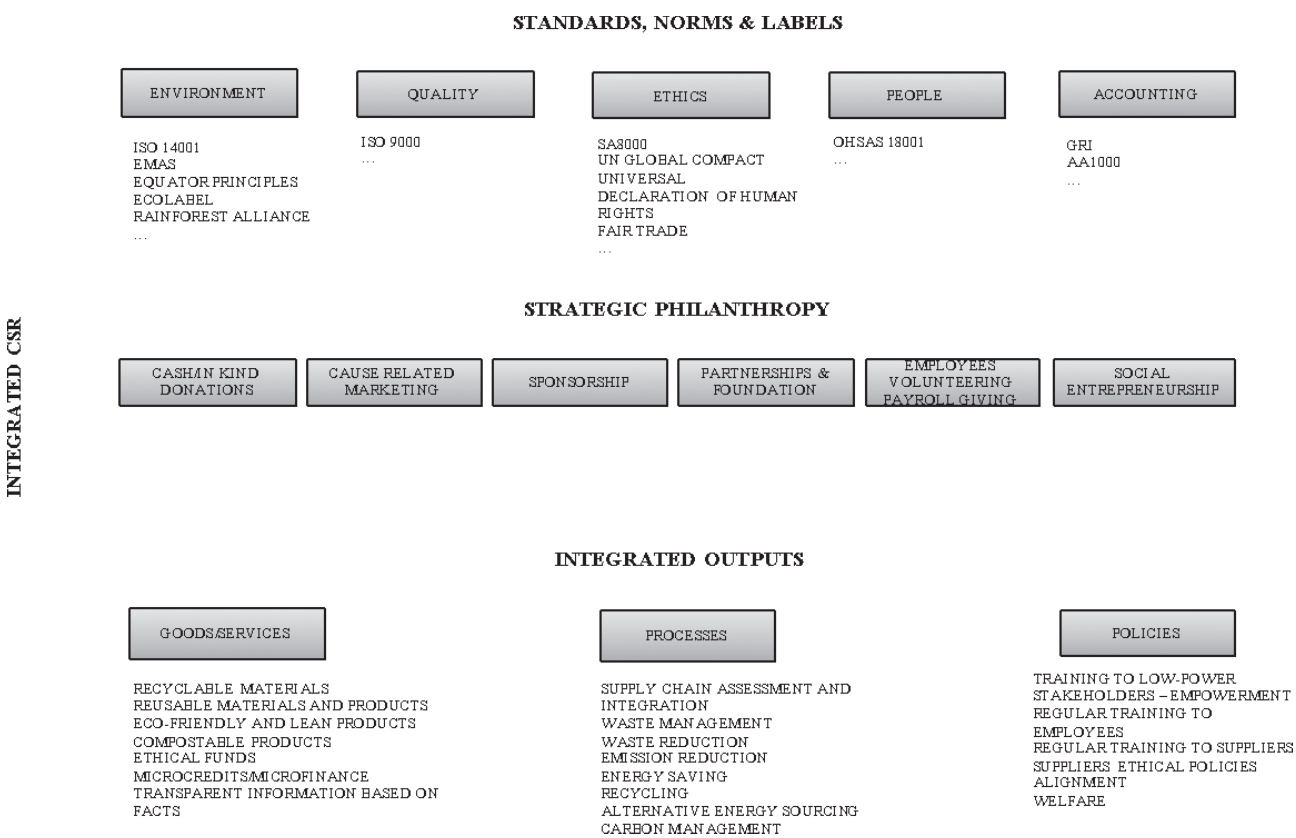

Figure 3. Integrated CSR Framework. Source: Mosca & Civera (2017).

towards responsible and attentive behaviors regarding ESG aspects; however, it often manifests in practice as episodic actions and initiatives by companies that are poorly coordinated and not systematic. This underscores an incomplete integration of ESG principles into the organization's processes. The third and final dimension of the Integrated CSR Framework, "integrated outputs," represents the highest expression of sustainability integration within the company, from governance to the core business activities. This dimension materializes in the integration of social, ethical, and environmental practices into the company's strategy, processes, products, and services offered to consumers. For example, a company adopts an Integrated CSR approach when it successfully incorporates circular economy elements into its products and services (such as designing and developing products with disposal and reuse processes in mind), develops sustainable processes both internally and externally, and ultimately implements policies that continuously stimulate dialogue between middle and top management, between top management and the Board, and between the Board and stakeholders. The goal of the integrated CSR approach is to ensure that the organization grows with a primary focus on sustainable development rather than as a residual concern. This type of approach identifies sustainability as a strategic lever: companies operating in this way systematically identify the risks and opportunities associated with it and attempt to transform them into a competitive advantage. When the purpose is established by the company's leadership, a different perception and a deeper level of sustainability integration at the corporate level emerge, involving all hierarchical levels of the organization along which business strategies regarding sustainability are decided and implemented. In particular, it is possible to identify two hierarchical levels within the company: sustainability governance and sustainability management. In complex organizations, sustainability governance and management are the two levels on which a sustainability governance model is built.

Sustainability governance corresponds to the company's leadership, that is, the level at which strategic choices are made, which may be oriented, depending on the adopted purpose, towards sustainability issues. The strategy is then translated into policies and actions by the second level, sustainability management. Describ-

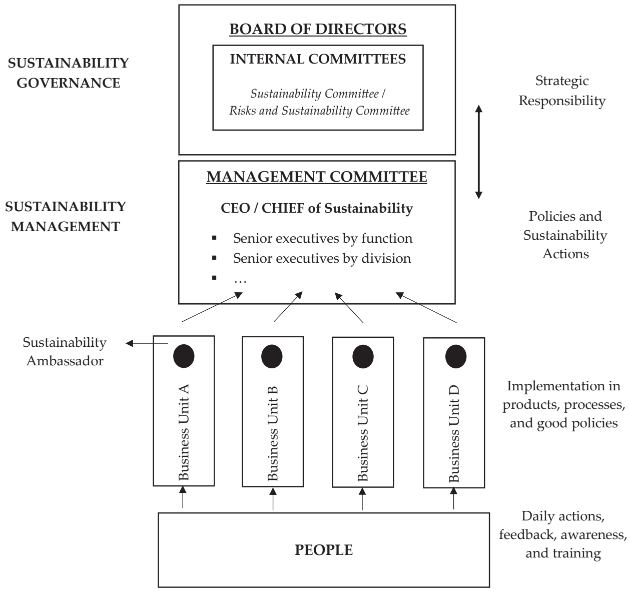

Figure 4. Governance and sustainability management. Source: Mosca & Greco (2024).

ing the framework from top to bottom, it is possible to observe that the first level of the model is constituted by sustainability governance, which is assigned strategic responsibility. Therefore, it is possible for the management of ESG factors to be attributed to existing or newly established internal committees, which "represent the instrument through which structured internal dialogue on relevant issues is developed and then brought to the attention of the Board of Directors" (Organismo italiano Business Reporting, 2022).

In the case of existing internal committees, these are committees that have previously been entrusted with other delegations and only later begin to address the issue of sustainability (for example, the Control and Risks Committee); whereas, in the case of newly established internal committees, such as the "Sustainability Committee," we have a committee with specific delegations regarding the management of this issue, to which additional delegations may also be assigned (some examples could be the Risks and Sustainability Committee, the Corporate Governance and Sustainability Committee, and the Nominations and Sustainability Committee).

This first level of governance is responsible for strategic orientation. The aims and objectives of the company's activities are therefore defined, which are achieved through appropriate policies and actions outlined and implemented by the second level of the framework, the managerial level.

Sustainability management generally materializes in a managerial committee, that is, a group of experts with specific skills selected from within the organization, which is responsible for defining sustainability policies and actions that may or may not be directed towards philanthropic activities, managing the various implications of the same, involving the various business functions.

Therefore, this committee, headed by the CEO or the Chief of Sustainability, includes key representatives from the different business functions and divisions, in order to analyze the feedback received from the company's business units, filter and report this information back to the company's leadership.

To initiate a continuous mechanism of reporting and information exchange, it is necessary to identify a Sustainability Ambassador for each business unit, an individual already present within the organization tasked with spreading the sustainability culture within that business unit, identifying new objectives to pursue and

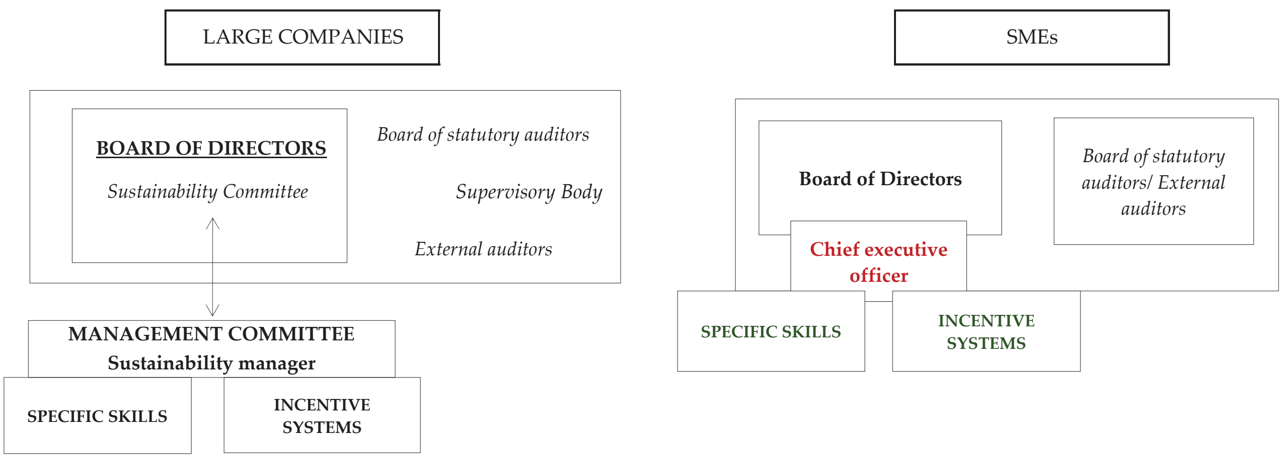

Figure 5. A sustainability governance proposal for SMEs. Source: Mosca & Greco (2024).

initiatives or actions to implement in order to enhance social and environmental issues in the company's products and processes, as well as reporting back on the results achieved and the progress of the actions taken.

However, the model just illustrated is developed following a circular bottom-up approach. The reporting to the managerial committee by the individual Sustainability Ambassadors, and then to the company's leadership, would not be possible if there were not continuous feedback from the people within the organization, who daily carry out actions and are sensitized to achieve the ultimate objectives defined by the company's leadership.

However, the degree of integration of the sustainability governance model varies from case to case. It changes based on the commitment, that is, based on the time and resources dedicated by the organization, which leads not to a different direction of the actions taken, but to a different impact of the same. The illustrated framework, depending on the adopted purpose, can assume different configurations. In companies that perceive sustainability as a marginal or substantial risk, Sustainability Ambassadors are rarely present, and the sustainability managerial committee may eventually be replaced by the figure of the sustainability manager.

Consequently, with the reduction of information exchange between the two levels of the governance model, there will be less integration of sustainability both at the managerial and governance levels, and the actions taken by the organization will primarily aim to fulfill regulatory obligations.

4. A PROPOSAL FOR SUSTAINABILITY GOVERNANCE FOR SMES

Small and medium-sized enterprises (SMEs) are often characterized by a narrow shareholder base, frequently family-owned, where the roles of principal and agent merge, resulting in interests that may not always align with those of the business itself. They also tend to have centralized decision-making power in the hands of a single person, as well as predominantly implicit and non-formalized processes for strategic planning, internal control procedures, and reduced reporting activities towards stakeholders.

In such a context, even with an adequate organizational structure, there is often high exposure to economic uncertainties and emerging risks, both due to the smaller size of these enterprises and the adoption of less structured governance models.

Indeed, having a well-defined organizational structure on paper that is not accompanied by specific competencies, for example, on ESG issues, may not be sufficient to assess, monitor, and counteract the emerging risks to which the business is exposed, such as climate risk and environmental risk.

These risks, although seemingly unrelated to other risks inherent to the business, such as credit risk, can overlap with pre-existing risks.

To address the aforementioned issues, it would be advisable to encourage SMEs to adopt a more structured governance framework with specific competencies suitable for overseeing and mitigating emerging risks and transforming them into sources of competitive advantage.

Starting from the sustainability governance model outlined for large companies discussed in the previous paragraph, it is possible to adapt a sustainability governance model for SMEs, taking into account their specific empirical characteristics.

The opportunity to develop sustainability skills and incentive systems, which link the variable component of the compensation of top executives to sustainability objectives, is also fundamentally important for SMEs.

In this perspective, less structured SMEs, whose legal form is typically limited liability and whose administrative body is monocratic (Sole Director), may acquire the necessary skills to address risks and seize opportunities from external consultants, who support the Director in implementing ESG factors within the company, identifying projects to undertake, and in sustainability reporting phases.

For more structured SMEs, which already have a Board of Directors but lack internal committees with specific delegations for managing sustainability issues, as illustrated in Figure 5, the management of these issues may be entrusted to a CEO, provided that he or she possesses the specific skills related to implementing and managing sustainability topics within the enterprise.

This figure is responsible for integrating ESG factors into the business system, identifying, promoting, and undertaking social and environmental initiatives, overseeing sustainability reporting, and identifying and mitigating emerging risks that could jeopardize business continuity, including through a review of the business model. Furthermore, they must transform actions that might otherwise be mere compliance into opportunities and thus into competitive advantages for the business.

However, just as with large companies, the degree of implementation of ESG factors within corporate governance for SMEs also depends on the purpose adopted.

5. IMPLEMENTATION OF ESG FACTORS IN SMES

In SMEs that limit themselves to implementing ESG factors within the enterprise to fulfill regulatory obligations, perceiving them as a marginal risk, the activities and actions undertaken by the CEO will primarily focus on sustainability reporting.

It is also possible for SMEs to perceive sustainability as a substantial risk and to implement ESG factors within the enterprise, not only to comply with regulatory obligations but also to promptly identify and mitigate emerging risks, such as the previously illustrated climate risks, which could jeopardize the business's operations. Alternatively, SMEs may decide to transform what could simply be an obligation or actions aimed at mitigating emerging risks into competitive advantages. For example, small and medium-sized enterprises, considering the CSDDD, could integrate ESG factors into their business plans to gain a competitive advantage over major competitors who, having not structured and organized themselves promptly in this regard, could miss market opportunities.

In this latter case, the CEO could be supported by sustainability ambassadors, individuals already present in the company tasked with assisting the CEO in raising awareness and promoting a sustainability culture within the various business functions, as well as identifying new objectives based on the activities performed. They also have the responsibility of identifying and proposing any new initiatives or actions to the CEO to further oversee and implement social and environmental issues within the system, as well as reporting the results and progress of the actions undertaken.

Finally, at the most advanced stage of implementing sustainability issues within the corporate governance of SMEs, compensation schemes could be introduced that link a variable portion of the CEO's compensation to achieving sustainability goals, further incentivizing the implementation and realization of these objectives.

6. CONCLUSIONS

Stakeholders are increasingly attentive to sustainability issues and have heightened expectations regarding organizations' management of ESG factors, feeling the need to be more informed about the actions that businesses are taking.

The European legislator, and consequently national legislators, are introducing regulations aimed at steering businesses toward sustainable business models.

These aspects have direct impacts on corporate governance: regulatory obligations, reporting requirements, and shifts in long-term strategic decisions to enable companies to be more competitive in the market and open doors to new business opportunities, which presuppose going beyond mere compliance.

In this sense, it is essential to adopt an appropriate model of sustainability governance that promotes corporate responsibility towards the environment, society, and stakeholders. This approach also contributes to improving the company's reputation and creating an organizational culture based on sustainable values, while assisting in identifying and managing risks associated with environmental, social, and ethical issues, thereby protecting the company from potential legal penalties, financial losses, and reputational damage.

Just as large enterprises face the need to implement a sustainability governance model, SMEs also encounter different modes of implementation and management of sustainability, which depend on the structure of the governing body, specific competencies on sustainability topics, and the adopted purpose.

In particular, depending on the adopted purpose, three different approaches to the issue have been identified, each attributable to one of the three dimensions of the Integrated CSR Framework, and consequently different ways of adapting the sustainability governance model.

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