INTEGRATING SUSTAINABILITY INTO CORPORATION STRATEGY: THE CASE OF STUDIO MODERNA

Ljubljana, June 2017

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AUTHORSHIP STATEMENT

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INTRODUCTION

The impact of business on Earth is nothing new while the concept of corporate sustainability, often addressed as corporate social responsibility, corporate citizenship, sustainable development, stakeholder management or corporate accountability, has become very popular in today's business world (Epstein & Rejc Buhovac, 2014, p. 18). In the last part of the twentieth century, the collective impact of society’s activities has reached a global scale and keeps increasing since then. Mankind is not only exploiting the non-renewable natural resources at a pace that is non-sustainable, but it is also having a negative impact on the climate and the natural environment. The desire for economic wealth continues to preside in the world of mankind, even though the Earth has limited resources, interdependence of life systems and the balance of ecosystems. In an era, when an issue of corporate sustainability is rapidly increasing, it is crucial in any corporate effort to create sustainable business model where the impact on Earth is seriously addressed and minimized (Svensson & Wagner, 2011, p. 334-352).

Companies are nowadays more or less facing an increasing number of risk sources as well as increasing risk magnitude. Ignoring these issues can have devastating consequences for companies as well as for their debt and equity holders. Industry leaders are using innovation and entrepreneurship to deal with the risks in a sustainable and profitable manner. By using innovation, companies are balancing the costs and increasing their long-term financial performance. Successful business leaders are also taking increased risks and creating new opportunities for innovation to solve social problems and at the same time, improve both sustainability and financial performance (Epstein & Rejc Buhovac, 2015).

Sustainability is seen as a critical part of most major corporations today. The increasing trend of corporate sustainability can be observed through various surveys. McKinsey&Company survey from 2014 finds that 43 percent of companies seek to align sustainability with their overall business goals, mission or values while sustainability is in 56 percent of companies integrated into products and services (Moris, 2015). Whether the motivation is government regulation, stakeholder pressures, concern for society and the environment, or economic profit, most managers recognize the importance of developing sustainability strategies and activities. In addition to being the right thing to do, sustainability is discussed inside most organizations as a "business case" (Epstein & Rejc Buhovac, 2010, p. 306-315). Companies are forced to make decisions concerning the type and degree of responsibilities they have to their stakeholders. They need to balance responsibilities to non-financial stakeholders like local communities, the natural environment and employees against financial interest groups, such as investors and creditors. This task is perceived complicated by most of the companies, since satisfying the social stakeholders’ expectations does not directly contribute to the financial health of the organization (Brammer & Pavelin, 2004, p. 704-713). In the environment of increasing social and environmental pressure, innovation is one of the primary means by which
companies can achieve sustainable development. Companies need to innovate by reinventing the way they relate to their multiple stakeholders, such as employees, suppliers, customers, competitors, communities, governments and non-governmental organizations (hereinafter: NGOs). By actively managing stakeholders’ relations, the company accesses an important source of ideas for innovations that address stakeholder’s expectations and ultimately contribute to the welfare of the natural and social environment. Stakeholder engagement also creates opportunities for generating new creative solutions that are beneficial for both the company and the stakeholders (Ayuso, Ángel Rodríguez, García-Castro, & Ángel Ariño, 2011, p. 1399-1417).

Corporate sustainability and corporate social responsibility is something that every Board must now address in some form. It is the triumph of free-market ideology over regulated economies, which has imposed new responsibilities on increasingly powerful multinational companies (Knox & Maklan, 2004, p. 508-516). Still, many companies see corporate sustainability as merely compliance costs or just another public relations’ means that may or may not increase the company’s reputation (Epstein & Rejc Buhovac, 2014, p. 1-4). Even if there is little buy-in from senior management, a need for becoming a good corporate citizen is seen as a response to community and other stakeholders’ pressures. Corporate sustainability is often necessary even if not desired or included in the corporate strategy (Epstein & Rejc Buhovac, 2010, p. 306-315). When sustainability is embedded into strategy forming, it does not present additional cost for increasing the company’s reputation, but through optimized operation systems decreases costs, increases reputation and consequently, it positively affects the company’s profit and creates enduring value for multiple stakeholders (Laszlo & Zhexembaeva, 2011, p. 98-106).

Studio Moderna, a leading multi-channel and consumer electronic retailer, is committed to a wide range of corporate social responsibility (hereinafter: CSR) and sustainability practices. The company invests time and money in issues like saving environment, promoting quality of employees’ lifestyle, creating new sustainable job opportunities and promoting sustainability commitment for taking on the responsibility for the less fortunate. A number of partnerships and initiatives with measurable social impact have already taken place. Sustainability activities are organized through the company, its employees, brands and products, or Zavod Viva, a non-profit organization that was founded on the initiative of Studio Moderna as a concrete expression of the commitment of giving back. Through highly sophisticated, vertically integrated multi-channel sales, media, marketing and distribution platform which includes home-shopping and direct response television, local websites, catalogues, own retail stores, call center operations and a vast retail network and wholesale partners, Studio Moderna is reaching the market of more than 300 million consumers across 21 countries. Through several own proprietary brands (Dormeo, Delimano, Rovus, Walkmaxx, Kosmodisk, Wellneo, LiveActive, Bigfish and Top Shop), the company grows and diversifies into many different areas. Most of the brands are already sustainable in the way of promoting and offering healthy life style products affordable to the majority of consumers (Studio Moderna, CSR & Sustainability at Studio
Moderna, 2016). Top management is highly prioritizing and promoting sustainability among employees, while it has already been recognized by the company that many of sustainability activities have shown a positive impact regarding costs, stakeholder reactions and profitability.

The purpose of the master thesis is to analyze the current state of sustainability integration in the corporate strategy of Studio Moderna and help the company improve the status quo. The goal is to offer new and aligned sustainability solutions for improved Studio Moderna sustainability and financial performance.

Research methodology is built on a case study analysis. With explanatory and descriptive research method used together with in-depth study of external and internal documents, I analyzed current sustainability strategy and evaluate its suitability and possibilities for improvement based on the studied literature. Since there was a lack of internal documents describing integration of sustainability into corporate structure, unstructured and semi-structured, in-depth interviews were used to gain a deeper understanding. Interviews were conducted with the founder and executives as well as with higher and middle level managers.

The theoretical part consists of six chapters. The first chapter gives an introduction into the concepts of sustainability and corporate sustainability, followed by the second chapter, which presents the current sustainability trends that are reshaping the business environment. The third chapter explains the existing sustainability strategies, while the forth chapter lists the operational, organizational, customer-related and financial payoffs of sustainability for corporations. The fifth chapter explains the importance of sustainability integration into corporate strategy. The sixth chapter presents the drivers of successful implementation of corporate sustainability, while also explaining why sustainability integration may be challenging. In this chapter, The Corporate Sustainability Model is described as well. The last chapter encompasses the empirical part of the master’s thesis presenting the case of company Studio Moderna. After the company and its corporate sustainability are described, the details of case study research are presented. Then the research results are interpreted, based on The Corporate Sustainability Model and at the end, the suggestions for improvements are given.

1 DEFINING SUSTAINABILITY AND CORPORATE SUSTAINABILITY

1.1 Sustainability

The term sustainable development originates from the 18th century when it was actually used in forestry. The regulation that allowed cutting down only a certain number of trees endured a continuous supply of wood without reducing resources for forthcoming generations. In 1987, the World Commission on Environment and Development broadly
defined “Sustainable Development as economic development that meets the needs of the present generation without compromising the ability of future generations to meet their own needs” (Ebner & Baumgartner, 2006, p. 2007).

Sustainability is the goal of the sustainable development process. It is the ability to sustain life at the highest possible quality, which means that every generation has the ability and is responsible for carrying out the highest quality of life by taking all opportunities for improvement. As presented in Figure 1, sustainable development combines environmental (energy, water, air, waste, land use, biodiversity), social (working conditions, product safety, community impacts, social equity) and economic area (jobs creation, economic growth) into integrated single perspective. It recognizes the dependence of economy and society on the biosphere and environmental processes occurring within them. The integration of social and economic goals leads to the concept of socio-efficiency and economic goals combined with environmental goals lead to the concept eco-efficiency, while the integration of social and environmental goals creates the concept of eco-justice (Schaltegger, Burritt, & Petersen, 2003, p. 21-27).

Figure 1. The tree main goals of sustainable development


1.2 Corporate sustainability

International Institute for Sustainable Development defines sustainable development for the business community as “adopting business strategies and activities that meet the needs of the enterprise and its stakeholders today, while protecting, sustaining and enhancing the human and natural resources that will be needed in the future” (Málovics, Csigéné, & Kraus, 2008, p. 907-918). Sustainability in business context includes issues of corporate social responsibility and citizenship along with the improved management of corporate

While sustainable development represents an ethical concept concerning fighting poverty and protecting the environment on a macro-level of societies, corporate sustainability represents the concept of sustainable development on micro-level when incorporated by the companies (Baumgartner & Ebner, 2010, p. 76-89). As presented in Figure 2, there is a strong link between sustainable development and corporate sustainability. The corporate sustainability orientation is affected by external influences due to the specific orientation on sustainability on a macro-level (Ebner & Baumgartner, 2006, p. 2006-2023):

- Legal/Institutional: laws, human rights, etc.;
- Technological: new technologies;
- Market: suppliers, competitors, customers, trends;
- Societal: NGO’s, society;
- Environmental: nature, availability of resources.

*Figure 2. Corporate sustainability and its interdependences*

The gray columns presenting the three dimensions of sustainability also show that not only a society influences on the companies, but that implementation of corporate sustainability in companies also has positive effects on society in the long-term (Ebner & Baumgartner, 2006, p. 2006-2023).
The economic dimension of corporate sustainability embraces general aspects of an organization, which have to be respected in order to remain in the market in the long-term. The aspects of the economic dimension are (Baumgartner & Ebner, 2010, p. 76-89):

- Innovation and technology: effort in sustainability related research and development aiming to reduce environmental impacts in new products and in business activities;
- Collaboration: good cooperation, active collaboration and exchange of knowledge and information with various business partners;
- Knowledge management: approaches and activities to keep sustainability related knowledge in the organization;
- Processes: integration of sustainability into daily business life through clear processes and defined roles, so that business activities are efficiently conducted;
- Purchase: relationship with suppliers focusing also on sustainability, creating awareness and consideration of sustainability related issues not only within organization, but also alongside the supply chain;
- Sustainability reporting: consideration and reporting of sustainability related issues within the company reports.

Ecological dimension deals with an environmental impact due to corporate activities, such as resource use, emissions and waste. Even though this dimension is mainly measured by impacts, sustainability strategy has to be focused on the effects causing these impacts. Ecological aspects of corporate sustainability are (Baumgartner & Ebner, 2010, p. 76-89):

- Resources (materials, energy) including recycling: use of non-renewable and renewable resources and energy through the company including recycled resources;
- Emissions into the air;
- Water pollution;
- Emissions into the ground;
- Waste and hazardous waste;
- Biodiversity: impact on biodiversity due to corporate activities;
- Environmental issues of the product: environmental aspects of the product over the whole life cycle.

Social dimension of corporate sustainability is about the company’s consciousness of responsibility for its own actions as well as an authentic and credible commitment in all business activities, while aiming to stay successful in the market in the long-term. It is aimed to positively influence all present and future relationships with stakeholders and assuring stakeholders’ loyalty for the company. The aspects of social dimension of corporate sustainability are (Baumgartner & Ebner, 2010, p. 76-89):

Internal:
• Corporate Governance: transparency in all corporate activities in order to improve the relationship towards stakeholders;
• Motivation and incentives: active involvement and exemplary function of management on sustainability topics. Presence of needs, claims and motivation factors of employees as well as development of reward system in order to implement sustainability sufficiently into the organization due to the management support for acting in a sustainable way;
• Health and safety: guarantee that no health and safety risks occur and that there is no negative impact of employees’ physical health at any time. Employee’s development programs for preventing dangers and staying generally fit and healthy;
• Human capital development: developing human capital for sustainability related issues through specific programs, such as training, mentoring or permanent education; Promoting broad cross-working education, such as job enrichment and enlargement, in order to increase awareness of different challenges and issues of corporate sustainability.

External:

• Ethical behavior and human rights: well established, basic assumptions and principles relating the cooperation within an organization and the behavior towards internal and external stakeholders; a culture of respect, fair rules and behavior within an organization and between its subsidiaries, fair wealth/profit allocation, serious consideration of stakeholders’ needs and ideals, no harm of employees concerning their religious belief, color, nationality, gender, age or handicap;
• No controversial activities: no holding of shares on non-sustainable organizations and no use or sale of own assets and goods for non-sustainable activities;
• No corruption and cartel: behaving fairly on the market and avoiding manipulating business practices, such as rule-breaking, price-fixing, corruption and joining cartels, to gain market advantages;
• Corporate citizenship: orientation on future generations without exploiting the present generations or nature. Being a good corporate citizen on a national level (conservation of subsidiaries in the country, establishment of country’s economic power, society’s lifestyle increase) as well as on a regional level (creation or participation in sustainability related activities for the local community).

2 SUSTAINABILITY TRENDS RESHAPING BUSINESS ENVIRONMENT

There are several distinct but interrelated sustainability trends that are nowadays becoming a major market force and are therefore reshaping the business environment.
Decreasing recourses refer to an overuse or even exhaustion of resources, such as metals and minerals, fossil fuels, clean air, water, food, natural habitats and species diversity. Companies across industries are not only being affected by the rapid decline of natural resources, but also by the decline of social resources, such as physical security, health, education, or social equity that further enhances market pressure. The issue of decreasing resources may have already been present for centuries, however, it has never been seen before at such an extent, speed and magnitude of resource loss as it is observed now (Laszlo & Zhexembaeva, 2011, p. 6-29).

Radical transparency. Due to an unprecedented growth of the civil sector and rapid developments in the information technology field, transparency has become an immediate, dynamic and fundamental force of a modern corporate life. The number of voluntary social and non-profit organizations dedicated to societal and environmental concerns is increasing, putting sustainability at the center by recording, measuring, making very visible and ultimately improving the social and environmental society's well-being at large. Moreover, increasingly affordable global communication technologies coupled with extensively popular social media solutions have created the world of connectivity providing instant access to previously unattainable or severely restricted information. This trend has in turn deeply influenced traditional mass media that is now churning out information, previously available only through highly specialized outlets, run by international or non-profit organizations. Improved virtual communication tools as well as rising awareness of ecological and social issues increase the need for radical transparency – the need for ability to fully, accurately and instantly obtain information about a company or product at any stage of its life cycle (Laszlo & Zhexembaeva, 2011, p. 6-29).

Stakeholders’ expectations are clearly transforming market demand of product and services as well as the companies’ operations and processes. Healthy, sociably equitable and environmentally friendly products and services in every sector in the economy are preferred, while higher prices for green and socially responsible products are no longer acceptable. Non-government organizations and consumer activist groups are reshaping customers’ and consumers’ expectations in a way of demanding a completely new relationship to providers of products and services. Customers and consumers are expecting to be co-creators in nearly all aspects of business, from product development and manufacturing to packaging and sales. Improving stakeholder relationships by identifying stakeholders’ most important sustainability issues, enables companies to gain license to operate, fosters loyalty and trust, increases positive reputation and improves community relations as well as business performance. On the other hand, mismanaging sustainability and stakeholder relationships can have costly and devastating consequences, such as reputational damage and potential impacts on the bottom line. While consumers put pressure on companies from the outside in, the increasing employees’ expectations are pressuring companies from the inside out. Nowadays, employees are not only concerned about pay, conditions, the level of work interest and opportunities for advancement, but also about reputation, the environmental, social and economic impacts of their employer.
Therefore also the companies try to create a source of differentiation in a highly competitive talent market by integrating social and environmental performance into their people strategies and policies. Beside consumers and employees, investors are also changing their expectations, which are highly influenced by the insurance industry. The investors’ pressure from over corporate approaches to sustainability-related issues may trigger incidents especially for publicly listed companies. Moreover, corporations are increasing the pressure to their suppliers through an extended supply chain, because they are concerned about the threat of damage to their own reputation that can be damaged by the suppliers’ unsustainable actions (Epstein & Rejc Buhovac, 2014, p. 4-5; Grayson & Hodges, 2004, pp. 35-50; Laszlo & Zhexembaeva, 2011, p. 6-29).

**Governmental, intergovernmental organization and regulatory pressures.** Increasing governmental or international regulations, directives and industry codes of conduct oblige the companies to address sustainability in some form. Noncompliance with regulations, which may result in terms of penalties and fines, legal costs, lost productivity due to additional inspections, potential closure of operations and related effects on corporate reputation, is rather costly. Next to mandatory requirements for sustainability actions, governments may respond to external influences, such as outside events or pressure from lobbyists. Moreover, as business now provides a higher proportion economic activity and jobs than in the past, its success affects the potential tax yield and the demand for government-provided welfare (Epstein & Rejc Buhovac, 2014, p. 4-5; Grayson & Hodges, 2004, p. 35-50).

**Societal and moral obligations.** Companies are becoming increasingly aware of their impacts on environment, society and economy, therefore they also feel more and more responsible to manage sustainability. Moreover, social and moral obligations as well as personal concerns for environmental, social and economic impacts are influencing the executives and corporations to include sustainability into their strategies (Epstein & Rejc Buhovac, 2014, p. 4-5).

All these trends are reshaping external environment that creates the need for sustainable value, which occurs when a company manages to create shareholders’ value while also creating value for all its stakeholders. The rising values and desires for sustainable environment are creating a convergence of interests between business and society. Raising public awareness about global issues is leading to raising expectations and increased demand for low-cost and high-quality products that are also good for this world. Global industry leaders are already embracing sustainability, not only to meet the needs and desires of green consumers, but also to achieve mainstream industry leadership. By putting sustainability at the core of their business strategy, they create the value for society and for the environment without trade-offs and deliver even greater value for their customers and other shareholders (Laszlo & Zhexembaeva, 2011, p. 6-29).
3 SUSTAINABILITY STRATEGIES

The literature presents numerous sustainability strategies. They differ by the reason and the level of sustainability integration. Whether the reason is merely complying with regulations, product differentiation, cost leadership, or looking for new business opportunities, none of them can be sufficient on its own, but it should be well considered in order to fit with corporate competitive strategy. Generic sustainability strategies (Baumgartner & Ebner, 2010) and competitive environmental strategies (Orsato, 2006) present the strategies for competing within existing markets and industries. On the other hand, sustainable value innovation strategy (Orsato, 2009) and sustainability innovation strategy (Epstein & Rejc Buhovac, 2015) are all based on discovering new market opportunities based on sustainability.

3.1 Corporate Sustainability Strategies

There are different types of generic sustainability strategy. Each is evaluated based on a range of sustainability aspects that present dimensions of corporate sustainability (economic, ecological and social dimension) as presented in Figure 3 (Baumgartner & Ebner, 2010, p. 76-89).

**Introverted sustainability strategy** is a risk mitigation strategy that focuses on legal and other external standards concerning social and environmental aspects in order to avoid risks for the company. This strategy focuses on very low standard of sustainability with poor maturity level of most sustainability aspects. When the company is following the introverted strategy, it concentrates on the essentials, such as conformity and compliance with sustainability-related guidelines and rules (Baumgartner & Ebner, 2010, p. 76-89).

**Extroverted sustainability strategy** is a legitimating strategy that focuses on external relationships and license to operate. Extroverted strategy strongly interacts with the market and actively tries to change market conditions. This strategy can be either conventional or transformative. When a company is focusing on the conventional extroverted strategy, it aims at communicating its sustainability commitment to society with the purpose of differentiating from the competitors and increasing its credibility. Such companies are typically engaging more in sustainability that is obliged by law. The responsibility for corporate sustainability is often located in the communication or PR department, therefore the risk of green-washing is increased, especially in case of limited cooperation between the communication department and other corporate functions and processes. As this strategy is focused on external presentation of sustainability, it supports the increase of credibility in the society, such as no corporate citizenship, no cartel or corruption activities, employees’ health and safety as well as a collaboration to improve the stakeholders’ relationship. By creating new market opportunities and positively influencing on the basic conditions of corporate sustainability, extroverted sustainability strategy can also be transformative. A company following this strategy is a driver for corporate sustainability in
the society and therefore gains a higher credibility. While maturity level over all aspects is generally one level higher than in the conventional extroverted strategy, internal sustainability aspects are the most important (Baumgartner & Ebner, 2010, p. 76-89).

**Figure 3. Profiles of sustainability strategies**

![Profiles of sustainability strategies](image)


**Conservative sustainability strategy** is an efficiency strategy that focuses on eco-efficiency and cleaner production through very well defined processes. The company’s orientation is towards investment and appropriate technology, employees’ health and safety and overall ecological sustainability. While the processes of sustainability aspect are reaching the highest maturity level, society-related issues are perceived as less important (Baumgartner & Ebner, 2010, p. 76-89).

**Visionary sustainability strategy** is a holistic sustainability strategy that focuses on sustainability issues within all business activities in order to become a market leader in sustainability issues. Visionary strategy enables deriving competitive advantages from differentiation and innovation, and therefore offers customers and other stakeholders’ unique advantages. Visionary strategy occurs in either conventional or systematic version. **Conventional visionary strategy** with outside-in focus is oriented towards its impact on
the market. It is based on market opportunities in an opportunistic manner. Most of sustainability aspects, maturity is on the highest sophisticated level, with an exception of processes and purchase, controversial activities and corporate citizenship, which have lower direct impact to affect the situation in the market as sustainability leader. While the inputs for conventional visionary strategy formulation are derived from the market perspective, **systematic visionary strategy** combines outside-in with an inside-out perspective. The market based view is supplemented with a resource based view and sustainable development is deeply incorporated in the company’s normative level. Its aim is to achieve a unique competitive position by internalization and continuous improvement of sustainability issues within the organization. For a company following systematic visionary strategy, it is important to show good results in all sustainability aspects. By doing so, the company shows to its stakeholders and to the market its sustainability commitment. Moreover, it emphasizes its activity and efforts towards a positive change of basic conditions towards sustainability (Baumgartner & Ebner, 2010, p. 76-89).

### 3.2 Competitive Environmental Strategies and Sustainable Value Innovation Strategy

Orsato (2006) presents five sustainability strategies. Four of them are generic competitive sustainability strategies based on the classification of environment-related investments according to their potential to become sources of competitive advantages (Figure 4). The appropriate competitive focus and the potential source of competitive advantage depend on the industry’s structure, in which the firm operates, its position within that industry, the types of the company’s markets and its capabilities. While these strategies may pay off when the companies are trying to gain competitive advantage and gain their market share in well-established industrial sectors, sustainable value innovation strategy (Figure 5) creates new market opportunities.

**Eco-Efficiency Strategy** is appropriate when the company needs to simultaneously reduce the cost and the environmental impact of organizational processes. This strategy supports the company to develop capabilities to continuously increase the productivity of their organizational processes, while decreasing the environmental impact and the related costs. Optimizing the overall use of resources turns out as a competitive advantage for the company; however, it is not highly visible to the customers. Eco-efficiency strategy can generate some level of savings in nearly every firm; however, such strategies have greater potential to generate competitive advantage in firms that supply industrial markets, generate wastes and/or by-products and face relatively high levels of processing costs (Orsato, 2006).

**Beyond Compliance Leadership Strategy** can be used by the companies that do not only want to increase the efficiency of their organizational processes, but they also want the general public and their customers to acknowledge their efforts. While these strategies are more valuable for companies supplying products and services to other corporations,
beyond compliance practices have also indirect influence on shopping consumers’ behavior. Obtaining environmental certifications, investing in unprofitable environmental improvements, or subscribing to business codes can eventually differentiate corporations from competitors while increasing corporate reputation (Orsato, 2006).

**Eco-Branding** is a market oriented strategy that promotes product differentiation based on environmental attributes. The company differentiates itself from the competitors when it provides a unique environmental value for the buyers, while obtaining a price premium for ecologically oriented products. Companies that intend to follow eco-branding strategies should observe that consumers are willing to pay the cost of ecological differentiation, provide publicly available reliable information about product’s environmental performance and make sure that competitors are unable to imitate the differentiation. Such strategies are primarily appropriate for niche markets (Orsato, 2006).

**Figure 4. Competitive Environmental Strategies**

<table>
<thead>
<tr>
<th>Competitive Advantage</th>
<th>Lower Costs</th>
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<tbody>
<tr>
<td>Strategy 1: Eco-Efficiency</td>
<td>Strategy 4: Environmental Cost Leadership</td>
</tr>
<tr>
<td>Strategy 2: Beyond Compliance Leadership</td>
<td>Strategy 3: Eco-Branding</td>
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**Environmental Cost Leadership** is appropriate for the companies that operate on markets with reduced scope of differentiation, where competition is heavily based on price. Those companies also face a constant tightening of environmental regulations and increasingly demanding customers. Therefore, focusing on radical product innovation, such as dematerialization, makes more business sense than focusing on incremental process innovation. Although buyers are not willing to pay higher price for additional environmental attributes, a company can gain a first mover advantage. When the innovation is extended to the “revenue basis” of the firm, such companies not only have the potential to use product innovation as a competitive advantage, but they can also revolutionize industries. By shifting from selling the product to selling the function provided by them, companies can eventually reduce both, the environmental impacts and the costs (Orsato, 2006).
Sustainable Value Innovation Strategy builds on the concept of value innovation and Blue Ocean Strategy. Highly innovative companies can bypass competition of an existing industry by creating value innovation and eliminating the trade-off between cost and differentiation. When the company focuses on new sustainable solutions, it creates a unique value proposition that satisfies the demand of stakeholders for environmental protection and social justice. Such strategy seeks for new market opportunities and creates new business models that simultaneously reduce costs and environmental impacts, while increasing value not only for the customer, but also for the society as a whole (Orsato, 2009, p. 36-38, 153).

Figure 5. Sustainable Value Innovation Strategy


3.3 Sustainability Innovation Strategies

Epstein and Rejc Buhovac (2015) distinguish between the so-called play to win strategy based on opportunities and breakthrough innovations, and play not to lose strategy which aims at mitigating risks and developing incremental innovations. Companies that practice the so-called playing to win sustainability innovation strategies are encouraging innovation and entrepreneurship among employees in order to deal with the risks in a sustainable and also profitable manner. Creative use of technology and innovation enables managers to overcome “win-lose” scenarios which are often seen as trade-offs between sustainability and financial goals. By taking increased risks and creating new innovation opportunities managers can solve social problems and improve both sustainability and financial performance locally and globally. Play to win sustainability innovation strategy is also successfully combining social, environmental, and economic benefits with the financial ones, rather than investing in sustainability to maintain license to operate. Companies with playing to win sustainability innovation strategies build on organizational transformations and the creation of market-changing ideas and products. Culture and structure transformations in the organization enable employees to use sustainability tensions as a
source of new ideas, creativity and innovation. When managers recognize that financial performance is impacted by stakeholder reactions to corporate sustainability performance, they are able to effectively balance sustainability and financial trade-offs, turning many win-lose into win-win scenarios. On the other hand, companies playing not to lose focus only on capitalizing the company’s resources and capabilities to simultaneous improvement of social and financial performance. The final feature of playing to win sustainability innovation strategy is building and using capabilities throughout the organization. Due to a strong belief into stakeholder reactions, sustainability is well incorporated into strategic and operational decision-making at the corporate and business unit level. Sensitivity to sustainability issues is deeply embedded in innovation and R&D, which is expected not only from the business unit and functional leaders, but from all employees (Epstein & Rejc Buhovac, 2015).

4 THE BENEFITS OF SUSTAINABILITY FOR CORPORATIONS AND SOCIETY

Industry leaders as well as academics recognize the importance of sustainability as the source of a long-term success of both firms and the communities in which they operate (Galpin & Whittington, 2015, p. 1-17). Companies are using sustainability as a new way to protect their business from environmental, financial and social risks, to run operations with greater efficiency and productivity and to grow the business through the development of new products and services and the opening of new markets. Sustainability also provides intangible benefits, such as an improved corporate reputation, higher employee morale and increased customer goodwill. By reducing the risk of harm to customers, employees, and communities, identifying emerging risks and management failures early, limiting regulatory interventions and retaining the license to operate, sustainability helps protecting the business. Integrating sustainability into business operations reduces costs, improves productivity, eliminates needless waste and obtains an access to capital at lower cost. Eco-efficiency reduces the amount of resources used to produce goods and services, which increases a company’s profitability, while decreasing its environmental impact. Sustainability may also help growing the business by opening new markets, launching new products and services, increasing the pace of innovation, improving customer’s satisfaction and loyalty, growing market share by attracting customers for whom sustainability is a personal or business value, forming new alliances with business partners and other stakeholders and improving reputation and brand value (Savitz, 2012, p. 33-39). Proactive companies seek information related to changing trends, which results in new products and services, relevant to the organization’s and society’s needs. Such dynamic culture encourages learning and innovation that can be directly related to strategy and practice. Companies that proactively manage external and internal rates of change gain the capacity to absorb new knowledge that may be translated into strategic renewal actions. Learning with increasing the absorptive company’s capacity strengthens the strategic innovation and
entrepreneurial capacity (Wagner & Svensson, 2014, p. 340-367). Sustainability can improve international competitiveness. It may cause a closer examination improving product designs, as well as service and product quality improvements. Moreover, it may increase production efficiency and yields, along with environmental improvements. These improvements may consequently result in customer’s and also employee’s satisfaction and retention, increased sustainability performance and after all in increased profitability (Epstein & Rejc Buhovac, 2014, p. 75). The payoffs of improved sustainability performance are summarized in Table 1.

Table 1. Payoffs of improved sustainability performance

<table>
<thead>
<tr>
<th>Organizational payoffs:</th>
<th>Operational payoffs:</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Employee satisfaction</td>
<td>• Process innovation</td>
</tr>
<tr>
<td>• Improved stakeholder relationships</td>
<td>• Productivity gain</td>
</tr>
<tr>
<td>• Reduced regulatory intervention</td>
<td>• Reduced cycle times</td>
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<tr>
<td>• Reduced risk</td>
<td>• Improved resource yields</td>
</tr>
<tr>
<td>• Increased learning</td>
<td>• Waste minimization</td>
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</tbody>
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<table>
<thead>
<tr>
<th>Customer-related payoffs:</th>
<th>Financial payoffs:</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Increased customer satisfaction</td>
<td>• Reduced operating costs</td>
</tr>
<tr>
<td>• Product innovation</td>
<td>• Increased revenues</td>
</tr>
<tr>
<td>• Market share increases</td>
<td>• Lower administrative costs</td>
</tr>
<tr>
<td>• Improved reputation</td>
<td>• Lower capital costs</td>
</tr>
<tr>
<td>• New market opportunities</td>
<td>• Stock market premiums</td>
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5 THE IMPORTANCE OF INTEGRATING SUSTAINABILITY INTO CORPORATE STRATEGY

Industry leaders as well as academics recognize the importance of sustainability as the source of a long-term success of both firms and the communities in which they operate. Nowadays, enterprises need systematic approaches to sustainability if they want to be competitive over the long-term. Without a diligent effort to create an organizational infrastructure that supports the development of a sustainability strategy, the firm’s efforts to successfully implement a sustainability strategy will be severely hindered. By intentionally fostering culture of sustainability within organizations, the company leaders...
can implement innovative sustainability solutions, which will produce win-win outcomes for environment, society and firms (Galpin & Whittington, 2015, p. 1-17).

Still, many companies see corporate sustainability as merely compliance costs or just another public relations’ means that may or may not increase the company’s reputation (Epstein & Rejc Buhovac, 2014, p. 1-4). Many companies practice the so-called bolt on sustainability and promote green initiatives and social philanthropy that lie at the margins of the business. With symbolic wins, those companies unintentionally highlight the unsustainability of the rest of their activities. Bolt-on approaches prevailing in practice nullify positive sustainability efforts by creating cynicism among both corporate managers and social activists (Laszlo & Zhexembaeva, 2011, p. 100-106). Moreover, bolt-on sustainability practices can lead to proliferation of incentives and projects that become a distraction to primary business purpose and may negatively affect the performance. A preoccupied middle management may even see it as an unnecessary additional bureaucracy that may impede achieving their main goals (Grayson & Hodges, 2004, p. 9-10). Still, many corporations do it simply on the basis of a changed rhetoric, of green-washing. The companies lack the integration of sustainability issues into the business routines and their strategies, which makes sustainability issues perused more coincidentally than with a clear strategy (Baumgartner & Ebner, 2010, p. 76-89).

When proactively integrating sustainability programs into the business strategy, new competitive advantages can be achieved through product quality, production yields and increased profitability. Striving for continuous sustainability improvement usually causes a reduction or elimination of social, environmental and economic impacts, as well as a decrease of corporate costs (Epstein & Rejc Buhovac, 2014, p. 222-223). For a company, it is important to clearly articulate the meaning of sustainability, to develop process of promoting and integrating sustainability into day-to-day corporate activities and link it to non-financial and financial performance. Only in such a way can sustainability be long-lasting and useful and not only seen as an attempt to provide effective public relations, which can even destroy the company’s value (Epstein & Rejc Buhovac, 2014, p. 1-4). When sustainability is embedded into strategy forming sustainability strategy, it does not present any additional cost for increasing the company’s reputation, but through optimized operation systems decreases costs, increases reputation and consequently, it positively affects the company’s profit and it creates an enduring value for multiple stakeholders (Laszlo & Zhexembaeva, 2011, p. 98-106).

6 DRIVERS OF SUCCESSFUL SUSTAINABILITY IMPLEMENTATION

Sustainability leaders are taking their place on the market, but still many other companies are not practicing corporate sustainability yet, mostly due to the ignorance about sustainability and its positive effects on performance, as well as the lack of knowledge on
successful implementation techniques, possibilities and challenges. Implementing sustainability is a challenge for many companies, especially because it fundamentally differs from implementing other strategies in an organization (Epstein & Rejc Buhovac, 2010, p. 306-315). Not all companies, which are trying to integrate sustainability into their corporate strategies, succeed. For most of them developing and integrating sustainability issues into day-to-day business decisions is a challenge (Epstein & Rejc Buhovac, 2015). There are various drivers that must be considered and properly used by management, in order to successfully implement sustainability integration.

**Aligning strategy and sustainability.** Companies that are moving toward sustainability must examine the various elements that relate to their current strategy and assess whether and how their current corporate strategy could impact on sustainability issues (Epstein & Roy, 2001, pp. 585-604). The strategy requires clearly defined objectives and payoffs. It also requires understanding the casual relationships between various alternative actions and their impact on sustainability performance. Moreover, managers need to understand the likely reactions of the corporation’s various stakeholders to sustainability as well as financial performance. Careful identification of these interrelations and establishment of relevant performance metrics to measure success enable a company to improve operational decision-making and to make the business case for sustainability. What is more, sustainability must be an integral component of the corporate strategy (Epstein & Rejc Buhovac, 2015).

**Organizational design.** Effective implementation of sustainability strategies is possible when companies align formal and informal systems. Formal systems as process, performance measurements and reward systems provide internal and external accountability and measure success, while informal systems like leadership, culture and people support sustainability implementation (Epstein & Rejc Buhovac, 2010, p. 306-315).

- **Organizational culture.** Corporate culture must have a strong corporate identity that is shared by the majority of the employees. Connecting the corporate image with a strong sustainability performance benefits also internal branding that attracts the employees with personal interest and responsibility in their contribution toward achievement of high-level sustainability performance, while contributing to the company’s environmental and social bottom lines. It is one out of the firm’s several features, which have been fundamental to the company’s financial strength and are also instrumental in the company’s sustainability performance (Epstein, Rejc Buhovac, & Yuthas, 2010, p. 353-356).

- **Leadership and innovation.** The company’s leadership must be very supportive of sustainability and has to believe that sustainability is an essential component of the company’s long-term strategic objectives (Epstein et al, 2010). Sustainability should be positioned as an opportunity for innovation and not only as a compliance related or risk-oriented activity. Sustainability success requires a strong innovative leadership, which results in decreasing conflicts between senior and middle managers when
dealing with risks and balancing sustainability performance with the financial one. Middle managers are more able and willing to make certain trade-offs when highly supported by chief executive officer (hereinafter: CEOs) and senior managers, who firmly believe in the sustainability benefits. Leadership commitment to social, environmental and economic concerns that is consistently communicated both in words and actions is obligatory. Leading by example, deciding the level of sustainability integration, articulating the trade-offs and continually reinforcing the objectives throughout the organization is highly required by top managers. In order to enhance the offensive opportunity capture, innovation strategy with supporting management control systems must be created (Epstein & Rejc Buhovac, 2015). Through the innovation, employees may seek for corporate social opportunities (hereinafter: CSOs), which can be either based on innovations in developing new or improved products and services (technological innovations), serving under-served or creating new markets, or/and organizing the business differently in a new business model (business model innovations). The company’s goal is to create an environment where numerous CSOs are possible. A company may reach this goal by achieving alignment of business values, purpose and strategy with the social and economic needs of shareholders, while embedding responsible and ethical business policies and practices throughout the company (Grayson & Hodges, 2004, p. 10-15).

- **Performance measurement and reward systems.** The sustainability performance of corporations, business units, facilities, teams, managers and all other employees should be measured and be part of evaluation and reward systems. Moreover, incentives that encourage excellence also in sustainability performance should be established. The companies that are trying to improve sustainability performance by changing corporate culture must make social and environmental performance of individuals, facilities and divisions an integral part of performance evaluation. If employees’ performance is evaluated based solely on a short-term financial performance or revenue contributions, employees may quickly recognize that trade-offs on sustainability issues are acceptable (Epstein & Roy, 2001, p. 585-604).

- **Reporting.** External reports that disclose a positive social and environmental performance also promote good sustainability performance to various stakeholders, including financial analysts and non-governmental and customer activist groups (Epstein & Roy, 2001, p. 585-604).

**Managing sustainability across countries.** Multinational organizations often struggle with the balance between one worldwide corporate sustainability standard for performance and management systems on the one hand, and widely different local competitive pressures and government regulations on the other. While developing global corporate strategies, the companies want to have a local presence to attract and maintain business and adapt corporate practices to country cultures and competitive conditions. Global companies therefore face a challenge of simultaneously establishing policies and practices that meet
local standards, meeting international standards of various community organizations, meeting the company’s own standards or codes of conduct, while trying to minimize the corporate costs (Epstein & Rejc Buhovac, 2014, p. 57-59). Companies operating in multiple geographic locations often face challenging environments that often lead to a more decentralized organizational structure. Decentralization of authority and control enhances integration of sustainability considerations within day-to-day operations. It enables flexibility and rapid communication of sustainability challenges between business units and headquarters (Epstein et al, 2010, p. 353-356). Due to specific local expertise about customers, markets and competitors, companies may benefit from a valuable knowledge that could translate into efficient and innovative solutions. Moreover, decision making process in decentralized structure gives managers autonomy and therefore creates an environment that is more prone to experimenting and developing new ideas. However, decentralized structure may also result in drawbacks, such as the loss of scale economies, functions duplication, inconsistencies between business units. In addition, with an increased geographical diversity, the company must confront different business needs, local laws and different cultures (Epstein & Rejc Buhovac, 2014, p. 77). Still, it is important that an overall strategic planning, guidance and coordination for sustainability function stay strongly centralized. Central CSR staff is the key to internal auditing and to furnish overall direction for identifying, measuring and reporting sustainability impacts as well as directing strategy integration throughout the organization (Epstein & Rejc Buhovac, 2014, p. 81).

**Aligning resources and capabilities:** Companies need to focus on using and exploring their unique resources and capabilities. Resources do not only include cash and material assets, but also expertise, company-specific know-how and infrastructure, while capabilities include network capacity as well as brands and influence that may help promote legislation with sustainability impacts. By aligning company-specific resources and capabilities with sustainability risks and impacts, the companies improve efficiency as well as credibility in solving social, environmental, or economic problems, which in turn, strengthens their brand and broadens their knowledge base. Building additional organizational capacity, such as by partnering or helping other organizations to make an impact on their ability may also be needed. By pushing sustainability concerns throughout the supply chain, the companies create opportunities to reduce sustainability impacts while decreasing costs and also create new competitive advantages by stimulating markets for economically, environmentally and socially sensitive products (Epstein & Rejc Buhovac, 2015).

**Market strength** also affects the company’s ability to effectively implement sustainability standards throughout the organization and its supply chain. The bigger the market strength, the bigger is the company’s power in the marketplace to influence its supply chain partners or even regulatory regimes. Moreover, the companies with continuing profitability and comfortable financial position have better foundation for taking a longer perspective on business investments. They can also attract social investors and be entitled to
sustainability-related investments that often carry higher uncertainty and a longer time horizon than traditional investments. On the other hand, every major action taken by the powerful organizations is highly visible and picked up by the media on some level. The public can rapidly learn about any unpleasant company actions and so the company’s reputation can severely be damaged (Epstein et al, 2010, p. 353-356).

**Market positioning** consists of products, target markets and competitive strategy and it provides another key element in contributing to the company’s sustainability status. If target market are the customers who are aware of environmental or social issues, their purchase decisions may be additionally influenced by sustainability factors. When the company competes heavily on brand, changes in brand image will have an immediate effect on customer behavior, while market positioning with a strong focus on innovation and product development will positively influence on customer’s loyalty (Epstein et al, 2010, p. 353-356).

**Stakeholders’ reactions:** Particularly challenging are the stakeholders’ reactions who differently respond to various sustainability actions and performance through time (Epstein & Rejc Buhovac, 2010, p. 306-315). Shareholders may significantly affect costs and short-term revenues as well as long-term corporate performance on many levels. Therefore, companies must identify the key stakeholders groups that are affected by their strategy the most, including employees, customers, suppliers, shareholders and communities. Since the companies can gain a lasting advantage through stakeholder reactions, metrics for each of the stakeholder groups should be developed in order to gauge reactions to the company’s sustainability performance (Epstein & Rejc Buhovac, 2014, p. 38-39, 177-178).

**Measuring sustainability impacts, actions and performance:** Measuring social and environmental impacts is rather challenging, since the effects are often long-term and with no direct link to profit (Epstein et al, 2010, p. 306-315). Moreover, they are often difficult to quantify (Epstein & Roy, 2001, p. 585-604). Many sustainability impacts may appear to have no immediate or short term market consequence and financial impact. However, many of externalities are internalized in future periods and affect the company’s operations and profitability in the long term. Therefore, the company should develop structure and systems to evaluate and measure the impacts, trade-offs and performance of sustainability initiatives (Epstein & Rejc Buhovac, 2014, p. 165-166). Only so, the companies can understand the linkages and casual relationships that exist between various drivers of performance (Epstein & Roy, 2001, p. 585-604). Different types of tools and techniques, such as life cycle assessments, greenhouse gas and carbon dioxide (hereinafter: CO₂) emissions measurements and social audits can be used to measure the potential environmental and social impacts of a company’s business activities. Measuring tools and techniques help the companies to understand the environmental and social characteristics of their business activities better and provide valuable information regarding opportunities to improve sustainability performance. Moreover, benchmarking systems to monitor competitors’ sustainability performance may also be used to help companies indentify
areas for improvement. Companies must develop performance indicators in order to monitor and assess the value of taken sustainability actions. Each element of sustainability actions must be translated into a metric and be linked to sustainability performance indicator. When implementing new programs or investing in new technologies to improve sustainability performance, goals and targets must be clearly defined in order to evaluate the actual performance (Epstein & Roy, 2001, p. 585-604).

Figure 6. The Traditional Perspective and Alternative or Trade-off Perspective for the Social and Environmental – Financial Relationship

Managing short-term financial and long-term sustainability performance simultaneously. To operate goals, the direct link to profit is usually clear, while the social and environmental impacts of corporate activities have effects that are often long-term and are more difficult to measure (Epstein & Rejc Buhovac, 2010, p. 306-315). Integrating social and environmental impacts into day-to-day management decision making is often seen as trade-offs. Since most organizations’ primary management focus and most incentives are aligned around short-term profits, implementing a focus on social and environmental impacts often creates various tensions, especially when little guidance and support is provided to senior and middle level managers in their decision making process. Managers throughout the business units and facilities must evaluate the impacts and make decisions, while being accountable for excellent environmental, social as well as financial performance. The relationship between social, environmental, economic and financial goals is typically characterized with the competition and inconsistencies in the short-turn, but benefits in the long-term. While initiatives may benefit one another in the long-term, they are often conflicting in their need for resources and therefore, managers must make resource allocation trade-offs between these multiple goals. Financial incentives are associated with measurable, clear, short-term metrics, whereas social and environmental
measurements are often long-term and uncertain. Since long-term financial gains of social and environmental incentives may not fit well into a traditional capital budgeting process, the process of integration is often perceived as difficult, unless the risks and reputation-related impacts are measured and integrated into the decisions. The tensions may further increase, since financial goals encourage competition for individual gains, while pursuing social goals demands cooperation to achieve public benefits. Through decentralization and employee empowerment, cooperation is even more difficult to achieve. Business unit and facility managers’ performance is typically measured and rewarded primarily based on profits, therefore these significant incentive pressures to increase short-term earnings also increase the tensions between financial and social/environmental goals (Epstein et al., 2015, p. 35-45). This is the so-called traditional perspective (Figure 6) with a well considered financial objectives that are diametrically opposed to a well considered environmental and social objectives. The alternative or trade-off perspective (Figure 6) builds upon balancing financial objectives with social and environmental considerations.

Figure 7. The Paradox Perspective or Boundary Perspective for the Social and Environmental - Financial Relationship


When managers are not aware of the tensions between these two perspectives, paradox or boundary perspective occurs (Figure 7). It demonstrates that for some actions, which have a high financial, but poor social and environmental performance (the shaded area above the horizontal line), sustainability leaders do not even make the trade off calculations, because they do not even consider this as an available option. In the paradox perspective, managers are deciding in favor of financial performance whenever financial performance is in conflict with the social and environmental performance, while at the same time they are avoiding actions that would have a bad effect on sustainability. While the companies’ informal systems promote sustainability, the formal systems stay rather traditionally focused on financial performance. Therefore, managers are using the tensions between
financial and social/environmental performance as a source of new ideas, innovation and creativity rather than seeing them as impediments to effective decision-making (Epstein et al., 2015, p. 35-45).

According to the research of Nike, P&G, the Home Depot and Nissan North America (Epstein, Rejc Buhovac, & Yuthas, 2015, p. 35-45), the companies are only able to simultaneously manage social, environmental, economic and financial performance if 1) they recognize the financial value of stakeholder reactions to social and environmental performance, 2) they creatively use technology and innovation to overcome “win-lose” scenarios, and 3) build upon organizational values that support long-term reasoning and decision-making (Epstein, Rejc Buhovac, & Yuthas, 2015, p. 35-45).

6.1 The Corporate Sustainability Model

The Corporate Sustainability Model, presented in Figure 8, is based on the social environmental and economic dimensions of sustainability. When used correctly, it helps managers to make the business case for sustainability initiatives. It offers the guidance to a better understanding of the drivers and measures of successful sustainability strategy (Epstein & Rejc Buhovac, 2014, p. 29).

Figure 8. The Corporate Sustainability Model

External, internal and business context as well as human and financial resources are the inputs that provide the foundation of understanding the complex factors that affect sustainability. Companies’ local and global broader external environment significantly affects formulation and implementation of sustainability actions. Regulatory pressures that may vary by geographic region force the corporations to follow minimum standards of sustainability performance, while the industry sector adds pressure from customers, community activists and political institutions. The industry sector and customers and products’ characteristics may also impact the level of sustainability performance and direct the focus of sustainability efforts. Through the development and implementation of missions, visions, strategies, structures and systems that present the company’s internal context, the sustainability performance occurs. Moreover, financial resources are needed for implementation of various sustainability programs. Next to the trained sustainability staff, the company should employ educated and trained individuals that are sensitized to sustainability issues. Processes for improving sustainability consist of leadership and sustainability strategy, structure, systems, programs and actions. Leadership should encourage and support, starting with the board, CEO and other executives’ commitment to sustainability. Sustainability strategy, structure, systems, programs and actions are the processes that can improve sustainability. Those processes have three major sets of impacts: corporate financial costs and benefits of actions, social, environmental and economic impacts; and long-term financial impacts through sustainability performance. Intermediate outputs, such as sustainability performance as well as stakeholders’ reactions must be monitored to determine the effectiveness of sustainability management practices. For most of the companies, managers and investors, the model’s most important part is the outcome, which is short- or long-term corporate financial performance. When impacts of sustainability processes are converted to monetary measures through additional revenues to organization or/and cost reduction, a positive effect on financial performance can be clearly defined. Sustainability performance is the economic, social and environmental company’s performance, which relates to the objectives that are important to the internal and external stakeholders of the organization. Sustainability performance objectives typically relate to a broad set of company’s stakeholders and often address impacts that are at times broader and less tangible than financial performance objectives. Sustainability goals are often broad; therefore enterprises must focus on specific issues or areas of priority when assessing performance. In practice, sustainability performance can be both an intermediate output and a final outcome. Sustainability performance shows the companies’ attempt to improve their contribution by increasing corporate social, environmental and economic impacts, or decreasing the negative ones, or both. Companies can either impair or improve their sustainability performance through their actions. Sometimes sustainability impacts are developed expressly for improving society with no explicit goal of improving profitability, and are therefore seen as an ultimate outcome. On the other hand, the companies can make a business case, which means that the companies attempt to improve their sustainability impacts as an intermediate output for improving
corporate profitability. In any case, it is important that managers determine possible contributions to the society, the environment, the economy and the corporation, and later on recognize and evaluate the corporate impacts of their actions in order to measure sustainability performance. Sustainability performance is converted into having an effect on the company’s financial performance, through stakeholder reactions. Stakeholder reactions may significantly affect short- and long-term corporate performance and has therefore been recognized as a driver of the strategic success. The sustainability processes’ outputs must be ultimately converted to monetary measures, in order to effectively capture the impact on the final corporate performance. The impacts of sustainability performance should include present and future costs and benefits, represented through cost reduction or additional revenues to the organization. Throughout the model, there is a feedback process which constantly challenges and changes strategies and assumptions and therefore constantly modifies future sustainability strategy formulation and implementation (Epstein & Rejc Buhovac, 2014, p. 28-42).

7  STUDIO MODERNA CASE STUDY

7.1  Studio Moderna

Studio Moderna was founded by Sandi Češko and Livija Dolanc in 1992, as the distributor of back pain solution device Kosmodisk. In 1993, the company expanded to Croatia and later on, a major geographical expansion throughout Central and Eastern Europe followed. Today, Studio Moderna employs around 7,000 people throughout 21 countries. Through highly sophisticated, vertically integrated omni-channel sales, media, marketing and distribution platform, which includes home-shopping and direct response television, local websites, catalogues, own retail stores, call center operations, vast retail network and wholesale partners, Studio Moderna is reaching the market of more than 300 million consumers. In 2002, the company started with its first own proprietary brand Dormeo, which continues to be the most successful brand even today. Through several own proprietary brands, the company grows and diversifies into many different areas. Most of the brands are already sustainable in the way of promoting and offering healthy life style products affordable to the majority of consumers (Studio Moderna, History and Milestones, 2017):

- Dormeo, a sleep and lifestyle brand, with various innovative mattresses and pillows technologies improves the quality of sleeping and resting. Dormeo also offers a special Natura product line with products made of natural materials, such as bamboo, aloe vera, merino wool, camel fur, silk and eucalyptus (Studio Moderna, Dormeo, 2011, 2017);
- Delimano brand stands for high quality innovative cookware products that bring an energy consciousness and eco-oriented mindset to home cooking. Most of the pots are
made of Delimano Ceramica, a ceramic material that enables optimal energy consumption and decreased CO₂ emissions (Studio Moderna, Delimano, 2017);

- Kosmodisk products provide safe, effective and simple back pain solutions (Studio Moderna, Kosmodisk, 2017);
- Wellneo brand specializes in health, body and life products, such as food supplements, weight management products, health products and eco products (Studio Moderna, Wellneo, 2017);
- LiveActive brand promotes healthier and more active lifestyle offering a range of fitness devices and other sports equipment (Studio Moderna, LiveActive, 2017);
- Bigfish brand offers a unique and stylish folding bike concept, encouraging biking over other transport, especially in urban communities (Studio Moderna, Bigfishbike, 2017);
- Walkmaxx is a shoes brand offering natural movement and improving health and well-being of consumers (Studio Moderna, Walkmax, 2017);
- Rovus brand stands for cleaning products line that emphasizes the ease of use and making user’s life easier (Studio Moderna, Rovus, 2017);
- Top Shop is branded multichannel retail chain promoting other Studio Moderna brands and some additional products through combination of DRTV (direct response television), internet, print, telemarketing, retail and wholesale channels (Studio Moderna, Top-Shop, 2017).

The corporate structure of Studio Moderna is highly decentralized due to being present in 21 countries and its corporate strategy is also highly diversified due to multiple different brands. Operations activities are influenced by local laws, while marketing strategy depends on local needs and demands. The subsidiaries have a high level of autonomy when preparing marketing campaigns or launching new products to the market. Still, the local operations are guided, coordinated and controlled by headquarters and central management team. Due to the decentralized structure and diversified strategy, the level of corporate sustainability strategy and activities also highly differ among countries as well as among brands. Managers at Studio Moderna reveal that some countries, like Romania and Slovenia are already putting more emphasis on sustainability development and integrating sustainability activities into the business activities.

7.2 An overview of sustainability performance at Studio Moderna

Studio Moderna is already committed to a wide range of CSR and sustainability practices. The company already invests time and money in issues like saving the environment, promoting the quality of employees’ lifestyle, creating new sustainable job opportunities, promoting food sustainability commitment for taking on the responsibility for the less fortunate. Studio Moderna has defined five focal areas, commonly called as the Circle of Better Living: quality of life in the local communities, environmental protection, employees’ wellbeing, charity and humanitarian actions and knowledge partnerships and promotion of entrepreneurship (Figure 9).
A number of partnerships and initiatives with a measurable social impact have already taken place. Sustainability activities are organized through the company, its employees, brands and products, or Zavod Viva, a non-profit organization that was founded on the initiative of Studio Moderna as a concrete expression of the commitment of giving back (Studio Moderna, CSR & Sustainability at Studio Moderna, 2016).

Zavod Viva, a non-governmental and non-profit organization was established in 2012 on the initiative of Studio Moderna with a mission to awake the potential for a better living in Slovenia. With its activities, it contributes to an improvement of health literacy and accessibility through the project Speaking the Language of Health (communication campaign to make it easier for people to understand their health status better, publishing articles on health literacy in the Viva magazine, publishing brochure My Health Diary, National open day for healthier Slovenia to draw public and healthcare authorities’ attention to increasing inequities in healthcare access in Slovenia, enabling free medical examinations), increasing in food self-sufficiency with the project From Garden to the Workplace (enables employees in urban centers a simple and easy access to a healthy, locally produced food and at the same time, supporting local farmers) and using the power of business to contribute to social good with the project Reinovator - Connecting for impact (connecting social enterprise initiatives, civil society representatives and businesses with the aim of finding concrete solutions to the current challenges and matching the partners from different sectors that have the dedication to implement indentified solutions). Studio Moderna is also the founder and publisher of Viva media (magazine Viva, website portal Viva.si and Viva tablet edition) that promotes a healthy life style and the quality of living (Studio Moderna, Viva for Better Living, 2016).

Figure 9. The Circle of Better Living

Source: Studio Moderna. CSR & Sustainability at Studio Moderna.
**Decreasing environmental impact:** Studio Moderna encourages employees to use resources, water and energy in a smart way and it promotes waste separation as well. Energy saving lights were installed, waste separation bins were placed and plastic cups were banned in Studio Moderna Slovenia, including the headquarters. The company also provides extensive conferencing facilities in all business units in order to reduce traveling costs and CO₂ pollution. Moreover, innovative production solutions, like Octaspring Technology aid in the reduction of material usage and CO₂ emissions (Studio Moderna d.o.o., 2016).

**BEST (Body, Energy, Spirit, Team) – employee engagement:** The main vision of BEST is to connect the employees in activities which strengthen the body, mind and interpersonal relationships. The overall idea is to “feel good” at the workplace and outside of it, therefore a variety of sporting activities and activities connected to healthy food, having fun and doing food are organized (Studio Moderna d.o.o., 2016).

**Sponsorships and donations:** Studio Moderna responds to the needs of local communities, organizations and individuals with a financial help, material goods and participation in pro bono expert mentors’ schemes. The main areas of sponsorships and donations are Quality of life in the local communities (supporting environmental campaigns, cultural and sport events, promotion of food self-sufficiency), charity and humanitarian actions and knowledge partnerships and promotion of entrepreneurship (cooperation with American Chamber of Commerce, MEPI and Duke of Edinburgh’s International award, CEED, Clinton Global Initiative and Hekovnik mentorship schemes). Within Dormeo Brand, Studio Moderna set up a donation platform Warm hugs where humanitarian projects, activities and organizations compete for 1,000 EUR in donations each month. Since its launch in July 2012, 69 organizations received the funds in the total amount of 23,000 EUR, only in 2015, 30 non-profit organizations received a donation. Moreover, another 40 were supported by non-financial resources (Studio Moderna d.o.o., 2016).

**Membership in international associations:** Sandi Češko, the founder of Studio Moderna, has been a member of Clinton Global Initiative since its establishment in 2005. As part of the membership in this leading global organization for a social change, Studio Moderna successfully implemented the commitment of decreasing the level of youth unemployment in years from 2006 to 2009 in partnership with the Balkan Children and Youth Foundation. Sandi Češko is also a member of the World Fellowship of the Duke of Edinburgh's international Award, which aims at enabling the youth to be active in the fields of sports, skills, hiking and volunteering. Since 2011, Studio Moderna actively cooperates with the global network Ashoka – Innovators for the public. The partnership has been established with the intention of promoting the potential of social entrepreneurship in Slovenia and exchange of best practices (Studio Moderna, Beyond Borders, 2016).
7.3 Case Study Research

7.3.1 Research Questions

**Primary Research Question:** How and to what extend is sustainability integrated into corporate strategy of Studio Moderna and where is the space for improvement in order to become one of the world sustainability leaders?

**Secondary Research Questions:**

What were the main drivers to include sustainability issues and activities into corporate strategy?

What are the benefits and positive effects of including sustainability into day-to-day business decisions?

What are the challenges and barriers to effectively managing social and financial initiatives and performance?

What are the support systems (leadership, organizational design, performance evaluation, rewards, culture, etc.) that facilitate integration sustainability issues into corporate strategy?

7.3.2 Research Metodology

The empirical part of the master’s thesis builds on an intrinsic case study research of Studio Moderna. As research methodology, qualitative research methods were used together with an in-depth study of external and internal documents. Next to publicly available yearly reports and internal documents describing integration of sustainability into Studio Moderna, unstructured interviews were used to learn more about the current sustainability state and prepare semi-structured in-depth interviews.

7.3.2.1 Interviews and data collection

The process of collecting data took place between January and June 2016, where I carried out two research sequences. The first research sequence was conducted during January 2016 in order to gain an insight into sustainability practices of Studio Moderna and to decide whether it is appropriate to choose Studio Moderna as a case study. For the research method, I chose interviews, which enabled me to get an insight into everyday business operations. I conducted four unstructured interviews with top and middle managers and studied publicly available yearly reports and other publicly available information as well as internal documents, describing integration of sustainability into Studio Moderna.
Participants in un-structured interviews, January 2016 | Participants in semi-structured interviews, May and June 2016 | Those who could not participate in semi-structured interviews due to the lack of time
--- | --- | ---
• Head of Shared Services | • Founder | • CEO
• Marketing Director | • CFO | • Head of Shared Services
• Dormeo Brand Manager (via Skype) | • Director of Studio Moderna Slovenia | • Marketing Director
• Delimano Brand Manager | • Dormeo Brand Manager | • Direct Sales Director

In the second sequence during May and June 2016, I conducted five semi-structured interviews with top and middle managers including the chief financial officer (hereinafter: CFO) and the founder. The interviews were based on information from the first data collection period and on in-depth literature review, in which I thoroughly studied the theoretical constructs of corporate sustainability importance. Interview questions were mostly the same for all participants, however with some adjustments depending on the job function of each interviewee (Appendix 1). Fundamentally, nine managers were invited to participate, yet four of them did not take part due to the lack of time. I conducted nine interviews altogether, three of those in English and six in Slovene. All were conducted face-to-face, except for one that was conducted via Skype. The selected employees were invited to participate in the research via email, which included a short description of the research and the main research questions. The interviewees are listed in Table 2. All interviews were tape recorded with the interviewees’ permission and the transcriptions were checked by interviewees. The interviews were analyzed by coding, which is a process of identifying codes in one’s qualitative data. This involves identifying the themes during interviews by reading and rereading interview transcripts until gaining a clear idea about what sort of themes come up during the interviews (Blackstone, 2012).

7.3.2.2 Limitations

There are some contextual and methodological limitations in this research. In terms of contextual limitations, sustainability as well as corporate sustainability is a very broad concept with various definitions that in practice can be expressed through many different...
actions. It is also differently understood and practiced by the interviewees. Another contextual limitation arose when preparing interviews in Slovene. While internationally corporate sustainability vocabulary is well understood and broadly used in business language, translating and understanding the vocabulary in Slovene was an issue, for me as well as for interviewees.

Methodological limitations refer to a research method selection and data collection. Interviews were used as the only research method; however, integrating additional methods of data collection could have increased the scope and depth of the analysis. While interviews are useful for gaining detailed information on a complex topic which requires lengthy explanation, there are also some drawbacks. Semi-structured in-depth interviews are challenging to conduct, while due to open ended questions, each interview is likely to flow a little differently. For this reason, it takes a skilled interviewer to conduct an interview properly; to be able to ask questions; actually listen to respondents; and pick up on cues about when to follow up, when to move on and when to simply let the participant speak without interruption or guidance (Blackstone, 2012).

Another limitation is the respondent pool, in which participated employees positioned higher in the corporate hierarchy. The sample included top and middle managers as well as the founder, which makes it possible that their opinions are more positively inclined towards sustainability. Due to choosing managerial and executive leadership position participants, I also experienced a low response rate of 0.56 percent due to the lack of participants’ time.

During the research, I have also learned that the company’s internal documentation is rather poor. While flexibility in the business process in considered as very important, employees try to avoid any unnecessary documentation including central strategic document. For the company, it presents time and money savings and for me it was rather a challenge.

7.4 Interpretation of Case Study Results

In order to systematically combine the analysis into integral whole, I used the Corporate Sustainability Model as the base for the analysis. The analysis is summarized in Figure 11 and it also includes suggestions for improvement. With the purpose of a better understanding the causalities of sustainability performance drivers, I also created the causality scheme, presented in Figure 12.

7.4.1 Broader Environment

Studio Moderna operates and sells its products in 21 countries in Central and Eastern Europe. Half of them are European Union (hereinafter: EU) members, in which government regulations are stricter and the culture of sustainability performance is stronger. With an introduction of the European Commission’s Green Paper “Promoting a
European framework for Corporate Social Responsibility” in 2001, corporate social responsibility became an important issue within EU countries. In common with other EU member countries, Slovenia now regulates some aspects of CSR with legislation, such as for workers’ rights and the natural environment and consumer protection (Golob & Bartlett, 2007, p. 1-9). The company is not only fully complying with all mandatory EU and government regulations, like employee safety and health laws, but also responding to voluntary sustainability initiatives, such as municipality waste separation initiative and initiative for promoting healthy life style in the offices.

On the other hand, Slovenian business environment, where the headquarters is situated, is also impacted by some historical situations. Corporate social responsibility emerged relatively late in Slovenian public discourse, although the issue of corporate social responsibility is not new. One reason is relatively a slow restructuring of the economy in the relation to foreign investments. Foreign capital, the adoption of international best practices, as well as corporate social responsibility practices has been impacted upon this delay. Another reason is the legacy of the old Yugoslav socialist system, which was much more liberal with high concern for workers and for the community in general, if compared to other ex-communist countries. After gaining independence in 1991, the implementation of market economy forced Slovenian companies to become more profit oriented and many new privately owned companies did not actively express willingness to participate in socially responsible practices (Golob & Bartlett, 2007, p. 1-9).

7.4.2 Business context

Studio Moderna operates in the retail industry and is therefore as described by the founder “in the center of consumerism” and as a result, highly sensitive to current and future consumer trends.

There are several trends reshaping global retail and consumer products industry to which companies must adapt. Customers empowered with information, evolving technology and changing supply chain models are impacting retailers’ business practices and changing long-established standards in the industry. Trends of technology innovations, big data exploitation, changing demographics, new consumption patterns and resource constrains, are all affecting retailers in some significant ways, while all these forces uncover the challenge of sustainability. Rising consumer expectations put pressures on retailers to take an inside-out view of their sustainability strategies and engage with external partners in order to successfully build and manage sustainability (Hermes, 2014). While technology creates new products for retailers to sell, it also strongly impacts the way the companies do business. It offers new retail markets and additional shopping options to retail customers, while it increases the efficiency of operating processes for retailers (Treadwell, 2017). Especially in terms of ecommerce technology plays a major role. The abundance of social media enables retailers a convenient way to reach target audiences, while the popularity of online shopping is steeply increasing (Roanhorse, 2017). Buyers are exposed to dynamic
shopping experience that adapts to the shopper in real time. Shoppers have an access to a unique content, like product recommendations and add-ons automatically chosen based on their preferences, market trends, geographic location and demographic group, brand interactions and past purchases. While the number of internet shoppers is steeply increasing, also more and more information about specific product or service is available. The majority of internet shoppers are regularly reading product reviews and comments from other buyers. Moreover, the upgrades to consumers’ mobile devices and merchants’ points-of-sale systems enable mobile payments with the use of mobile devices and other technology. On the other hand, predictive analysis presents a benefit for merchants. By exploiting the data collected through customer interactions, merchants can use predictive analysis to better understand consumers’ preferences and purchasing habits or even predict their next purchases, based on the behavior of other customers with similar profiles (10ecommerctrends, 2017). Furthermore, rapid changes in consumers’ social values put pressure on retail industry players. The companies are expected to implement socially responsible practices, such as selling environmentally-friendly products, placing warnings on potentially harmful goods and removing controversial products from the shelves. Still, companies should not overlook the trend of an aging population. Retailers are challenged to find ways to offer their products also to senior population, who appreciate great customer service and high-quality products (Treadwell, 2017).

The founder, Sandi Češko, observes the changing business environment and sustainability pressures from suppliers and especially the customers’ side: “In today’s business environment, where the supply is bigger than the demand, the quality is gaining importance over the quality... Companies are meeting with the shortage of natural resources and therefore they are challenged to produce and operate with a minimum affect on material, natural and human resources. Producing the demanded quantity is not the challenge anymore; therefore the companies need to find a new logic, new philosophy to warrant their existence...Production and supply will not be the only reason anymore for the customers to decide for a purchase of specific brand. Companies will need to warrant their existence by positioning themselves as sustainable, socially and environmentally responsible.”

As explained by Director of Studio Moderna Slovenia “…new generations of consumers are absolutely more sustainability-oriented and therefore, sustainability is becoming an important competitive advantage when gaining market share.”

Even though they do not yet see direct very significant financial gains due to integrating sustainability, the founder is also certain that: “…in the near future, sustainability will matter and it will affect employees’ and customers’ loyalty as well as their decisions...it is important to get started soon in order to start learning and incorporating sustainability view of our culture and in everyday operations and decisions.”

Still, the managers observe that sustainability integration depends on the company and the market development stage.
“Sustainability should be integrated in all aspects of life, if only possible, if only the companies have reached a certain stage of development, in which sustainability improvements and initiatives can be incorporated.”

“It is easier to implement sustainability on more developed markers and when your market share is bigger.”

“The more developed the market, the bigger is the sustainability awareness and the demand for it. When basic needs are met, it is easier to think about sustainability.”

While customers put pressure on Studio Moderna from one side, investors do it from another. Four international fund investors, General Atlantic, Franklin Templeton Funds, Insight Venture Partners and JH Partners, are closely monitoring the business and the results of Studio Moderna. Even though these are the classical types of investors with 3-4 years horizon CFO clarifies that: “…they are not only looking for the last dollar by any means. We have never been compromised in any form or manner by investors to take on board anything that we did not think it was right or wrong. Even the values of our largest investor General Atlantic are historically based on being philanthropist organization that looks for the values in its investments; offering longer than normal time horizons for investments…Their values tend to be a lot less driven in a way that would push you into undesirable methods, practices or partnerships on ethical level. From that perspective, we have always had a strong support from our financial investors, more or less leaving the decisions up to the management without any hard pressure.”

7.4.3 Internal context

Interviewees are highly aware of sustainability importance and sustainability trends in today’s and future business environment. Their common view is that the company needs to give back to the environment and communities in which it operates. Dormeo Brand Manager and Director of Sales Channel Telemarketing and Print agree that the companies are becoming a part of the environment in which they, as every other citizen, have certain obligations.

Dormeo Brand Manager describes the current business environment: “We have entered into the stage of a company development where companies can no longer work just to gain profit. Companies are now perceived more like a person that has certain obligations. We are responsible to give back as much as it has been gained from certain communities.”

Director of Sales Channel Telemarketing and Print: “Every company, especially the successful ones, should be giving back what they have gained from their environment. Companies are not isolated from their environments; therefore, they should act and operate accordingly…Nowadays, the companies are supposed to have a positive effect on the community, through product portfolio as well as through employees perspective. A positive reputation is very important, because it brings positive connotation to our customers.”
Next to sustainability directed mindset also mission and vision statement reflect the importance of sustainability. Vision statement emphasizes the importance of high quality products, while the company’s mission is to improve the quality of living, well-being and health of their customers. Sustainability plays an integral part of the corporate strategy and stakeholders can learn from website and financial report. In financial report of 2015, Director of Studio Moderna Slovenia wrote: “In line with sustainability values, we enable our customers to co-create changes in our society and environment. We are aware that we can contribute to solving sustainability issues only together. Therefore, we integrate sustainability into more and more business processes.” Studio Moderna invites stakeholders to participate in their sustainability projects, like Warm Hugh Platform, where stakeholders can vote to which non-profit organization some amount of financial means should be donated and also through cause-related campaigns. Next to several strategic goals, one is especially sustainability oriented: “To develop and realize long-term corporate socially and environmentally responsible strategy” (Studio Moderna d.o.o., 2016).

It can be observed that sustainability in Studio Moderna is not just about philanthropy and financial donations. Managers are highly aware that sustainability cannot be sustainable on long-term, unless integrated into everyday business decisions and operations. However, managers pointed out that there is no separate sustainability strategy that would be clearly defined and written down; still sustainable solutions usually turn out as the best possible solutions.

The overall sustainability situation was described by the founder: “It is not only about financial means for sustainability projects and actions; it is about integrating sustainability into an every part of the company’s operations… Our main philosophy is to encourage employees to use the knowledge and technology for developing new ideas that may multiply the resources we have. It is true that the pressure on financial resources is increasing, however there is a great potential in innovations and creative thinking.”

CFO also denied having a separate strategy on corporate and social responsibility, further explaining: “…but we are doing anything that makes sense and helps performance of the company and usually such decisions are already consistent with sustainability.”

Customer loyalty is seen as a very significant element of corporate strategy in Studio Moderna. They are aware that in the retail industry “…is all about people, more than about the product” as CFO describes it and continues: “In our story, we communicate the products that please people. So in this way, there is no short-termism. Our customer base is 70-80 percent repeat business, so if you short-term them, you will pay heavily for that.”

Next to a strong customer relationship and innovative database management, Studio Moderna makes sure to satisfy their customers with high quality products, therefore relationships with their suppliers is another critical element of the strategy.
Most brands and products are based on healthy lifestyle as well as energy and material saving concept. Even though living and buying habits differ across markets, the management believes that sooner or later sustainability will play a major role in most of their target markets. The situation was thoroughly explained by CFO: “…our key brands like Dormeo and Delimano; we do not want them to be associated with the products that are not environmentally friendly, not sustainable or not of good quality, because this is very damaging for our brands.” and by founder: “Through our product portfolio and innovations, we are trying to present our view and position ourselves as an environmentally friendly retailer. For example, Octaspring technology that we developed in collaboration with our mattresses producer/supplier, uses 40 percent less polyurethane material during production process and therefore decreases CO2 footprint while increases ergonomics. Since this technology was well accepted on the market, we are trying to innovate further and use it in other products and their production processes.”

Studio Moderna operates across 21 countries in Central and Eastern Europe. While its corporate strategy is decentralized, supporting high level of autonomy across business units, so is the sustainability strategy. Business units are free to decide in what extend can the sustainability be included into their business operations. Successful ongoing sustainability practices are rapidly shared through central communication system across countries, however it depends on the decision of a specific country whether or not to adopt and perform same or similar sustainability action. Headquarters highly encourage business units to adopt sustainability practices by offering them financial and expertise support during implementation; however the implementation decision is usually based on market development stage and degree of brand awareness. Despite the company’s size, so far the management did not decide to apply any sustainability standard or codes of conduct. The main reason is that the business processes and product life cycles tend to change rather quickly, therefore the management believes that such sustainability standards that require well defined processes and extensive documentation would negatively affect the flexibility, which is seen as a great advantage of their corporate strategy.

Organizational structure. Matrix organizational structure, which is presented in Figure 10, enables flexibility as well as a dialog and interaction of different departments in the decision-making process. Moreover, there is a well developed information flow system across departments as well as across business units. The status quo was elucidated by CFO: “…We have a matrix organization, so lots of people fit into the decision making process… Across sectors and across departments, there is a huge dialog and interaction on all decisions that are actually taken in the company. There is a lot of engagement across different areas, like the different functions; employees that are selling, employees that are buying, employees that are in marketing...all of them have an input to most of the decisions that are made. By that nature you have an awareness of what is going on and a challenge because the marketing and brands team wants to make sure that the product’s image is put out there correctly, the sellers want to make sure that we make a product that can be sold by quality standards and the buyers need to be aware of this information when
they are going to buy. At the end of the day, this will have a huge commercial impact.” And by Dormeo Brand Manager: “The information flow within the company as well as the flow from the outside business environment is very well established. There are no obstacles, if you have good information; it will reach all across the company. Organizational structure is very flexible, which is a great advantage. Flexibility and freedom enables us to implement such sustainability projects in more efficient and easier way,” who agreed that information flow is well supported and that sustainability practices and projects are widely spread and recognized across the company.

Also Director of Studio Moderna Slovenia depicted the situation: “Organizational structure encourages innovativeness as well as participation from all levels of employees. It enables rapid communication regarding any sustainability actions and decisions.”

On the other hand, Director of Sales Channel Telemarketing and Print believes that there is still some space for improvement: “I believe introduction of central CSR system may improve the transparency inside and outside the company in terms of sharing and communicating the central sustainability strategy with all its projects and practices.” Still he believes that: “Culture and values promote sustainability by stimulating proactiveness and autonomy and so it creates a positive atmosphere among employees, which is much needed for creating sustainability sensitive corporate culture.”

**Organizational culture** is promoting responsiveness, flexibility and goal orientation next to high business integrity and accountability. Furthermore, it is encouraging innovative, entrepreneurial and self-initiative behavior, which is highly supporting sustainability development within an organization. Investment in an employee’s development promoting learning organization is seen as one of the most important values. Six core values “we challenge”, “we create”, “we cooperate”, “we deliver”, “we grow”, and “we care” represent the core of the company’s culture. Each of them supports sustainability integration. “We challenge” dares employees to think differently and use unique approaches to challenges. “We create” promotes innovativeness and open-mindedness while taking an active part in creating the future. “We care” emphasizes the importance of stakeholders and giving back to the community. “We cooperate” promotes building relationships based on mutual respect and trust, while “we deliver” endorses delivering value to the stakeholders and encourages taking decisions even when it is difficult and taking the responsibility for the actions. Lastly, “we grow” is directed to building sustainable organization by keeping long-term directions while reaching short-term results, growing responsibly towards internal and external community, mobilizing knowledge, investing in the employees and always looking for ways to improve (Studio Moderna, 2016, str. 1-3).

**Employee performance measurements and rewarding system** so far do not include any sustainability measures on standalone basis. However, financial measures, that are seen as the most important and are also commonly used, often indirectly support sustainability.
CFO: “We don’t specifically pay out the part of the bonuses issues as a contribution to corporate social responsibility. When we are having a problem in our business, this problem can be normally traced back to the problem with people or problem with product or other core thing that we are trying to invest time and energy and trying to make good. Not because it is nice to have corporate sustainability story, but everything that is going wrong in these areas is going to have a direct impact on the profitability and performance. In the industry we are in, it is all about the people, more than about the product. In our story we communicate, we bring in the products that please people. So in this way, there is no short-termism. Our customer base is 70-80 percent repeat business, so if you short-term them, you will pay heavily for that. We are not motivated by nature to do anything other than things that will sustain relationships with suppliers, with employees, with customers and ultimately with financial investors. We are naturally driven by that infrastructure, to be very good almost coincidently corporate social responsible organization.”

While employee rewarding system is based on quarter financial performance in which employees are entitled to quarter financial bonuses, there are also some initiatives, like “Cycle to work” and “Walking up the stairs”, in which employees and voluntarily participate and be rewarded by fruit baskets every month.

**Sustainability measurements** have been applied to several sustainability projects where this was possible. In some sustainability initiatives, a direct link to cost savings was highly visible, while other projects are presented more descriptively without financial benefit. In the projects in which Studio Moderna introduced new conferencing system in order to decrease business travel needs, as well as when they introduced vacuumed mattresses packaging in order to decrease transportation, besides cost savings calculation also CO₂ emissions measurement was applied. Director of Studio Moderna Slovenia proudly highlighted an outcome of another voluntary municipal sustainability initiative: “With waste separation initiative we saved so much that we covered the cost of fruit baskets, which are given to the employees once a week.”

Dormeo Brand Manager explained that if only possible, she always presents the projects from the financial perspective as well. She usually measures projects’ successfulness by following the changes in social media, such as number of likes and comments on Facebook, number of results when searched with Google, or number of unpaid articles published by independent media. On the other hand, CFO explained that he avoids measuring sustainability on standalone basis: “We are not exactly specifically measuring any sustainability investments on standalone basis. It is part of many things that need to be evaluated together as a whole; therefore, we are not evaluating specifically the sustainability parts of it.” Since the company’s sustainability is well reflected through products and employees, finance department evaluates sustainability impacts mostly through general measures, such as rejections, product quality, product performance and employee performance. CFO clarifies: “Good quality products mean that we are from ecological perspective not destroying the environment by wasting materials, from business
perspective we are having good relationship with our customers, because they get better products and from employee perspective improving their performance, because many of them are paid by performance and if we get high level of rejections due to the fact that we sell bad quality products.”

Figure 10. Matrix structure of Studio Moderna

While sustainability initiatives and projects are shared among employees and subsidiaries through communication system, other shareholders can learn about it in yearly financial reports as well as from the web page.

7.4.4 Human and financial resources

Another important input is the resources, financial and human. Financial resources are needed in order to implement the various sustainability programs and to employ and train sustainability staff. Along with sustainability staff specifically dedicated to sustainability programs, educated and trained individuals sensitized to sustainability issues are needed (Epstein & Rejc Buhovac, 2014, p. 33).

Over 7,000 employees present the core of Studio Moderna business operations (Studio Moderna, Home, 2016). Over 3,000 of them are employed in call centers and therefore in everyday contact with customers. Especially over the last few years, the company is heavily investing in education, training and peoples’ professional development. They are aware that “…happy and satisfied employees are much more productive,” as Director of Studio Moderna Slovenia elucidated. In 2015, Studio Moderna Slovenia organized 60 educational and training events, one of those, “Date with Customer”, also won the third place as Winning HRM Project 2015 (Studio Moderna d.o.o., 2016). Moreover, CFO is also highly prone to investments into employees explaining that such investments create far more cohesive group of people who are able to sustain the business and relationships with each other.

The founder explained that despite the fact that financial means intended for sustainability actions depend on current financial performance and economic conditions, at least minimal amount was provided every year so far. He continued: “As long as financial performance pleases the investors, they even support sustainability investments and even help us by providing information when needed.”

Next to financial means that are intended for sustainable projects, they are putting even more emphasis on using non-financial resources, such as infrastructure (call centers, offices) and media time and place in various media channels, as well as employees time and knowledge. In Slovenia, more than 70 employees including top managers and the founder spent a weekend in the call center answering phones and helped Pedro Opeka to raise money for those in need in Madagaskar. Moreover in Bulgaria, a small part in the promotional material, like DRTV ads, printed material and web space, is proposed for promoting charity institutions. Even though this part can be as low as one percent of total promotional material, it presents a significant amount for specific charity. Employees also offered their working and free time to help those suffering from massive floods across Balkan countries in 2014.
7.4.5 Leadership

In SM executives, top managers and other middle managers are highly prone to sustainability: “Every company, especially the successful ones, should be giving back what they have gained from their environment,” while they are aware that successful companies and brands have the power to make a positive sustainability impact: “Dormeo is in maturity stage, it is really huge and extremely important. It has been on the market for 15 years now. It is not the same in each market, but overall, it is well developed. Now, it is in the stage, where it is so developed that it can actually make a difference. What is happening now is that we are becoming aware that for the long-term presence and solid foundation we have to give back; we have to think of the ways how to address different interest groups in certain markets. In very mature markets, with 99 percent brand awareness, there are many actions to support communities.”

The leadership style is based on participation, encouraging, knowledge development and employee empowerment. Managers on all levels are trying to lead by example and by engagement, encouraging innovative, entrepreneurial and self-initiative behavior. Leadership by engagement is visible by encouraging leadership on all levels, while trying to fit lots of people into the decision making process. Middle management feels highly supported and embraced from top management when taking their decisions, while good results are also well recognized by top management. On the other hand, leadership by example is visible through a high level of top management participation in any ongoing sustainability projects.

Director of Studio Moderna Slovenia gave details about the management support: “In Studio Moderna, we are practicing cooperative leadership style based on participation, encouraging, knowledge development and employee empowerment…We are trying to avoid any directive leadership style, while focusing on encouraging innovative and self-initiative behavior.”

Also CFO shared a similar view: “We always had leadership by example and by engagement. It is this situation where you have matrix organization, so lots of people fit into the decision making process, but at the end of the day, decisions have to be taken. If some groups cannot make a decision, somebody at more senior level has to, but largely, we try to make sure that decisions are made by engagement, because this is the most sustainable decision we can make…The CEO tries to perform an orchestra conductor role, rather than more autocratic style…Empowering engagement is our philosophy, because we are encouraging leadership on all levels, not just on top levels. We are trying to empower people to engage and show some entrepreneurial spirit to make changes. Encouraging, empowering, engaging, embracing - these are the “e” words that support entrepreneurial mentality in our organization.”

Dormeo Brand Manager described her experience: “I have personally received great comments from the head of our company/top management on the things that were done in
Dormeo brand. Such projects are well recognized. If you have superiors encouraging and guiding you, it is much easier to do it and it also makes more sense.”

Also Director of Sales Channel Telemarketing and Print believes that support from the top is very important and shared his observations: “This was also shown in philanthropy project when we used our call center to raise donations. Next to more than 70 employees, top managers, including the founder, were answering the phones as well.”

CFO also points out the importance of transparency: “Our philosophy is trying to be a good employer; even when bad times occur, we try to do the things that need to be done in a very transparent way. When we downsized the headquarters, we were very transparent of what was happening and not hiding what we are doing. We stay transparent not just in the good times, but also in more difficult times. The point is that the employee group is very important to us.”

7.4.6 Sustainability strategy

Studio Moderna offers a wide range of brands and products which can be separated into two groups based on a buying pattern. The first group is based on “impulsive buying decision”, mostly presented by Top Shop brand. Top Shop brand is multichannel selling proposition for the 3rd party shopping products as well as some Studio Moderna brands (Top Shop, 2016). Impulsive products are commonly characterized as low-cost, frequently purchased goods that demand little cognitive effort from the consumer; therefore, such products elicit immediate and often mindless and unnecessary reactive buying behavior (Rook & Stephen, 1985). The second group is based on “considered buying decision”, presented mostly by Studio Moderna key brands Dormeo and Delimano. While impulsive purchases are typically out of desire, considered purchase tends to be more of a necessity. Therefore, it requires research and analysis, as well as larger investment of time and money (Treffiletti, 2016). In the past, Top Shop brand, which was introduced in 1996, was presenting mayor part of sales. Since those were mostly third party brands, Studio Moderna had only little or no control over product life cycles. Moreover, such products are also associated with unsustainable buying decisions, since the purchase is made in impulsive buying environment, the product is not really needed for the consumer and many times neither used. Later on, Studio Moderna introduced their own brands that are rapidly increasing their sales shares. In 2002, Dormeo brand was introduced, followed by an introduction of Delimano, Wellneo, Rovus, LiveActive and Walkmaxx brands between 2010 and 2014 (Studio Moderna, Brands, 2017).

CFO illustrates the status quo: “Our key brands like Dormeo and Delimano; we don’t want them to be associated with the products that are not environmentally friendly, not sustainable or not of good quality, because this is very damaging for our brands. This is something that has changed quite a lot over the last years, because we were in the environment for a long period of time when we were mostly selling TopShop products, which were out of our control. Now we are in the situation when 90 percent of our sales
are actually our own brands, so we highly engage in the whole process of product identification, development and quality and manufacturing control.”

While those brands are mostly associated with considered and therefore also more sustainable buying decision, Studio Moderna is also highly engaged in the whole product life cycle including manufacturing and quality control process. Due to long-term customer relationship that is based also on high quality products, Studio Moderna needs to make sure to sustain good relationships, especially with their exclusive suppliers. In order to get supplied with high quality products, they have been, especially in the last few years, heavily investing in quality control. CFO explains that good relationships with suppliers positively affect some other stakeholder groups as well: “Because good quality products mean that we are from ecological perspective not destroying the environment by wasting materials, from business perspective we are having good relationship with our customers, because they get better products and from employee perspective, we are improving their performance, because many of them are paid by performance, and if we get high level of rejections due to the fact that we sell bad quality products.” A close collaboration with manufacturers and suppliers that enables opportunities for innovations is seen as critical, resulting in many sustainable innovations, such as the latest Octaspring technology.

7.4.7 Sustainability performance

Increasing share of socially and environmentally friendly brands and products. Sustainability plays an important part in the corporate strategy of Studio Moderna, especially in terms of brands and products. Director of Sales Channel Telemarketing and Print presented the situation: “From the product perspective, most of our products are not environmentally disputable and are contributing to a healthy life style of our customers. For example, healthy cooking with Delimano and improving life through improving sleep with Dormeo.”

Reduced environmental impact. Dormeo brand is the company’s leading brand in terms of sustainability as well. Their latest patent Octaspring technology offers innovative design and technologies in mattresses’ production. The company has reached 30-40 percent reduction in CO₂ emissions and 40 percent reduction in material usage in the production process, while all materials used in products are recyclable. Beside a decreased environmental impact, it offers better ergonomics and breathability and therefore, improved sleeping habits to the users. The technology was invented in collaboration with Belgian Inventor Willy Poppe. Dormeo Brand Manager explained that more attention was also put on selection of suppliers, for the purpose of sustainability. While introducing natural materials especially in Dormeo brand, they also decided to choose suppliers that are already engaged in sustainable business and practices. For example, in the category of toppers, new fiber Tencel/Iyocell was implemented. This fiber was produced out of sustainable forest, where a manufacturer is actually planting back the new forest while producing the fiber. Even though the purchase price was slightly higher, this fiber brought
certain benefits in terms of thermoregulation and these benefits compensated for higher selling price by bringing bigger customer benefits and increased customer experience. Moreover, the product life cycle was prolonged and this innovation resulted in increased sales also for other environmentally friendly products. Another project that addressed CO₂ emissions was setting up video conferencing network facilities across headquarters and business units. The investment’s aim was to decrease the number of business trips in order to decrease traveling costs and also CO₂ emissions.

**Improved community relations.** Next to cooperation with sustainable suppliers, Dormeo brand often cooperates with smaller local enterprises offering them mentorship, helping them grow and gaining international reputation, or with local farmers increasing their sales through cooperation with Delimano brand as described by Dormeo brand manager: “In Bosnia, a group of young unemployed people decided to start a business, to grow potatoes. They were selling a little and Delimano decided to make a project with them. So when a customer bought Delimano product, they also received some potato. At first, we did not see any extra financial potential, so in our media, we promoted that Delimano is helping young farmers in Bosnia, creating awareness, since farming in Bosnia is not that great. In the video we included a sentence: “Delimano is helping young farmers in Bosnia, you can help too!” and the customers’ response was great.” Cooperation with local farmers and non-profit organizations takes place also in Slovenia. In order to improve employees’ health, the project “From Garden to Work” combines help to local farmers with the promotion of health for employees. The platform offers employees faster and more reliable access to locally produced food, while it offers a direct contact to consumers and higher sale prices to local farmers. Last but not least, Studio Moderna Slovenia cooperates with non-profit organizations when preparing New Year gifts for business partners and employees’ children.

**Improved employee satisfaction.** Besides “From Garden to Work” project, employees are encouraged to participate in various sport and healthy life style activities, from rewards for cycling to work and taking the stairs, to organized sport events and participation in running competitions.

**7.4.8 Stakeholder reactions**

Studio Moderna tries to understand what different stakeholder groups are looking for and make sure that they get it, in order to maintain long-term relationships that are built on trust and transparency. CFO well summarized the situation: “The philosophy of short-termism really isn’t something that is engrained into relations with employees, suppliers, financial partners or investors. So far we have built up rather medium- to long-term relations with our stakeholders, even though the product life cycle is very short and this is showing the sustainability of our practices. Our business is dependent upon that all of our stakeholders are happy and are thinking in long-term.” By implementing sustainability practices mostly through marketing campaigns, managers have recognized various positive
effects especially in terms of brands strength and access to new markets and potential customers.

**Strengthening the brand.** By organizing and participating in sustainability initiatives, Studio Moderna tries to positively impact the development of local communities. They are mostly focusing on endangered target groups in the market, mostly children, to ensure them a better future. Dormeo Brand Manager explained that by supporting sustainability initiatives the brands are presented in a different perspective, becoming inseparable part of the communities, which increased the brands’ strength and made them grow faster. In Serbia and Russia with each opening of the store there is a limited number of days, during which a certain percentage of the revenue gained is given for the improvement of some community institutions, like hospitals or organizations that deal with children. Dormeo Brand Manager explained that by such campaigns, Studio Moderna can contribute to the growth and development of the community and children and so present them the brand in a different perspective by becoming part of their life very soon. Dormeo Brand Manager also explained that especially more sensitive sustainability actions are well accepted in the communities: “...like the one when floods happened and when we sent all our employees to help, the outcome was that we were recognized by the community and that also made our brand in the market even stronger. In the eyes of our customers and target markets we became the person with heart and mind, where the mind is our business.”

**Gaining access to local market, creating awareness and improving reputation.** Studio Moderna is highly supportive to local profit and nonprofit organizations, especially those promoting healthy lifestyle and ecology. By offering them mentorship and support through joint campaigns in order to help them grow, develop or gain international reputation, Studio Moderna gains the benefit of strengthening the brand on a local level. Dormeo Brand Manager described the project in Bosnia in which Dormeo brand collaborated with one local company that was producing woman's underwear and garments and also employing lots of women. The company was already locally well recognized, but not yet internationally. She pointed out that usually, when people purchase garments, international brands are better perceived than local. At that time, Bosnian government was leading a strong aggressive »buy only local« campaign increasing the local economy’s growth, which on the other hand was seen as a potential treat for Dormeo that was perceived as an international brand. Dormeo Brand Manager explained: “We felt obligated to help the local community and economy, always looking for different options and projects. Even though we perceived this government campaign as a potential treat, we also saw the opportunity to turn it into our benefit. Dormeo not being the local company gained great benefits from this collaboration, since we were perceived as the company that helps the local economy.” While the local company benefited from Dormeo gaining international awareness and more serious approach to the market, also Dormeo brand benefited by increasing awareness on local Bosnian market.
Gaining access to bigger media partners and free advertising. Sustainability practices are also becoming an interesting material for various media. Dormeo Brand Manager elaborated: “In such projects, it is not necessary to only aim at the biggest media. If you have a smaller media covering your story, also the big ones see it and then also the bigger media become attracted to work with you. So on the long-term, we gained even more than one partner.” Sometimes, media also publishes free articles presenting SM sustainability practices. Dormeo Brand Manager presented the sustainability project in which they used the brand’s influence and recognition to bring and share the awareness of supporting the institutions that deal with sick children: “…We actually went into a campaign in which we promoted that Dormeo is raising awareness on that topic and that anyone who wants to help and be like Dormeo, is welcome. For the first time, several PR articles (not paid by the company) were published, explaining how Dormeo is raising awareness and helping sick kids. In the next seven days, six other companies also contacted the institutions, willing to participate in a similar campaign.”

Improved customer loyalty. Improved product quality as well as broader range of health and environmentally friendly products together with innovative database marketing result in increased customer loyalty. Moreover, customers are willing to pay a higher price due to improved product features and customer benefits. Dormeo Brand Manager described the mattress case: “Regarding costs, it is true that Tencel fibers are a bit more expensive; however, this brings certain benefits that other cheaper fibers do not have. We gain additional benefits on thermoregulation and those benefits compensated for the higher selling price by bringing bigger customer benefits and increased customer experience. If this experience is good, customers will return. We also prolonged product life cycle and the sales grew. When you have environmentally friendly actions within products, such products bring attention to similar environmentally friendly products that you are offering. Like vacuum packed mattresses; those are not only easier to carry, but also highly decrease the negative environmental impact in logistic terms.”

Improved suppliers’ relations. The relationships, especially with exclusive suppliers, are improved in terms of trust and transparency, which enables the company to avoid long-term contracts which may negatively affect process flexibility. CFO emphasized that on either local or group level, the relationships with suppliers are built on relations rather than transactions: “We are constantly looking to have-long term relations with the same suppliers as opposed to having long-term contracts. We generally don’t have long term contracts with any suppliers, whether that is for media or product, but in most cases we have long-term relationships and that is manifesting itself in the best way in terms of commitment with a partner. When such commitment is on a personal level, it is built on trust and gets something in a win-win scenario, rather than constantly having contract document saying what your legal obligations are.” CFO explains that good relationships with suppliers also positively affect some other stakeholder groups: “Because good quality products mean that we are from ecological perspective not destroying the environment by wasting materials, from business perspective we are having good relationship with our
customers, because they get better products and from employee perspective, we are improving their performance, because many of them are paid by performance and if we get high level of rejections due to the fact that we sell bad quality products.”

**Increased productivity and decreased turnover.** Organizing sport and healthy life style activities and therefore improved employee satisfaction increases the productivity and decreases turnover as described by Director of Studio Moderna Slovenia: “Healthy and happy employees are much more productive.”

**Improved relationships with financiers (credit insurance agencies, banks).** Studio Moderna has sustainable situation with financiers by delivering a good financial performance and a good transparence in delivering financial information. CFO elucidated that financiers have a rather indirect interest in the company having successful business of sustainability, however financial results that are affected by sustainability may directly impact financiers’ situation, especially when negotiating new financial terms. CFO further explained: “Even if we change one group of them, if we change our banks or our equity investors, the new ones will not have 3-6 months horizons, but 3-4 years horizons. All of the relationships we have require sustainability by its very nature.”

### 7.5 Challenges for Studio Moderna

The analysis shows that Studio Moderna is already in many areas setting appropriate foundations for successful integration of sustainability into the corporate strategy. Even though there is no separate sustainability strategy that would direct the decisions in day-to-day business operations, most of the decisions turn out to be already consistent with sustainability. One reason for that is being a customer product company, operating in retail industry, in which sensitivity for sustainability keeps increasing (business context). Another one is the mindset of executive team and other managers, for whom actions with high financial, but poor social and environmental performance are not even considerable options (internal context). Furthermore, leadership as well as sustainability strategy and structure are in line with directions for successful sustainability integration.

Yet, a direct link to a financial performance of some sustainability actions often stays unclear. This could be assigned to poor sustainability impact measurement system and lack of sustainability importance in performance measurement, evaluation and reward systems. In addition, setting a central CSR department and CSR managers across business units may improve sustainability promotion through the company as well as internal and external reporting.
Figure 11. The Corporate Sustainability Model for Studio Moderna

Figure 12. Casual Linkage Model of Sustainability Drivers for Studio Moderna

Currently, CSR function is spread across different departments. Head of shared service department claims the responsibility for sustainability regarding employees, community and environment, while marketing is in charge for sustainability mostly concerning customers. Financial department keeps sustainable relationships with investors and financiers, while logistics department seeks for sustainable packaging and transportation solutions. Often sustainability actions require departments’ collaboration which is also the aim of current sustainability structure. Involving the whole organization is very important. Despite a strong information flow system, due to matrix structure with numerous departments, different selling channels and various brands, sustainability goals, actions and results get lost in the communication process. This could be solved by setting central **CSR department in headquarters and CSR managers across business units.** They should hold the position as their primary responsibility focusing on coordinating and integrating initiatives (Regan, Chase, & Karim, 2012). Sustainability leader, who is passionate and committed to sustainability, should also be placed high enough in the organization to exercise influence and be involved in the company’s strategic planning and development. Moreover, having an internal CSR department may contribute to identification, measurement and reporting of sustainability impacts (Epstein & Rejc Buhovac, 2014, p. 87-89).

**Involving all employees** in the process of improving corporate sustainability performance is important. So far, employees are highly encouraged to participate in various sustainability programs, though voluntarily. All employees should be hold accountable for their contributions to the sustainability strategy, therefore **performance measurements, evaluation and reward systems** that encourage employees to pursue sustainability are vital. Moreover, proper **internal reporting**, besides providing feedback, helps employees to see how their individual contributions add to the company’s successful performance. Internal reporting should contain previous plans and goals enabling the comparison with an actual performance, demonstrate accountabilities, include, explain and present metrics and different types of data, explain the context and finally make recommendations (Epstein & Rejc Buhovac, 2014, p. 121, 218-222). On the other hand, communication with external stakeholders is also important, hence effective **external reporting** of social, environmental and economic performance of the company is necessary. Besides benefits of enhancing the corporate image and increasing trust among stakeholders, disclosing sustainability performance measures to external stakeholders may boost the company’s valuation as it reduces investors’ uncertainty (Epstein & Rejc Buhovac, 2014, p. 230, 240).

There is also a need for **sustainability measurement system.** Managers should always know whether sustainability strategies, programs or actions are succeeding, therefore, measuring is critical because it links performance to the principles of sustainability. The costs and benefits of sustainability strategy are cross-dimensional through-out the organization; moreover, economic benefits are often long-term and seen as intangible. Therefore, precisely measuring of sustainability performance is rather difficult. Still, there are several methodologies for measuring social, environmental and economic impacts:
costs of control and damage costing, market price and appraisal, hedonic pricing, travel cost method and contingent valuation. Although these methods may lack precision, they can provide an estimate of the company’s performance as well as guidance to managers when making difficult decisions when social, environmental, or economic interests and corporate interests are not aligned. Furthermore, appropriate measurement systems provide the proper tools for feedback which facilitates continuous improvement (Epstein & Rejc Buhovac, 2014, p. 141, 148-156).

The Corporate Sustainability Model (Figure 11), supported by performance metrics characterizing each framework’s component, together with casual linkage model of sustainability drivers (Figure 12), as already presented through the research analysis, could be used to improve sustainability measurement system in Studio Moderna. The Corporate Sustainability Model helps managers to understand the drivers of corporate sustainability performance, possible actions to affect that performance and the consequences of those actions on both, corporate sustainability and financial performance. The casual linkage model of drivers supports the application of Corporate Sustainability Model by presenting the sustainability performance drivers and casual relationships between them. Throughout The Corporate Sustainability Model, specific and appropriate measures that reflect the sustainability strategy should be applied. Such performance indicators are monitoring the key performance drivers (inputs and processes) and assessing the successfulness of sustainability strategy implementation (outputs). Moreover, as most important, they are assessing whether sustainability actions are contributing to the corporation’s long-term success (outcome) (Epstein & Rejc Buhovac, 2014, p. 164-169).

CONCLUSION

Growing sensitivity towards environmental, social and economic issues and shareholders’ concerns increases the companies’ efforts to become better corporate citizens. The companies worldwide recognize that long-term economic growth is not possible unless that growth is socially and environmentally sustainable (Epstein & Rejc Buhovac, 2014, p. 18). Organizations in the twenty-first century are changing fundamental assumptions and values which underline their relationships with the global ecosystem. This is done by integrating sustainability (economic, social and ecological) performance into the strategic planning, as well as at the operational level and undertaking regular market research to capture changing consumer attitudes towards sustainability issues, modifying performance and adopting new operating principles (Svensson & Wagner, 2011, p. 334-352).

It is important for a company to clearly articulate the meaning of sustainability, to develop process of promoting and integrating sustainability into day-to-day corporate activities and link it to non-financial and financial performance. Only in this way can sustainability be long-lasting, useful and not only seen as an attempt to provide effective public relations which can even destroy the company’s value (Epstein & Rejc Buhovac, 2014, p. 1-4).
I presented the case of Studio Moderna, the company that is already prone to sustainability actions. Due to the lack of strategic documents, I conducted in-depth interviews with several top and middle managers, executives and the founder, in order to gain a deeper understanding of current state of sustainability integration. Studio Moderna already feels the pressure of sustainability trends and therefore makes sure to satisfy the needs of several stakeholder groups: consumers, employees, investors, financiers, suppliers, government, local communities and local economies. Hence, it is already committed to a wide range of sustainability practices in several areas throughout the organization. Moreover, their strongest brands Dormeo and Delimano are through their products and marketing campaigns often addressing environmental, social and economic issues.

The insights gained from interviews were put together using The Corporate Sustainability Model, presenting a thorough overall sustainability situation in the organization. Moreover, to better understand how each of the actions and practices affect the company’s financial situation, I presented the causalities using Casual linkage model of drivers. A broader environment, internal and business context, financial and human resources as well as leadership style, are already very supporting the sustainability integration. So far, sustainability actions have already shown several positive effects, from gaining access to new markets and improved reputation to improved relations with the suppliers.

Still, the application of Corporate Sustainability Model revealed the areas which should be considered in order to improve the overall sustainability integration. Setting up a central CSR department and local sustainability managers primarily committed to sustainability may also contribute to an improved identification, measurement and reporting of sustainability impacts. Moreover, involving all employees and using The Corporate Sustainability Model would enable Studio Moderna to join global sustainability leaders.
REFERENCE LIST


APPENDIX
APPENDIX: Interview Questionnaire

1. What is your perspective on corporate sustainability/corporate social responsibility? Why do you think it is important?
   a) How would you describe corporate sustainability in Studio Moderna?
   b) What are the main areas of Studio Moderna sustainability?
   c) Who are the main stakeholders?

2. What were the main drivers to include sustainability issues and activities into SM corporate strategy? (mitigating risks / regulation and laws / stakeholders’ expectations / new market opportunities / competitive advantage / differentiation / increased reputation / decreasing costs / increasing productivity?)

3. How do you see the role of your department/your role in integrating sustainability into corporate strategy?

4. Were any strategy adjustments needed in order to integrate sustainability issues and activities? How is this reflected in day-to-day business decisions? Are there any barriers?

5. What are the challenges and barriers to effectively managing sustainability and financial performance simultaneously? How do you deal with situations when some business decision might be good for corporate sustainability but might have no or negative effect on short term financial performance? Or the situation which has positive effect on short term financial performance, but negative effect on sustainability?
   a) How do the investors (International Fund Investors: General Atlantic, Franklin Templeton Funds, Insight Venture Partners, JH Partners) support the ongoing sustainability activities?

6. Do you manage sustainability across different countries?

7. Do you think that integrating sustainability into corporate strategy might be easier if any sustainability standards or codes of conduct (ISO 14000, EMAS, ISO Social Responsibility, SA8000, United Nations Global Compact…) would be applied?

8. How would you evaluate the integration of sustainability into corporate strategy at current state?

9. It is important that sustainability is well integrated into corporate strategy in order to be seen as positive effect on corporate performance. How would you evaluate sustainability integration in terms of:
   a) Sustainability performance measures and reporting? Are the current measures and reporting good enough to satisfy the requirements of investors and other stakeholders?
   b) Capabilities and resources? Do you think that material and financial resources (know-how, specific knowledge, infrastructure, network) support sustainability integration?
c) Market positioning (products and brands portfolio, target markets, marketing strategies…)  
d) Organizational structure/design (authority, control, coordination, communication, idea sharing between different levels)?  
e) Leadership? Do you think that current leadership style supports sustainability integration? What kind of leadership style do you use?  
f) Employee performance measurements and rewarding system? How do you motivate your subordinates to join sustainability activities? How important are financial performance measurements over sustainability performance measurements?  
g) Organizational culture and values?  
10. Do you believe that employees have enough knowledge in order to effectively and successfully integrate sustainability into corporate strategy?  
11. What are your plans/wishes in terms of corporate sustainability in SM in the future? Do you see any areas for improvement and new challenges?