LUISS

Department of Business and Management

Chair of Corporate Law and Risk Management

Corporate Social Responsibility as a legal framework shaping reputation and M&A in the luxury industry

Thesis supervisor

Prof. Andrea Palazzolo

Thesis Co-supervisor

Prof. Emanuela Stagno

Candidate

Gabriella Perrone

790864

Academic Year 2024/2025

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Introduction

Corporate Social Responsibility (CSR) has undergone a deep transformation in recent decades, evolving from a voluntary practice to a strategic and legal pillar of corporate governance. What was once conceived as an optional or philanthropic initiative has gradually become an essential component of accountability, transparency, and risk management. This transition has been shaped by a progressive enrichment of the European regulatory framework, which has expanded the scope of corporate duties through instruments such as the Non-Financial Reporting Directive (NFRD), the Corporate Sustainability Reporting Directive (CSRD), and, most recently, the Corporate Sustainability Due Diligence Directive (CSDDD). The path culminates in the still evolving Omnibus Package, which aims to harmonise and simplify sustainability obligations. Even if it has not yet been fully implemented, this legislative development represents the forward-looking dimension of CSR: a field in constant evolution, intended to acquire even greater strategic and legal significance in the years to come. It is precisely in this context of regulatory expansion that this thesis situates its analysis, aiming to capture not only the current state of CSR but also its most recent and future-oriented developments.

The luxury industry has been chosen as the empirical field of observation because it offers a unique point of view from which to analyse these dynamics. On one hand, luxury is built on intangible assets such as brand identity, symbolic capital, and reputation, which make it particularly vulnerable to reputational shocks. On the other, it is also an industry that faces structural ESG challenges, including issues of transparency, environmental impact, labour exploitation, and complex global supply chains. This duality between an economic model based on immaterial value, and a sector exposed to significant sustainability risks, makes luxury an ideal case to investigate how CSR can function both as a challenge and as a safeguard. Understanding how high-end companies manage to balance these dilemmas is important not only for the future of the luxury sector, but also for the broader debate on the role of intangible assets in a market increasingly influenced by ESG practices.

Within this framework, the thesis addresses the following research question: ***How does CSR-related reputational risk affect mergers and acquisitions in the luxury sector?*** The choice to focus on M&A derives from two considerations. First, extraordinary transactions are increasingly central to the strategies of luxury groups, which rely on acquisitions to consolidate market position, expand portfolios, and compete globally. Second, M&A provides a revealing insight to test the relationship between CSR and corporate value, since negotiations and valuations inevitably compare the weight of intangible assets such as reputation and consumer trust. The question therefore is not whether CSR is important, but how its growing legal and strategic dimension influences the way luxury transactions are structured, negotiated, and ultimately perceived.

The thesis is organised as follows. **Chapter 1** outlines the evolution of CSR from its early conceptual foundations to its institutionalisation within the European legal framework. Particular attention is devoted to the transition from voluntary commitments to binding regulations, with an analysis of the NFRD, CSRD, CSDDD and the most recent Omnibus Package. **Chapter 2** focuses on the luxury industry, examining first the paradox of sustainable luxury - the apparent contradiction between exclusivity and responsibility - and then the ways in which companies implement CSR; their challenges in ESG compliance; and the reputational and legal risks that arise when practices are inconsistent with declared values. **Chapter 3** turns to M&A, introducing the main legal instruments traditionally used to manage risks in extraordinary transactions and analysing how they are being reshaped by the growing importance of CSR and ESG obligations. The chapter concludes with three case studies of acquisitions: Moncler–Stone Island, LVMH–Tiffany, and Capri Holdings–Versace, which illustrate different outcomes depending on how reputational factors and CSR were managed. Finally, **Chapter 4** presents the conclusions, drawing together theoretical and empirical findings, and discussing their implications for corporate law, risk management, and the future of the luxury sector.

In light of these considerations, the thesis claims that the evolution of CSR towards binding legal obligations and strategic governance cannot be understood in isolation. Its true impact emerges when it is observed in sectors where reputation is the primary resource and in contexts, such as mergers and acquisitions, where the value of this resource is tested more directly.

1. Introduction to Corporate Social Responsibility

The 2030 Agenda has introduced an expansion of the concept of sustainability, no longer focused exclusively on the corporate dimension, but extended to a set of fundamental social and governance conditions to be pursued to achieve collective well-being in the long term.[1] As a result, in order to grow, companies can no longer limit themselves to considering only the economic-financial aspects, but also the environmental, social and institutional aspects that must be integrated into business strategies through policies, models and actions oriented towards general well-being. These include, in particular, stakeholder management models and accountability tools based on transparency.

On an operational level, these developments are reflected in the reporting discipline. In this context, after the introduction of numerous regulatory and voluntary instruments, sustainability reporting was introduced as an accompaniment to traditional financial information. In sustainability reports, in fact, we find not only a communicative role, but also the analysis of the company's profile, mission, objectives and values (introspective dimension), as well as the process of dialogue with stakeholders (relational dimension), activated, among other things, during the reporting process. It is important to underline that traditional financial reporting has always been incomplete, uncertain, and characterized by unstable boundaries. This is why there is a need to expand the information content, with the aim of fostering dialogue with stakeholders, who are now increasingly actively involved in decision-making processes. In fact, the company's human resources are no longer seen as mere production tools, but as assets to be enhanced, on which to invest in the long term. It is precisely in this regard that the report illustrates objectives, strategies, activities, and results starting from the point of view of stakeholders, allowing an evaluation of the company's performance oriented towards continuous improvement. The social report, in this sense, constitutes the most transparent representation of company’s reality for all stakeholders.

This discourse implies that socially responsible behaviours and best practices - in the management of resources, in compliance with the law and in making business decisions - are considered necessary to pursue, and no longer merely voluntary, for all companies

[1] Valeria Naciti, *Responsabilità sociale d’impresa e riflessi sulla governance e sui processi di rendicontazione,* (Turin: Giappichelli, 2022), Preface.

that want to compete on the market and have lasting success. CSR is no longer seen as a cost or ethical duty but as a strategic opportunity: Creating Shared Value (CSV), to generate economic and social value, shared between business and society. In fact, the latter is both the recipient and co-creator of the value generated. Social responsibility, therefore, is not just an *ex-post* assessment of the effects that companies, as open systems, have on society, or the effects that society has on companies. Nor should it be understood as a simple qualitative limit to be respected in the evaluation of results. On the contrary, it constitutes a proactive starting point that serves as a *tool for investigating reality* and as the main link between what the company does (actions) and those who do it (operators), over time. Every company must know that there is a relationship between output and outcome, that is, between what it produces and the effects that derive from it, *this is the first level of its responsibility.*

CSR becomes the protagonist when it manages to effectively influence business decisions and these then have real effects in the contexts in which the company operates. Starting from this point of view, it could be said that CSR, being the one that governs activities, processes, and decisions, it is, in the deepest sense of the term, the real *director* of business processes. It is for this reason that it must be implemented in corporate governance and not separately, as it represents a fundamental component from which the main responsibilities and transparency of the company derive.

Companies, urged by the stakeholders involved, must therefore pay increasing attention to the consequences and impact of their actions on the environment and society, adopting consistent behaviours to fulfil their main function: the creation of value. This also leads to an evolution of the very concept of enterprise, defined by article 2082 of the Italian Civil Code which defines it as an *economic activity organized by the entrepreneur, aimed at the production or exchange of goods or services.* The constraint of cost-effectiveness, understood as the need to cover costs through revenues, is now accompanied by the obligation to respond to the requests of all stakeholders, through strategies oriented towards creating sustainable and long-term value.

1.1. Evolution of CSR: first concepts

The original conception of Corporate Social Responsibility (CSR) was based on a classic economic vision of the company, according to which the only legitimate goal was to generate profit. As Milton Friedman stated in a well-known article published in the *New York Times* in 1970 "*the only social responsibility of the company is to use its resources and engage in activities aimed at increasing its profits, as long as it remains within the rules of the game, that is, it respects the law and the ethical norms of society*".[2] In this view, ethics and law are considered as mere constraints on profit, and not among the main objectives to be pursued. There is no room for philanthropic action, (considered instead by Carroll) which is indeed rejected if it involves a social or environmental cost. This perspective excluded, obviously, any possibility of integrating social or environmental considerations as corporate objectives.

However, over time, this vision has expanded, also including greater care for the rights of stakeholders. A fundamental contribution in this regard was offered by Archie Carroll, who, with his famous Pyramid of CSR, has defined four levels of responsibility: economic, legal, ethical and philanthropic.[3] At the base of the pyramid is economic responsibility, recognized since the 1950s, which requires the company to be efficient, produce value for shareholders and offer products to consumers. This is followed by legal responsibility, i.e. compliance with the rules established by the society, which Carroll defines as "*codified ethics*", but which alone are not enough. The third level, the ethical one, is closely related to the reputation of the company and refers to all those behaviours expected by society, even if not required by law. Ethical standards include principles such as justice, human rights, and honesty. Also important at this level of the pyramid is to implement ethical movements that can generate future laws, such as the environmental movement that was a precursor to pollution laws. Finally, at the top of the pyramid, there is philanthropic or discretionary responsibility, which consists of voluntary activities in favour of collective well-being, such as donations, support for art, culture, and education. Carroll emphasizes that these actions do not define the ethics of the company, but can

[2] Milton Friedman, "The Social Responsibility of Business Is to Increase Its Profits," *The New York Times Magazine*, 13 September 1970, 32–33, 122–126.
[3] Archie B. Carroll, "The Pyramid of Corporate Social Responsibility: Toward the Moral Management of Organizational Stakeholders," *Business Horizons* 34, no. 4 (July–August 1991): pp. 39–48.

increase its image and symbolic value, giving CSR added value. There is a dynamic tension between the various levels of the pyramid, for example between profit and philanthropy or between profit and ethics. Only by integrating all these components CSR can be fully realized.

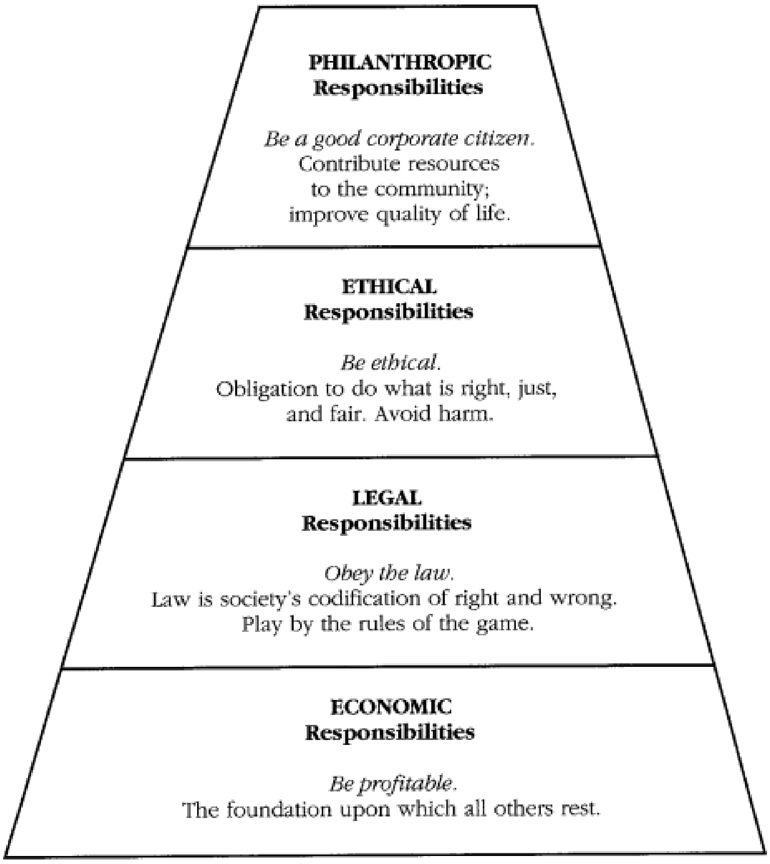

Figure 1 - The Pyramid of Corporate Social Responsibility (1991). *Source: A.B. Carroll, The Pyramid of Corporate Social Responsibility: Toward the Moral Management of Organizational Stakeholders, Business Horizons, July–August 1991, p.42.*

Since the 1960, a more articulated vision of corporate responsibility towards society has been established. Activist groups and social movements began to call for greater attention to emerging values. Actions that led, in the 70s, to the approval of environmental, safety, equal treatment in the workplace and consumer protection regulations, thus establishing that the environment, employees and consumers were the legitimate stakeholders to which the company had to respond. The focus therefore shifted, at the beginning of the 80s, from a generic "*responsibility*" to a real "*responsiveness*": the company is not evaluated only for what it should do, but also for what it actually does. In this context, the theory of *Corporate Social Performance* (*CSP*) was born, which combines moral and legal obligations, concrete actions, and measurable results.

The concept of CSR was further revolutionized by the *Stakeholder Theory*, developed by R. Edward Freeman in 1984.[4] According to this theory, the company is immersed in a complex network of internal and external relations, and it must answer not only to the owners, but to all stakeholders who may be influenced, or influence, its activities. Traditional stakeholders, such as shareholders, employees, customers, suppliers, public administrations, and local communities, are joined by emerging stakeholders such as NGOs, media, and even future generations or any subject with legitimate expectations. In this scenario, Freeman explains, the manager is called upon to identify and balance the expectations of the different stakeholders, looking for "*win-win*" solutions that take into account the broadest possible range of interests. According to this strategic vision, companies must create the right balance between potentially conflicting economic objectives and social responsibilities. From a legal perspective, these theories have created the conceptual background for the progressive juridification of CSR in Europe. What began as moral or reputational considerations gradually became formalised in governance frameworks, creating the foundation for binding regulations such as the NFRD and CSRD. In this sense, the shift from voluntary to mandatory CSR is not a sudden change but the codification of evolving societal standards. Critically, this theoretical evolution also redefined the notion of corporate risk. Reputation, once seen as an intangible and voluntary concern, became a legally relevant asset: companies that failed to meet ethical or stakeholder expectations risked losing not only legitimacy but also legal protection. This has direct implications for M&A transactions, where the valuation of intangible assets is central. The inability to credibly demonstrate ethical compliance or stakeholder alignment can lower a target's value or increase contractual protections demanded by the acquirer. Thus, the early conceptual debates on CSR already anticipated the legal and reputational challenges that now shape extraordinary transactions. The evolution of the stakeholder concept has led economists to study the interactions between CSR and governance models. In the past, corporate governance was structured as an "internal" system, built to meet the needs only of the shareholders. Today,

[4] Naciti, *Responsabilità sociale d'impresa e riflessi sulla governance e sui processi di rendicontazione*, chap.1.2.1

the need for an "external" governance is increasingly evident, being capable of considering also the interests of stakeholders who participate in the life of the company. This transformation has fostered the emergence of a significant connection between agency theory and stakeholder theory. If the first focuses on the conflict between the owners (principals) and the managers (agents), the second shows that tensions may also arise with other actors holding legitimate interests. Since 1990, a hybrid *stakeholder-agency* theory has emerged, expanding governance frameworks to include not only shareholders but also stakeholders in decision-making processes

A further development is given by the *legitimacy theory*, according to this an implicit contract is stipulated between the company and the society in which it operates, and the company has the duty to pursue ethically responsible objectives. The legitimacy of the company, in this perspective, depends on its ability to respond to society's expectations and to maintain a behaviour that is aligned with shared standards. In this case, therefore, the company is bound by the recognition it receives from the context in which it operates, the so-called state of legitimacy. This *status* is now recognized as a fundamental resource for the reputation and for the real survival of the company in the long term, even if it can be easily influenced or manipulated. Despite this, it remains a focal point in the theoretical framework of CSR, especially because it represents a bridge between ethical issues and governance structures.

1.2. The Green Paper

In 2001, the European Commission published the **Green Paper** "*Promoting a European framework for Corporate Social Responsibility*"(COM (2001) 366 final), which represents the first formal act of the Union on CSR. It defined CSR as "*a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis"*.[5] This definition clarifies its voluntary, stakeholder-oriented and multi-dimensional nature, based on the principles of the **Triple Bottom Line** (Profit, People, Planet).[6] With the Green Paper, the European

[5] *European Commission, Green Paper – Promoting a European Framework for Corporate Social Responsibility, COM(2001) 366 final (Brussels, 18 July 2001).*
[6] Naciti, *Responsabilità sociale d'impresa e riflessi sulla governance e sui processi di rendicontazione*, chap.1.1

Union thereby promoted a model of competitiveness that also incorporates fairness and social sustainability. Although formally a soft law instrument, the Green Paper was politically significant. It reframed CSR not as a cost but as a strategic investment, capable of generating both direct benefits (productivity, employee well-being and stakeholder loyalty) and indirect ones (enhanced reputation, attractiveness for investors and improved risk management). The Commission explicitly distinguished between two dimensions of CSR: an internal one linked to the responsible management of resources, health, safety and training, and an external one, which concerns communities, customers, suppliers, the environment and human rights. This responsibility, as the document itself mentions, extends along the entire value chain, anticipating the future principles of mandatory due diligence, later codified in 2020 in the CSDDD proposal.

From a legal point of view, the Green Paper inaugurated a "para-regulatory" approach: despite its voluntary nature, it created expectations and benchmarks that gradually became binding through subsequent directives. Companies ignoring these standards risked reputational damage, which, in practice, operated as a sanction in itself. This shows how reputational accountability preceded legal accountability, preparing the ground for the juridification of CSR. For M&A practice, the meant two things. First, the Green Paper reinforced the role of reputation as a measurable corporate asset: voluntary sustainability reporting and codes of conduct became elements that investors and acquirers considered when evaluating a company. Second, by encouraging transparency across the entire supply chain, it expanded the scope of reputational risk beyond the company itself to its partners, anticipating one of the central issues of ESG due diligence today. In this sense, although not legally binding, the Green Paper influenced both market expectations and contractual practices, marking the start of a process where CSR progressively shifted from voluntary best practice to a source of legal and reputational risk in extraordinary transactions. Another fundamental aspect of the Green Paper is the proposal of a series of operational tools, such as[7]:

- Support for CSR of **SMEs.**
- Promotion of **codes of conduct**, along the entire value chain.

[7] European Commission, *Green Paper – Promoting a European Framework for Corporate Social Responsibility*, COM(2001) 366 final. pp. 10–12.

- **Corporate Venturing**, investments in start-ups to gain access to new technologies and markets, in order to gain a competitive advantage.
- Adoption of the **Integrated Product Policy (IPP),** a policy to reduce the environmental impact of products throughout their life cycle.
- The creation of **internal advisory committees** for CSR.

However, one of the most important initiatives is CSR Reporting: the first voluntary environmental and social audits are introduced. The *rationale* of these tools is to encourage companies to make their social and environmental commitment transparent and verifiable. This also goes hand in hand with the Triple Bottom Line: companies are pushed to carry out both a financial and a social and environmental audit. The Commission invites companies with more than 1000 employees to publish audits on change management, with precise content such as health, training, equal opportunities. Thus, the **Global Reporting Initiatives** (**GRI),** international guidelines for sustainability reporting, and international standards such as **SA8000**, which establishes requirements for working conditions and ethical business management, were spreading.

Socially Responsible Investments (SRIs) had become particularly important at that time, particularly in the UK, France, and Germany. The Green Paper recognizes their growing importance, which precisely reflected the stronger interest of investors in sustainable practices, not only for ethical reasons but also due to risk awareness, which they tried to overcome. Consequently, it is proposed to spread favourable conditions for ethical investments in the European market, promoting transparency and accessibility to data.

In conclusion, , the Green Paper represents a deliberative regulatory strategy and a strategic turning point in the institutionalization of CSR in the European Union. It redefines CSR as an integral part of corporate governance and as the foundation for future European sustainability legislation. The Commission launched an open consultation, inviting multiple stakeholders to contribute to the design of a European CSR framework through questions on roles, responsibilities and support measures. This goal was achievable only by increasing awareness of the potential of CSR.

1.3. From voluntary CSR to regulatory evolution: 2008's financial crisis

Classical economic theories excluded so-called *"natural capital"* from their analytical models, adopting a materialist and quantitative view focused exclusively on profit.[8] Starting from the last decades of the 20th century, began to spread a different theoretical approach which recognized how the natural environment was conditioned, even qualitatively, by economic activities. Natural resources, in fact, once used in production processes, when they return to the environment, lose their original economic value, highlighting the finite character of the environmental stock. The materialistic and quantitative conception has therefore been accompanied by a qualitative vision of development, which has shifted the focus from material wealth to the *improvement of the quality of life*, placing the notion of well-being at the centre. The principles of efficiency and equity overlap and the anthropocentric vision of the economy, which placed man at the centre as a selfish subject moved by utilitarian intentions, is replaced by that of sustainable development which is increasingly spreading as a concept of intergenerational justice. In this context, CSR is considered a *tangible contribution of companies to sustainable development.* The 2008 financial crisis marked a real turning point. Financial scandals, market instability and loss of confidence made evident the limits of voluntary commitments. Society increasingly demanded transparency and accountability, creating the ground for the introduction of binding obligations in non-financial reporting. [9]

This reflection had already emerged in specialized literature. In the article *Finance as a Driver of Corporate Social Responsibility*, Scholtens points out that *"finance is grease to the economy"* but it lacks direct mechanism to promote sustainability alone: investors are often anonymous, share prices do not account for social or environmental costs, and the market cannot 'punish itself' for irresponsible practices.[10] This revealed the need for regulation. Moreover, the main channels of financing for European companies were not the stock markets, but bank credit. Banks, at this point, were more exposed to reputational risks, and had a greater potential to influence companies in case they decided to act in

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[8] Naciti, *Responsabilità sociale d'impresa e riflessi sulla governance e sui processi di rendicontazione*, chaps.1.2.1–1.2.

[9] European Commission, *Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions – A Renewed EU Strategy 2011–14 for Corporate Social Responsibility*, COM(2011) 681 final (Brussels, 25 October 2011).

[10] Bert Scholtens, "Finance as a Driver of Corporate Social Responsibility," *Journal of Business Ethics* Vol. 68, no. 1 pp. 19–33. 14 July 2006. https://doi.org/10.1007/s10551-006-9037-1

their responsibility. Yet, in the absence of legal constraints, neither market nor banks had real incentives to enforce CSR, allowing companies to adopt merely symbolic or communicative policies. This regulatory vacuum was one of the triggers of the financial crisis, when many financial institutions publicly embraced CSR principles without substantially implementing them. Also, Patrick Leyens, in his article *Corporate Social Responsibility in European Union Law: Foundations, Developments, Enforcement*, observes how "*the crisis highlighted the lack of legal certainty and enforcement in CSR commitments across the EU.*[11] *Voluntary measures failed to prevent social and environmental abuses, especially in transnational supply chains*."

The European legislator responded by institutionalizing transparency through the *'comply or explain'* principle, later enclosed in the Directive 2014/95/EU (NFRD). Article 19a (1) of the Directive states: "*In providing this information, the undertaking may rely on national, Union-based or international frameworks. If the undertaking does not pursue policies in relation to one or more of those matters, the non-financial statement shall provide a clear and reasoned explanation for not doing so.*" This principle represents an intermediate step in transforming CSR, introducing reporting duties on ESG aspects, while still leaving companies some discretion in their implementation. Critically, the crisis demonstrated that reputational accountability alone was insufficient to safeguard markets and stakeholders. In legal terms, the absence of enforceable obligations exposed aquirers and investors to hidden risks: companies could present an image of responsibility without substantive practices, complicating due diligence and asset valuation. For M&A, this meant that CSR, once treated as a marketing topic, became a material risk factor: the reliability of disclosures, or their absence, directly influenced negotiations, pricing and contractual safeguards. Thus, the 2008 crisis was not only an economic shock but also a regulatory division, accelerating the shift from voluntary CSR to binding obligations. It highlighted the intrinsic link between CSR, reputational risk and corporate law, opening the way for directives such as NFRD and CSRD, where sustainability reporting and

[11] Patrick C. Leyens, "Corporate Social Responsibility in European Union Law: Foundations, Developments, Enforcement," in *Globalisation of Corporate Social Responsibility and Its Impact on Corporate Governance*, ed. Jean J. du Plessis, Umakanth Varottil, and Jeroen Veldman (Cham: Springer, 2018), pp. 157–178, https://doi.org/10.1007/978-3-319-69128-2_7

accountability became indispensable legal instruments of risk management in extraordinary transactions.

1.4. The Non-Financial Reporting Directive and Italian implementation

Directive 2014/95/EU of 22 October 2014 marks the first binding step in the European Union's CSR regulation. Amending Directive 2013/34/EU on corporate financial statements, it introduced mandatory non-financial statements for certain companies, with the aim of enhancing transparency and improving the management of ESG risks.[12] The NFRD consisting of six articles, set out the essential elements of a mandatory non-financial disclosure, in particular:

Article 1 amends article 19 "*management report*" of the previous Directive 2013/34/EU, by introducing article 19a which establishes the **"Non-financial statement"** as an autonomous subsection of the management report. This obligation applies only to *"large undertakings which are public-interest entities exceeding on their balance sheet dates the criterion of the average number of 500 employees during the financial year*" such as listed companies, banks and insurance undertakings. Subsequently, the article regulates, the subject matter of reporting: business model, policies adopted, the results of these policies, significant risks, and non-financial indicators, with reference to five areas: environment, social, personnel issues, human rights, and anti-corruption. The Directive adopt the *"comply or explain"* approach: companies are free to choose the reporting framework, (or justify its absence), having the option of choosing to use one of several instruments such as GRI, ISO 26000 or the OECD Guidelines for Multinational Enterprises... This mechanism transformed transparency into a form of reputational accountability, but without robust enforcement, it often remained a disclosure exercise rather than a tool for substantive change. From a legal point of view, this highlights the fact that, by not prescribing uniform standards, NFRD generated asymmetries in the quality and comparability of reports, undermining their reliability. This partial juridification produced a paradox: CSR became a legal duty, but its effectiveness still depended on voluntary choices of the corporate. This implications for M&A practice were immediate. Non-

[12] Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups, [2014] *Official Journal of the European Union,* pp. 1–9.

financial reports, even if mandatory, could not be relied fully credible instruments of due diligence. Acquirers remained exposed to hidden ESG and reputational risks, which translated into higher transaction costs, broader representations and warranties, and indemnification clauses. In this sense, the NFRD has outsourced regulatory uncertainty by transferring it to contractual negotiation, shifting the burden of risk management from the legislator to the private parties involved in extraordinary transactions.

Articles 3 to 6 contain the final provisions: the directive entered into force on 6 December 2014, and Member States were required to transpose it by 6 December 2016. The effectiveness of the NFRD thus depended largely on national implementation measures, which in some cases - such as Italy with Legislative Decree 254/2016 - highlighted both the potential and the limits of the Directive's regulatory impact.

The NFRD also states that undertakings can provide non-financial information *"in the annual report or in a separate one"* to be published within six months of the balance sheet date. The directive represented a first step towards aligning financial and non-financial reporting almost on the same level, and towards recognizing the strategic and legal relevance of ESG risks as integral to corporate disclosure.

As expected, Italy implemented the Directive with Legislative Decree No. 254 of 30 December 2016, published in the Official Gazette of the Italian Republic on January 10, 2017 and in force since January 25, 2017.[13] The Decree introduced the non-financial declaration (NFS) as a specific form of periodic disclosure, thereby extending the scope of corporate reporting beyond financial data. Although integrated into the broader framework of listed company law, the NFS has its own purposes and structure, recognising the strategic role of ESG disclosure as a legal tool of accountability towards stakeholders and the community.[14] Article 9 of the Decree assigned CONSOB supervisory authority on the non-financial statement.[15] It may *request information and documents from obliged companies; carry out random or targeted checks; impose administrative fines in the event of failure to draw up NFRs, false or non-compliant declarations or*

[13] Italian Legislative Decree No. 254/2016, Implementation of Directive 2014/95/EU on the disclosure of non-financial and diversity information, *Official Gazette of the Italian Republic*, No. 7, 10 January 2017.
[14] Naciti, *Responsabilità sociale d'impresa e riflessi sulla governance e sui processi di rendicontazione*, chap. 2.4.2
[15] Legislative Decree No. 254/2016, Art.9

failure to file. However, the control remains primarily formal and documentary, limited to verifying the existence and compliance of the report rather than the substance of the disclosed information. This highlights the same structural weakness already present in the NFRD: enforcement based on formal sanctions, without mechanisms to ensure the effective quality of non-financial reporting.

According to some scholars, the Italian legislator imposes a significant amount of information to be communicated, especially for listed companies, with the *ratio legis* of protecting small investors and non-qualified shareholders, by guaranteeing an information flow that would allow informed decisions.[16] However, the amount of data required could be *excessive*, difficult to interpret and so potentially counterproductive. The issue of corporate disclosure therefore becomes central, both internationally and nationally, with the need to create homogeneity in accounting language. *Social accounting* has therefore emerged as the integration of financial and non-financial data - descriptive, qualitative and quantitative - reflecting the company's interaction with its environment, employees, local communities and customers. The challenge lies not only in the quantity of information, but in its clarity and comparability, which are essential to generate trust among stakeholders.

This situation that has arisen, strengthened the role of stakeholders, now considered from 3 different points of view: (1) as recipients of the published information, (2) as a basis for drafting the report that responds to their interests, and (3) as actors involved in the value chain. Consequently, accountability was also divided into three dimensions: accountors' responsibility towards all stakeholders, transparency throughout the supply chain, and compliance with the new disclosure duties. In fact, one of the main reasons behind non-financial reporting was thus to minimize the information asymmetry existing between companies and investors while involving multiple stakeholders in corporate governance. Anyway, this expansion of disclosure burdened with multiple objectives, becoming a formal exercise rather than an effective tool for assessing how companies create value in the short and long term. Critically, the NFRD reveals the limits of a disclosure-based model: while it created transparency obligations, it failed to ensure substantive

[16] Naciti, *Responsabilità sociale d'impresa e riflessi sulla governance e sui processi di rendicontazione*, chap. 2.1

accountability. For sectors such as luxury, where brand identity and reputation are key intangible assets, this regulatory gap meant that reputational risks were still insufficiently governed at the European level, with direct consequences for the valuation and negotiation of M&A.

1.5. NFRD's legal and practical limits

Directive 2014/95/EU (NFRD), while representing a step forward in giving legal value to non-financial reporting, has shown significant limitations over time, both in its concrete effectiveness and regulatory consistency. A central question is whether the law has actually reduced the information asymmetry between companies and stakeholders or whether this imbalance has remained substantially unchanged.[17] To be precise, information asymmetry arises whenever one party in an economic exchange has greater knowledge than the other. In the ESG field, this occurs for instance between companies and investors, where the former have a deeper understanding of their environmental, social and governance impacts.

To verify whether the obligation introduced by the Directive had actually produced the desired effects, various scholars analysed the question empirically. At the basis of the studies two categories of subjects are distinguished: *Voluntary Adopters*, those who had already adopted non-financial reporting before 2017 on a voluntary basis, and *Resisters,* who have complied only by legal obligation.[18] The analysis conducted on a sample of 221 listed European companies showed that the regulatory obligation has improved transparency and reduced information asymmetry only in the case of voluntary companies. On the contrary, for companies that complied exclusively by virtue of the legal obligation, the effect was null or even worse. In particular, it was noted that the latter used a generic and repetition-rich "*boilerplate language*" that did not correspond to the company's real commitment to ESG practices, resulting in an increase in *greenwashing* (or *CSR-washing*) practices: generic sustainability statements not supported by any empirical data. This divergence reflected one of the Directive’s main weaknesses: the

[17] Naciti, *Responsabilità sociale d’impresa e riflessi sulla governance e sui processi di rendicontazione*, chap. 2.2

[18] Ramon Breijer and Roelof P. Orij, “The Comparability of Non-Financial Information: An Exploration of the Impact of the Non-Financial Reporting Directive (NFRD, 2014/95/EU),” *Accounting in Europe. Vol.* 19, no. 2, 6 May 2022, pp. 332–361.

absence of mandatory common standards. *Resisters* companies tended to choose less stringent and investor-friendly standards, while *Voluntary Adopters* opted for internationally recognized standards focused on stakeholder engagement. Without harmonisation, disclosures remained heterogeneous and non-comparable, reducing their actual usefulness for investors and stakeholders.[19] The mere adoption of sustainability frameworks does not guarantee their effectiveness, what should have been incentivized instead is to align *talk and action*: there must be no "*inconsistency between proclaimed commitment and actions actually implemented*."

A further limitation of the NFRD concerns the absence of mandatory external *assurance* of the non-financial reports. The Directive merely required auditors to verify the formal presence of mandatory information, but not its accuracy or reliability.[20] The presence check, therefore, remained the only obligation provided for by law for third parties. The lack of external assurance, in addition to undermining the comparability and quality of the information, implies that the information provided are devoid of real materiality and intelligibility: the information are unclear and not always relevant. Due to the excessive flexibility of the NFRD, assurance is a fragile and unstructured concept, without a legal definition it could concern a technical review or a mere consultancy. This leads to a high variability even among all the possible actors (NGOs, auditors, consulting firms) that can be chosen by companies for the assurance of the reports. The problem was aggravated by the generic nature of standards such as ISAE 3000, which were not designed for qualitative and forward-looking data typical of ESG reporting. This "soft juridification" produced a framework where the law required reporting but left the substance of accountability largely to the companies themselves. Such ambiguity fostered a dual regime: formal compliance on paper, but weak substantive protection for stakeholders and investors.

A further weakness of the NFRD was its restricted scope of application: limited only to PIEs with more than 500 average employees per year, leaving out about 11,700 companies across the EU, including many SMEs and private groups, that have significant ESG

[19] Naciti, *Responsabilità sociale d'impresa e riflessi sulla governance e sui processi di rendicontazione*, chap. 2.3.1
[20] Anna L. L. Sonnerfeldt and Caroline A. Pontoppidan, "The Challenges of Assurance on Non-Financial Reporting," *Accounting, Economics, and Law: A Convivium* Vol. 10, no. 11–23, pp. 2 – 23, 27 February 2020. https://doi.org/10.1515/ael-2018-0050

impacts and often operate within complex supply chains.[21] As a result, some of the most critical nodes of sustainability risks were excluded from the reporting obligation, reducing the Directive's systemic effectiveness.

From a legal and practical perspective, these shortcomings limited the Directive's ability to function as a genuine risk management tool. While disclosure became mandatory, the quality and the reliability of information remained discretionary. This had concrete consequences for extraordinary transactions, where uncertainty in sustainability reporting translated into higher transaction costs and more complex contractual structures.

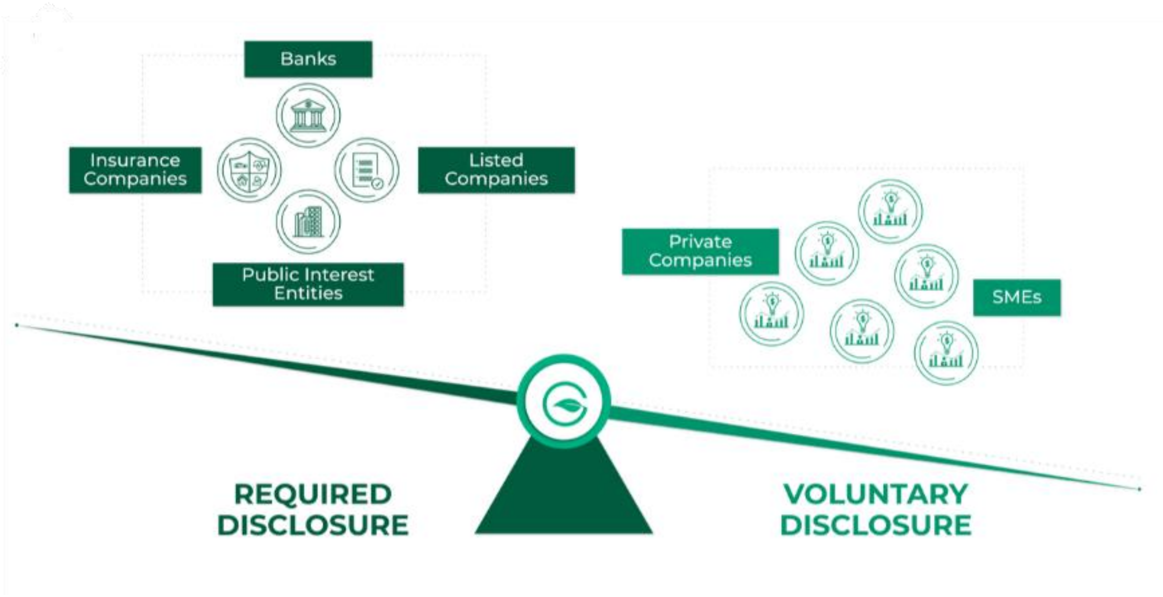

Figure 2. **Scope of the Non-Financial Reporting Directive (NFRD).** *Source: Greenomy, Understanding the NFRD and Its Evolution to the CSRD, 2024.*

In summary, the main limitations of the NFRD concerned:

- Absence of **mandatory common standards.**
- **Lack of assurance** on content.
- **Restricted subjective scope**.
- Ineffectiveness in reducing **information asymmetry**.
- Possibility of **greenwashing** without real consequences.

[21] Dionis Jurić, Antonija Zubović, and Edita Ćulinović-Herc, "Large Companies Saving People and the Planet – Reflections on the Personal Scope of the Application of the Corporate Sustainability Due Diligence Directive," *InterEULawEast: Journal for International and European Law, Economics and Market Integrations Vol.* 9, no. 2(2022): pp. 1–42.

Beyond these technical flaws, its greatest limitation was strategic: by failing to ensure credible and comparable ESG disclosure, the Directive undermined the very possibility of using CSR reporting as a reliable instrument of corporate governance, stakeholder protection and risk allocation in extraordinary transactions. This also demonstrated that reputational risk is not only a market concern but also a legal one: if the law fails to provide reliable disclosure instruments, it indirectly destabilises the very processes of corporate control and extraordinary transactions. The European legislator tried to address these problems through a deep reform embodied in the adoption of CSRD in 2022, which will be analysed in the next paragraph.

1.6. The CSRD and Italian implementation

The Corporate Sustainability Reporting Directive (CSRD) has extended the subjective scope of application, introduced mandatory European standards, and made external *assurance* of ESG data mandatory, correcting many of the previous critical issues. In particular the Directive 2022/2464/EU of 14 December 2022 amended different Directive: Directive 2004/109/EC on transparency; Directive 2006/43/EC on statutory auditing, and Regulation (EU) No. 537/2014 on statutory auditors of *PIEs.* Finally, it replaced the *accounting directive* 2013/34/EU on corporate sustainability reporting, already expanded by NFRD.[22]

Article 1 is dedicated to the amendment of the accounting directive 2013/34/EU, therefore of the non-financial reporting system:

- In paragraph 1, the article attributes regulatory value to sustainability disclosure as a real integral part of reporting obligations, thus combining it with financial reporting.
- Paragraph 2 entirely replaces Article 19 by establishing that the management report must contain: description of the business model and strategy, sustainability-related objectives, role of the administrative bodies, sustainability policies, ESG risk management systems, relevant indicators. This reinforces the obligation to

[22] Directive (EU) 2022/2464 of the European Parliament and of the Council of 14 December 2022 amending Regulation (EU) No. 537/2014, Directive 2004/109/EC, Directive 2006/43/EC, and Directive 2013/34/EU as regards corporate sustainability reporting, [2022] *Official Journal of the European Union* L 322/15.

integrate sustainability into the strategic management of the company, overcoming the separation between financial and non-financial information.

- In paragraph 3, the Directive introduces the completely renewed Article 19a "***Sustainability reporting***". Here the article deals with the specific contents of mandatory *sustainability reporting*, (which replaces the previous *non-financial statement*) and formally introduces the principle of *double materiality*. In practice, companies have the obligation to report both the information necessary to understand how their operations impact on ESG (*inside-out materiality*) and how sustainability issues affect their financial performance (*outside-in materiality*). This dual approach integrates stakeholder expectations into corporate governance and transforms reputation from a voluntary concern into a legally relevant risk factor. The mandatory contents of the reports are then listed: business model and strategy; ESG objectives and progress; roles and responsibilities of the Board of Directors; *ESG policies*; *incentives linked with sustainability goals*; due diligence on the *value chain*; Quantitative and qualitative KPIs. Moreover, the commission adopts the **European Sustainability Reporting Standards (ESRS),** drawn up by the **European Financial Reporting Advisory Group (EFRAG),** an independent technical body that with the CSRD has received the official mandate to draft the ESRS through delegated acts.
- In paragraph 4, Article 19b is introduced, it regulates a simplified report for *listed SMEs*. Only small and medium-sized companies listed on EU regulated markets are subject to a simplified regime of the ESG reporting obligation: ì with the possibility of *opt-out* until 1 January 2028. If *SMEs* decide to opt for the exemption, they must explicitly state this in the management report. In this regard, the EU Commission adopts the ***SME-proportionate ESRS,*** specific standards for *SMEs*. Micro-enterprises, large companies already covered by 19a and unlisted SMEs are excluded from 19b. The rationale of the EU is to allow *SMEs*, which have limited resources, to gradually conform.
- Paragraph 5 introduces Article 29a entitled "*Consolidated sustainability reporting*" for non-EU companies. Non-European companies with a turnover of more than €150 million in the EU in each of the last two consecutive financial years, and with at least one *large EU subsidiary* or an *EU branch* with a net

turnover of more than €40 million, are subject to ESG reporting requirements. This provision, with extraterritorial effects, represents one of the most innovative elements of CSDR, extending the application of the European model also to global companies with a strong economic presence in the Union, countering *regulatory dumping phenomena,* obliging companies not to escape European laws even if they maintain registered offices abroad.

- Paragraph 6 regulates *audit and assurance*. Sustainability information contained in reports must be subject to ***limited assurance*** by a statutory auditor or *independent assurance services provider*, in accordance with standards adopted by the Commission. The verification, therefore, is neither rigid as for the financial statement, nor does it involve a real judgment of veracity (*reasonable assurance*), but it is still mandatory, aimed at ensuring consistency and no material errors. The *rationale*, as expressly mentioned in paragraph 4, is precisely to gradually introduce reasonable *assurance*, but only after assessing its technical feasibility, considering that ESG reporting is constantly evolving.

Article 2 of the CSRD amends the *Transparency Directive* 2004/109/EC, which regulates the periodic information obligations that companies with financial instruments listed on EU regulated markets must comply with. In particular, Article 4 of this Directive is amended, which concerns the content of the annual financial report: from now on "*the annual financial report shall comprise: the financial statements, [...] the management report,*" and the sustainability reporting. Article 3 amends the Statutory Audit Directive 2006/43/EC, which regulates the statutory audit of annual and consolidated accounts in the European Union. It was imperative to add to the above-mentioned legislation, the obligation of *assurance* also for sustainability reporting. Statutory auditors are therefore required to carry out limited assurance engagement and to express a conclusion in accordance with European standards. Finally, art. 4 amends Regulation (EU) No. 537/2014, which instead regulates the specific requirements for the statutory audit of the accounts of PIEs (such as listed companies, banks, insurance companies). In this case, it is added to Article 10 of the Regulation, that for companies that fall under the sustainability reporting obligation, Articles 19a or 29a, the auditor must also include in his *audit opinion* the outcome of the assurance on ESG reports.

CSDR entered into force on 5 January 2023, 20 days after its publication in the Official Journal of the EU. All member states had to transpose the Directive by 6 July 2024 and comply with it for financial years starting from 1 January 2024. However, these deadlines have been postponed due to the adoption of the Omnibus Regulation, which will be dealt with later.

Legally, the CSRD marks the transition from formal to substantive accountability. With harmonization of standards and external assurance, it reduces the discretionary space that allowed symbolic compliance under the NFRD. This has strengthened both legal certainty and ESG obligations, closing the gap between reputational expectations and regulatory guarantees. Sustainability reports prepared under the CSRD can serve also as credible instruments in due diligence, reducing the famous information asymmetries that characterized a lot of operations of merges and acquisitions. In this way, obviously reputational and environmental risks become more and more relevant in corporate valuation. The intangible assets are now assessed within a legal framework that recognises their materiality.

Italy has implemented the CSRD with Legislative Decree 125/2024 of 6 September 2024, published on September 10.[23] The decree implements the European articulation by categories of companies:

- *PIEs* with more than 500 employees, subject to Art. 19a, are obliged to report ESG for financial years from 1 January 2024.
- Large unlisted companies, subject to art. 19a, from 1 January 2025.
- Listed *SMEs*, subject to Art. 19b, from 1 January 2026, with *opt-out* possible until 2028.
- Non-EU companies, subject to art. 29a, from 1 January 2028.

In addition, until 1 October 2026, limited assurance activities will be carried out according to pre-existing national standards (e.g.: CONSOB guidelines), pending the final adoption of European *assurance standards*. This transitional phase is essential to give the national system time to adapt to the legislation and complete the transition from voluntary

[23] Italian Legislative Decree No. 125 of 30 March 2024, implementing Directive (EU) 2022/2464 on corporate sustainability reporting, *Official Gazette of the Italian Republic*, General Series No. 91, 17 April 2024.

disclosure to binding and verifiable disclosure. On the supervisory bodies, the decree is very clear: CONSOB represents the supervisory authority for listed Italian companies (not micro).. CONSOB has the task of verifying the publication of *sustainability reports* and their compliance with the ESRS, therefore carrying out an administrative control. For the banking and insurance sector, supervision is entrusted to the Bank of Italy and IVASS, supported by the MEF.

Legislative Decree 254/2016 is abrogated, and sustainability reporting is integrated into the Civil Code, amending art. 2428 on the management report, which now no longer considers only financial indicators, but must also include non-financial information *pertinent to the specific activity of the company, including information relating to the environment and personnel*.

As mentioned in Giuffrè Francis Lefebvre's guide to CSRD 2024: *the advent of the CSRD represents a significant novelty in the conception of non-financial reporting as the legislator equates, de facto, the importance of sustainability information with traditional economic-financial information.*[24] In addition to making the *limited assurance* of *sustainability statements* mandatory, the CSRD introduces the figure *of the Sustainability Auditor*.[25] Art. 8 of Legislative Decree 125/2024 provides that statutory auditors can be supported by experts with specific ESG skills, especially in the initial phase, to facilitate compliance. Fundamentally, the CSRD demonstrates how European company law increasingly treats CSR not as an optional strategy but as a risk management tool embedded in governance. For luxury firms, where brand equity and reputation are central to market positioning, this regulatory evolution directly affects the structuring and negotiation of extraordinary transactions: sustainability performance becomes not only a reputational advantage, but a condition of legal and economic value.

1.7. The Corporate Sustainability Due Diligence Directive (CSDDD)

The issue of sustainability is gaining more and more importance thanks to the succession of regulations and the growing attention of international legislators. After the structural

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[24] Fabio Santori, "Guide to the Corporate Sustainability Reporting Directive (CSRD)," 23 January 2025, https://esg.giuffrefrancislefebvre.it/dettaglio/11089952/guida-alla-corporate-sustainability-reporting-directive-csrd

[25] Legislative Decree No. 125/2024.

change introduced by the CSRD, the European Union has taken a further step forward in the direction of CSR, with the intention of defining better its institutionalization as an integral part of European positive law. The Corporate Sustainability Due Diligence Directive (CSDDD) Directive (EU) 2024/1760 of 13 June 2024 (published on July 5, 2024) introduces substantive obligations on companies to identify, prevent, mitigate and account for adverse human rights and environmental impacts throughout their operations and value chains. . CSR thus becomes a structured legal duty, based on concrete due diligence obligations. Companies become legally responsible for the impact they produce on society, wherever their activities extend.[26] In this case, while the CSRD focuses on *ex-post* reporting of ESG activities, the CSDDD focuses on *ex-ante* actions, which companies are required to implement to prevent ESG risks. In this respect, the two directives are complementary.

ESG risks are equated with those typical of traditional compliance (antitrust, tax, criminal), and CSR becomes a measurable and legally relevant dimension of business activity, subject to controls, sanctions, and liability, turning into a real business risk to be managed. In order to understand well the importance of this change, it is important to explain that due diligence has historically been linked to *"classic contexts",* such as M&A or anti-money laundering transactions, but now for the first time, European law equates ESG due diligence with these other forms of corporate compliance. From a legal perspective, this makes the CSDDD revolutionary. Companies must map their impacts, intervene when they involve risks, take preventive measures, actively involve stakeholders, and finally report on the actions taken. All this must be verifiable, documented and above all subject to publicity, to ensure control by any third party who has an interest. This is how companies demonstrate, and not just declare, that they are sustainable, placing a great limit on the growth of phenomena such as *greenwashing*. This represents the culmination of the juridification of CSR: sustainability is no longer a matter of voluntary reporting but a hard law obligation with direct legal consequences.

As far as the Directive is concerned, the international legislator starts from the fundamental assumption that large companies are key players in the transition to a

[26] Giovanni Bevivino, Giuseppe Iorio, and Alessandro Semprini, *Profili privatistici della sostenibilità,* (Turin: Giappichelli, 2025), chap. 3.

sustainable economy..[27]Article 1 establishes the *"subject matter"* of the Directive, and states that it concerns three main topics: *(1) "obligations for companies regarding actual and potential human rights adverse impacts and environmental adverse impacts [...]; (2) liability for violations of the obligations [...] and (3) the obligation for companies to adopt and put into effect a transition plan for climate change mitigation*". These are introduced, in line with the Paris Agreements.

Article 2 regulates the subjective scope. The Directive applies to large or economically significant companies, European and non-EU, who exceed certain thresholds, with the aim of making the most relevant actors responsible and preventing circumvention practices. As far as SMEs are concerned, they are not included, for obvious reasons: the burdens would have been too disproportionate to their size and possibilities. In fact, the thresholds provided, are extremely high, both for European companies and for those of third countries, they fall under the directive:

a) Companies with at least more than 1000 employees on average and have a turnover of more than 450 million euros in the last financial year; or
b) ultimate parent company of groups that meet these thresholds; or
c) companies that have entered into franchising/licensing agreements in the EU, receiving royalties greater than €22.5 million, with worldwide net sales greater than €80 million.

Article 3 is one of the most important as it provides the definition and meaning of some terms, in order to avoid errors of assessment. It could therefore be said that the article provides the *operational vocabulary*[28], in which we find several fundamental meanings, such as:

- ***"Adverse environment impact",*** which includes any type of negative impact on the environment.[29]

[27] Directive (EU) 2024/1760 of the European Parliament and of the Council of 13 June 2024 on corporate sustainability due diligence and amending Directive (EU) 2019/1937 and Regulation (EU) 2023/2859, [2024] *Official Journal of the European Union* L 168/1.
[28] Bevivino, Iorio, and Semprini, *Profili privatistici della sostenibilità,*, chap. 3.
[29] Directive (EU) 2024/1760, Art. 3.

- ***"Adverse human rights impact"***, any violation or abuse of human rights. In this regard, the company is required to carry out a foreseeability assessment: if it could have foreseen the risk, it should have acted to avoid it.
- ***"Business partner"***, i.e. any subject, even indirect, who has relationships along the value chain with the company (including suppliers' suppliers). This concept is linked to Friedman's famous stakeholder theory.
- ***"Chain of activities"*** includes all activities, from upstream activities (design, production, transport etc.) to downstream activities (distribution, stock etc.). However, the disposal of the product, its use by consumers and exports subject to military or national security control are excluded. The chain of activities is a central concept in CSDDD, because it delimits the objective perimeter of due diligence. Outside this perimeter, the liability of the company does not exist.[30]

In addition, in every company, there can be an ***"independent third-party verification"***, which, is a verification carried out by an independent, impartial and experienced third party, concerning the adequacy and effectiveness of the due diligence adopted by the company.[31] It is not a mandatory provision but rather an encouragement of good practice to increase credibility with stakeholders. This has probative value in cases of civil liability.

The same article introduces the concept of ***"severity of an adverse impact"***, defined as *"the scale, scope or irremediable character of adverse impact".* A damage, even potential, is never the same as another. Therefore, each damage can have a different impact depending on its level of severity, irreversibility, and scope, i.e. the number of individuals involved. When damage is classified as a "severe adverse impact", the company is obliged to intervene.

Art. 5 introduces the real obligation of due diligence. Due diligence must be written, up-to-date, and part of the business strategy. It is a dynamic process, in continuous adaptation, must be risk-based and must cover environmental impacts and human rights. Articles from 7 to 16 define the operational phases. Each company must:

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30 Bevivino, Iorio, and Semprini, *Profili privatistici della sostenibilità,*, chap. 3.2.1

31 Directive (EU) 2024/1760, Art. 3.

a) "*Integrating due diligence into their policies and risk management systems in accordance with Article 7*." This point serves to ensure that due diligence has a solid structure, a policy included in corporate strategy documents, risk management systems and corporate governance.

b) *"Identifying and assessing actual or potential adverse impacts in accordance with Article 8 and, where necessary, prioritising actual and potential adverse impacts in accordance with Article 9."* Every company must map risks and establish a scale of priorities when there are too many risks to be addressed at the same time.

c) *"Preventing and mitigating potential adverse impacts and bringing actual adverse impacts to an end and minimising their extent in accordance with Articles 10 and 11."* This point encapsulates the main theme of CSDDD, which is to encourage companies to act ex ante, before a disaster happens (prevent), containing existing risks (mitigate) and eliminating those that arise (minimize). Article 10 regulates the possibility of including binding clauses in contracts with partners, in order to avoid and prevent risks, or to provide support in the mitigation phase.

d) *"Providing remediation for actual adverse impacts in accordance with Article 12."* When damage has already occurred, it is the responsibility of the company to intervene to repair or contribute to the repair of the damage, in a timely and proportionate manner.

e) *"Carrying out meaningful engagement with stakeholders in accordance with Article 13."* A real and structured dialogue with stakeholders is required, at all stages of the process. CSR that did not involve stakeholders at all, but served the company as a mere reputational façade, now consists of transparent, constant, real-time information.

f) *"Establishing and maintaining a notification mechanism and a complaints procedure in accordance with Article 14."* Anyone involved or harmed must have the opportunity to complain or to be able to bring out undetected risks.

g) *"Monitoring the effectiveness of their due diligence policy and measures in accordance with Article 15."* It is important for companies to continuously monitor their due diligence policies to understand whether they are effective and deliver real and concrete results or, if they are not, to readjust them to the circumstances.

h) *"Publicly communicating on due diligence in accordance with Article 16."* The advertising to which every company is subject, represents a last but fundamental piece united to what is the structure of the due diligence itself. The report must be detailed, include real and measurable indicators, results obtained, policies and strategies adopted, and risks detected.

The CSDDD therefore takes on a systemic meaning: ESG values become legal values of the Union.[32] The directive represents the implementation of the *"Protect, Respect and Remedy"* model developed by the United Nations in 2008, according to which: the state must protect human rights, the company must respect them, and victims must be able to obtain redress for violations. A model that has been a pillar for all subsequent principles, then formalized in 2011 in ***the UN Guiding Principles on Business and Human Rights (UNGPs)*** adopted by the UN. These, initially limited to human rights, provided that companies had to carry out due diligence on the subject and that they were liable for both direct and indirect damage caused by partners and for which they would have to intervene. These principles were then extended to ESG issues through the ***OECD Guidelines for Multinational Enterprises***, forming the conceptual basis of the CSDDD.

Article 29 is dedicated to the *"Civil liability of companies and the right of full compensation".*[33] Member States must introduce civil liability in the event of breach of the due diligence obligations set out in Articles 10 and 11. The company is therefore civilly liable if it fails to prevent, mitigate or put an end to an adverse impact, because it has not taken adequate measures and damage to human rights or the environment has occurred due to this omission. Liability arises when the following are jointly present: the culpable omission of the obligation, the causal link between omission and damage, and actual damage. In addition, paragraph 1 clarifies: *"A company cannot be held liable if the damage was caused only by its business partners in its chain of activities."* However, the commission still provides for a conditional exclusion of liability, if the company can demonstrate that it has taken adequate, proportionate and reasonable measures to prevent or mitigate the impact, even if damage has nevertheless occurred.[34] It is therefore a form of defence based on the effectiveness of the commitment, not on the contractual form.

[32] Bevivino, Iorio, and Semprini, *Profili privatistici della sostenibilità,*, chap. *3.3*
[33] Directive (EU) 2024/1760, Art. 29.
[34] Bevivino, Iorio, and Semprini, *Profili privatistici della sostenibilità,* chap. *3.2.1*

Which could have happened, however, in the original proposal of the Directive, which provided for a *safe haven*, a safeguard clause: if a company demonstrated that it had adopted all the preventive measures provided for by the Directive, (prevention, contractual guarantees, clauses with partners and verification measures) then it would not be liable for indirect partners. This clause has been abandoned, and civil liability simplified in Article 29 of the CSDDD, which provides for liability based on commitment, with a case-by-case assessment. The subjects who can take legal action are either the natural or legal persons who have suffered the damage, or collective entities within the limits allowed by international law.[35] In the event of joint responsibility between the company and the partner, direct or indirect, the latter will be liable jointly and severally (article 29(5)).

The implications of CSDDD are transformative for M&A transactions: ESG due diligence now acquires the same legal weight as financial, tax or antitrust reviews, becoming an indispensable component of transaction planning, Acquirers must assess not only financial risks but also potential liabilities arising from environmental or human rights breaches in the target's value chain. This directly affects valuations, contractual warranties, indemnification clauses and even the practicability of certain acquisitions. Finally, the CSDDD shifts reputational risks into the legal field. What was once a market-driven concern is now a matter of pursuable liability: the failure to meet stakeholder expectations on sustainability can now result in legal action and financial penalties. For luxury industry, that will be studied in the next chapters, this evolution has important consequences. The sector must adapt itself to the new values of ESG, which became both a reputational and a legal prerequisite to stay competitive on the market, and for participating in extraordinary transactions.

The Directive entered into force on 25 July 2024, while the deadline for transposition into national law was moved to 26 July 2027. The European Union voted in March 2025 to postpone member states' transposition deadline and entry into force for businesses, to give them time to adapt, following complaints from large companies. Companies have complained about the nature of the legislation, which is far too complex and burdensome to apply within the deadlines. Its application could also have created overlaps with other

[35] Directive (EU) 2024/1760, Art. 29.

regulations in force, such as the CSRD. Thus, the Commission through Directive 2025/794 also known as ***"stop the clock"*** has postponed the deadlines provided for by both the CSRD and has introduced a period of regulatory coordination. This "time freeze" paved the way for a broader reform, known as the ***Omnibus Package***.

1.8. The Omnibus Package

The adoption of the CSRD and CSDDD have marked a radical evolution in the European regulatory framework and corporate sustainability, but at the same time they have generated strong operational, economic, and bureaucratic pressures on companies. In response to these problems, and to ensure the correct application of the new rules without undermining European competitiveness, the Union has introduced a package of corrective measures known as the **Omnibus Package**, aimed at simplifying and harmonising the new ESG obligations.[36]

The package was born as a result of Directive 2025/794/EU, informally known as "*stop the clock",* which amended the CSRD, postponing the deadlines for sectoral ESRS and for the ESRS of *listed SMEs*, to two years later, therefore to 2026. This legislation has already been approved, and the Member States will only have to transpose it. It represents the first corrective measure adopted by the EU, and anticipated the **Sustainable Finance Omnibus Package**, presented by the European Commission on February 26, 2025. The initiative aims to simplify and streamline the current regulatory framework on sustainability and investment, reducing the administrative burden on companies operating in the Single Market, with a specific focus on SMEs. To do this, the package intervenes in two directions: on the one hand, it postpones some deadlines relating to reporting and due diligence; on the other hand, it significantly revises the limits of subjective application. The package has been divided into two main proposals:

- **Omnibus I:** it is a proposal for a Regulation that directly amends four legislative acts: Taxonomy Regulation, CBAM, *InvestEU* and Climate delegated act.

[36] Umberto Tombari and Enrico Verdelli, "The 'Omnibus' Package: An Analysis of the Main Amendments to the CSRD and the CSDDD," *Ius Societario – Giuffrè Francis Lefebvre*, 21 May 2025, https://ius-giuffrefl-it.bibliopass.unito.it/dettaglio/11488976/il-pacchetto-omnibus-unanalisi-delle-principali-modifiche-alla-csrd-e-alla-csddd

- **Omnibus II:** it is a proposal for a Directive that amends two other pieces of legislation: CSRD and CSDDD, requiring national transposition by Member States.

In its entirety, the package addresses six key areas:

1. **Corporate Sustainability Reporting Directive** (CSRD). Here the Omnibus package intervenes first to rationalize the times and lighten the obligations for companies, in particular for *SMEs*. The application of ESG reporting obligations for large companies and listed SMEs is postponed by two years. The rationale of the extension, represents a functional measure to avoid adaptation to requirements that could be repealed or downsized. Subsequently, the Commission's objective was to propose the restriction of the scope of application, excluding listed SMEs, and reserving the obligation of ESG reporting only to large companies that exceed the threshold of 1000 employees, and alternatively, 50 million in turnover or 25 million in assets; and to non-EU companies with a threshold that goes from 150 million to 450 million euros. By doing so, about 80% of the companies that are currently subject to the CSRD would be excluded. The *rationale* of this point is greater consistency with the CSDDD which has different (higher) thresholds than those of the CSRD. For SMEs, there would be the alternative of being able to choose a voluntary reporting standard approved by EFRAG.
2. **Due diligence** (CSDDD). As regards the CSDDD, the Omnibus modifies some of the most controversial obligations for companies. Firstly, the due diligence obligation will initially be applied only to the company's direct suppliers **(Tier 1),** then it will be extended to indirect suppliers **(Tier 2 and 3)** only in the case of sectors at greater risk. This allows the operational extension of the control chain to be significantly reduced. Secondly, in the event of a serious impact, the company does not have to immediately terminate the relationship with the partner but can temporarily suspend it while waiting for the situation to stabilize, where possible. This mechanism aims to avoid economic and social impacts in partner countries and ensure consistency with the EU's foreign and development policy. Finally, the annual monitoring obligation is changed to a five-year review obligation.

3. **Green Taxonomy.** This classification, approved in June 2020, aims to scientifically define which economic activities are truly sustainable from an environmental point of view. It is a technical regulation that guides investments and policies, avoiding phenomena such as greenwashing and instead favouring the path towards transparency. The omnibus introduces tools to simplify the collection and readability of data, facilitating the integration of indicators into accounting systems and business reports. These measures are intended to reduce operational complexity and increase consistency between the information required.
4. **Carbon Border Adjustment Mechanism (CBAM),** an EU regulation that aims to avoid carbon leakage in the import market of goods, reducing the emissions incorporated in goods imported from third countries. The CBAM, in its original version, obliges all importers of carbon-intensive goods to compile detailed and frequent reports. The omnibus package simplifies the reporting obligation for small companies that import small volumes of these products, exempting them from these requirements. The goal is to avoid an undue burden in the first phase of reporting implementation.
5. **InvestEU.** In this program, which aims to stimulate green investments, the Omnibus introduces a simplification of the ESG component required for eligibility for funding. Some documentation requirements are reduced, and an approach is adopted that is more proportionate to the size and type of project. The aim is to speed up the allocation of resources and increase effective spending capacity, preventing excessive ESG constraints from hindering companies' access to credit and slowing down investments.
6. **Climate delegated Act.** In this regard, the rationale is to formulate a proposal to limit detailed reporting requirements to large companies only. Therefore, SMEs could exclude reports that also contain detailed climate data.

The Omnibus package is still at a preliminary legislative stage, as it has not yet been approved. It is currently a mere proposal, which, if adopted, would constitute a further step towards completing the legal transformation of CSR. The Omnibus package is the representation of the urgencies and needs of the European economic-political context from which it was born. It is strongly characterized by regulatory asymmetries between

European and non-European countries (e.g.: in China, USA, UK there are non-strict rules on sustainability), trade tensions, unstable markets, increasingly high energy costs following the Russia-Ukraine war. To avoid not only ESG risks but also companies from relocating their activities, or competition being distorted, Europe aims to seek a balance between sustainability and competitiveness, strengthening the European economy and leading the ecological transition without suffocating companies. From a legal perspective, however, this flexibility results in a structural trade-off. While regulatory relief may reduce short-term compliance costs, it risks weakening the credibility of the entire framework. Postponing these obligations not only delays the availability of reliable and standardised data but could also serve to feed information asymmetries once again and undermine investor trust. In this sense, the Omnibus Package reveals how sustainability law in Europe remains a dynamic compromise between hard law imperatives and economic pragmatism.

This uncertainty opens the question of how CSR obligations can be operationalised not only in ordinary governance but also in extraordinary transactions, where reputational capital and stakeholder trust are decisive. Giving that the postponement of full compliance prolongs uncertainty, acquirers cannot fully rely on harmonised CSRD reporting for their due diligence, and this means that reputational and ESG risks remain in part blurred. This increases the need for contractual protections and private investigation, raising transaction costs. Obviously, at the same time, the postponement are a signal that reputational risk remains central: investors may not wait for legal deadlines and companies which are unable to anticipate compliance may face market sanctions even before regulatory enforcement. In the end, the Omnibus Package shows that the juridification of CSR is not a linear process but a negotiated path, constantly balancing sustainability with competitiveness. For companies in the luxury sector, where reputation is a strategic asset, such delays emphasise the importance of voluntary compliance by companies. Indeed, in this specific case, anticipating legal standards can strengthen brand value and reduce risks in extraordinary transactions. In this way, the luxury industry would transform legal uncertainty into an opportunity for competitive differentiation.

2. Introduction to luxury industry

The luxury sector represents one of the most complex and fascinating fields for analysing Corporate Social Responsibility (CSR), as it combines high public visibility, extraordinary symbolic capital, and extreme reputational vulnerability. Luxury brands do not merely sell products: they embody status, aspiration, and desire, becoming true cultural objects whose image is constantly subject to the judgment of consumers, media, stakeholders, and global public opinion.[37] This exposure, which constitutes a competitive advantage in terms of prestige and pricing power, can nevertheless become a powerful risk amplifier: even a single real, or perceived, violation of social or environmental standards can generate immediate reputational crises, with economic and legal consequences that are difficult to contain.[38]

In recent years, the European regulatory environment has accelerated this transformation. As explored in Chapter 1, tools such as the NFRD, CSRD and CSDDD have meant a significant change for CSR in the present and in the near future introducing obligations of due diligence, ESG reporting, and accountability obligations throughout the entire supply chain. For the luxury sector, this means that CSR can no longer be treated as an isolated philanthropic activity but must become a pillar of risk management. Studies show that, particularly in fashion and luxury, the proactive management of ESG risks is now inseparable from business continuity: traceability systems, internal audits and multi-level governance are now essential tools not only to prevent sanctions and civil litigation, but also to protect brand's intangible values, which represents the main competitive asset of fashion houses. However, this regulatory transformation encounters some structural resistance in the luxury sector, due to the tension between exclusivity and social responsibility. Making this scenario even more complex is the so-called "*Paradox of Sustainable Luxury*".[39] Historically, luxury has been associated with exclusivity, abundance and ostentatious consumption, while sustainability calls for moderation,

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[37] Cesare Amatulli and Matteo De Angelis, *Luxury marketing: Vendere il lusso nell'epoca della sostenibilità* (Rome: Luiss University Press, 2018), chap. 3, para. 1.
[38] Laura Macchion, "Corporate Social Responsibility and Risk Management: Charting the Course for a Sustainable Future of the Fashion Industry," *Global Sustainability* Vol. 7 e39, pp. 2- 12, 27 September 2024 https://doi.org/10.1017/sus.2024.31
[39] Jenni Sipilä, Sascha Alavi, Laura Marie Edinger-Schons, Sabrina Dörfer, and Christian Schmitz, "Corporate Social Responsibility in Luxury Contexts: Potential Pitfalls and How to Overcome Them," *Journal of the Academy of Marketing Science* Vol. 49 pp. 280–303. 15 December 2020. https://doi.org/10.1007/s11747-020-00755-x

equity and social responsibility. These two value frameworks often appear to be incompatible in the eyes of consumers, creating structural tension. As Sipilä notes, when a luxury brand promotes CSR initiatives perceived as inconsistent or opportunistic, the public tends to attribute *"self-serving motives"* to the brand, with a boomerang effect: instead of enhancing loyalty and reputation, poorly managed CSR can weaken brand equity and reduce stakeholder trust. By contrast, when CSR is integrated into the brand's DNA – reflecting its heritage and cultural values – it becomes credible and authentic.[40] Brands that draw on their artisanal legacy and combine it with transparent supply chains and sustainable materials develop a form of sustainability that is both coherent and strategic. Instead, initiatives perceived as purely external or philanthropic risk being dismissed as greenwashing, fuelling mistrust and possible regulatory interventions.

The centrality of CSR in luxury is therefore not just a matter of marketing, but a strategic issue of governance and law.[41] High-end companies are now called upon to structure sustainability as a core element of risk management, integrating it into corporate governance, establishing ESG committees and internal controls, supply chain audits and preventive due diligence. This transformation is also visible on a legal and operational level: recent cases of sanctions for social washing and court-appointed administration of suppliers show how CSR is now closely linked to legal liability and business continuity. In the luxury sector, where the product coincides with the image and the intangible asset is central, a reputational crisis immediately translates into a loss of economic value, also inhibiting extraordinary transactions such as mergers and acquisitions (M&A), an issue that will be explored in Chapter 3.

In this framework, Chapter 2 aims to explore in depth the strategic function of CSR in the luxury sector. In light of the above considerations, this chapter will first explore the ways in which brands integrate sustainability into their identity, transforming it into a tool for value protection and risk mitigation. This will then be followed by an analysis of the relationship between CSR and legal compliance, with particular attention to ESG governance models and the obligations introduced by European law. Subsequently, the paradox of sustainable luxury will be examined, observing its effects on consumer

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40 Amatulli and De Angelis, *Luxury marketing*, chap. 3, para. 1.
41 Macchion, "Corporate Social Responsibility and Risk Management," 2024. pp. 4-6

perception and brand legitimacy. Finally, the chapter will focus on the legal and reputational risks associated with greenwashing or social washing practices, highlighting how the management of these risks is now an integral part of risk governance and the protection of intangible assets of high-end brands.

2.1. The strategic role of CSR in luxury industry

What is the strategic role of CSR in a sector that has historically been distant from the values of equity and sustainability, such as luxury? CSR is generally perceived positively, but in the context of luxury, several studies have shown mixed effects.[42] On the one hand, consumers reward CSR linked to environmental or social causes; on the other, they perceive it as inconsistent with the exclusivity and prestige of the brand, thus reacting negatively. However, as already noted in the introduction, one of the most relevant issues is the "***Paradox of Sustainable Luxury"*** where the two concepts, sustainable and luxury, are intended as inherently *"paradoxical"*.[43] Sustainability implies an ethical responsibility towards the environment and society, while luxury, historically, has been associated with waste, high consumption and the reproduction of social inequalities. Anyway, there are also points of contact between luxury and sustainability, based on common values such as durability, timelessness and innovation. In fact, Brands in the sector, through the meticulous search for raw materials and *savoir-faire*, ensure that their products reflect the highest quality standards. These assets, destined to last over time, often not only retain their value, but increase it. Similarly, luxury is driven by "*never-ending*" innovation, and sustainability can be interpreted as a strategic lever for the development of new materials, designs and technologies. This convergence suggests that the tension between luxury and sustainability is not irreconcilable, but rather a reputational challenge: luxury brands are judged on their ability to demonstrate coherence between their heritage values and their CSR practices. When alignment is achieved, CSR enhances symbolic capital and strengthens long-term brand equity; when it is perceived as opportunistic or inconsistent, it amplifies consumer scepticism and accelerates reputational decline.

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[42] Sipilä, Alavi, Edinger-Schons, Dörfer, and Schmitz, "Corporate Social Responsibility in Luxury Contexts." 2020. pp. 282- 284

[43] Claudia Newton, *Sustainable Materials in the Luxury Automotive Sector: Consumer Perceptions and Brand Strategy* (Master's dissertation, University of Warwick, 2023), chap. 2, para. 1, pp. 23–26.

In any case, poorly managed CSR generates general discontent:[44] consumers start thinking the brand acts only out of convenience or as a marketing tactic and not out of real conviction. This mechanism results in a decline in performance, where even high levels of CSR are associated with lower growth in sales and brand value over the long term. Research shows that while CSR can increase sales in the immediate future (e.g., by reducing guilt over an expensive purchase), it may erode brand equity over time. Furthermore, the higher the CSR efforts, the more consumers develop instrumental attributions, leading to a further decline in their loyalty. CSR is no longer a purely voluntary or reputational matter, but form a legal point of view today, European regulation (CSRD, CSDDD) impose reporting and due diligence obligations, shifting sustainability from strategy to compliance. This means that reputational risk is increasingly accompanied by legal risk: misleading disclosures or failures in the supply chain are not only damaging for brand identity but may trigger regulatory sanctions and civil liability.

However, there are two solutions to implement a strong CSR strategy that also constitutes a competitive advantage. The first is to adopt an internal CSR approach that involves employee well-being. It is more credible, more consistent with the brand's core values and *craftsmanship*, and generates greater loyalty because it is perceived as real commitment. This stands in contrast to external CSR, which consists of generic donations and could arouse suspicion. As stated by Carroll and described in Chapter 1, philanthropic responsibility, the last and highest level of the pyramid, is fundamental to complete CSR, but it is not enough to form its foundation.[45] Philanthropic activity serves primarily to enhance the company's image: it is not a moral obligation like ethics, but rather a desire of society to which the company decides to respond. It is an "*extra touch*" that can enhance CSR but, if isolated, risks undermining it. It is therefore essential that the growing investments in CSR and ESG made by luxury brands today are not perceived as pure philanthropy, but as tools for risk mitigation and value creation, otherwise there is a risk of a *Dodge v. Ford-type scenario*.[46] The second solution is to implement CSR in

[44] Sipilä, Alavi, Edinger-Schons, Dörfer, and Schmitz, "Corporate Social Responsibility in Luxury Contexts." 2020. pp. 285-286
[45] Carroll, "The Pyramid of Corporate Social Responsibility," p. 42.
[46] *Dodge v. Ford Motor Co.*, 170 N.W. 668 (Mich. 1919). In this landmark case, the Michigan Supreme Court held that, while directors enjoy broad discretion under the business judgment rule, a corporation must be managed primarily for the profit of its shareholders. Henry Ford's attempt to retain profits for plant

brand framing.[47] It is essential that this does not (paradoxically) derive from the brand's exclusivity, because then CSR would be inconsistent. Rather, it must emphasize sustainability so that CSR is perceived as authentic, reinforcing brand loyalty. An effective example is Stella McCartney, a brand that has always positioned itself as ethical, innovative, *cruelty-free*: sustainability is at the heart of its identity, and consumers perceive it as credible. Tesla, founded on clean tech, environmental commitment and ethical mobility, is also an example of *framing* centred on sustainability. *"When luxury brands are framed as sustainable (as opposed to exclusive), CSR appears authentic and enhances brand loyalty."*

To make CSR a real competitive driver, brands can adopt two complementary approaches: reformulate their identity values (*brand framing*) or integrate sustainability within their business model through the logic of ***Creating Shared Value (CSV)***. Indeed, the three pillars of CSV can be applied to the luxury sector. In this regard, the industry should focus on three main levers:[48](1) ***Reconceiving products and markets***, with products that reflect new values; (2) ***Restructuring the value chain***, through traceability and control of suppliers and raw materials; (3) ***Developing local communities***, through craft or empowerment projects.

Several brands have already successfully integrated sustainability into their corporate identity and strategy, avoiding accusations of greenwashing and reputational damage. An emblematic example is Chloé, the first luxury Maison to obtain **B Corp certification**. In 2021, Chloé was awarded B Corp, one of the most stringent global standards in social and environmental impact. The certification process involves a questionnaire of about 300 questions, assessing impact on workers, governance, communities, customers and the environment, with a maximum total score of 200 points. To achieve this goal, Chloé accelerated its sustainability transition by introducing recycled cashmere and collaborating with non-profit organizations for the reuse of textile waste.[49] As a result, it

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expansion, wage increases, and price reductions, was motivated by philanthropic and altruistic goals, conflicted with shareholder interests. The court therefore required a dividend distribution.

[47] Sipilä, Alavi, Edinger-Schons, Dörfer, and Schmitz, "Corporate Social Responsibility in Luxury Contexts." 2020, pp. 281-282

[48] Ramón Bravo-González, *Corporate Social Responsibility and Brand Value in Luxury* (PhD thesis, University of Glasgow, 2017), chap. 2, pp. 29-89

[49] Emily Farra, "What Fashion's New Interest in B Corps Means for the Future," *Vogue*, 29 October 2021, https://www.vogue.com/article/fashion-b-corp-chloe-sustainability-cop-26

achieved a 400% reduction in carbon footprint in just one year. Certification has therefore triggered a series of structural changes (internal CSR) and represented the first step of a systemic path aimed at empowering the entire organization.[50] In fact, in its 2023 Annual Mission Report, Chloé declares that certification has become a "*framework for continuous improvement*", a permanent strategic reference that guides the brand over the long-term.[51] Moreover*, "certification has become a compass for internal transformation".* As evidence of this, Chloé has restructured every operational area – from products to governance – by integrating sustainability into KPIs, garment traceability (Digital ID), upcycling programs, and policies on equal pay and female representation in managerial roles. CSR has thus become the true engine of the brand's evolution, in line with what is also promoted by European regulations. Ex CEO Riccardo Bellini defined this strategy as "*regenerative leadership*", a top-down approach guided directly by executive leadership. Chloé converted sustainability into a verifiable standard, not merely a narrative, this reduced information asymmetry for investors and acquirers, using CSR in a tool able to protect brand reputation and enhance value in potential M&A.

Luxury is highly symbolic: it does not only merely sell products, nor does it satisfy basic needs. It sells desire, status, emotions, aesthetics. Its strong symbolic capital makes sustainability credible only when it is aligned with the brand's cultural and symbolic universe. If a brand, for example, has an artisanal heritage, it should base its CSR on that heritage, conveying craftsmanship and knowledge across the entire supply chain. CSR should not be perceived as "*externally imposed*", but as part of the brand's storytelling. Consumer trust is built on symbolic coherence, narrative continuity, tangible actions and transparency. Thus, sustainability and luxury, two seemingly distant terms, can be reconciled by a new forward-looking vision: if consistently integrated in the brand narrative, sustainability is no longer a threat to exclusivity, but rather a new expression of it. CSR becomes a symbolic and reputational asset, and not a transformational constraint, as shown in the case of Chloé. However, in the luxury industry, even authentic CSR does not guarantee success if it is not perceived as consistent.[52] Reputational risk can arise

[50] Emily Farra, "Chloé Is the First Luxury Fashion House to Earn a B Corp Certification," *Vogue*, 18 October 2021, https://www.vogue.com/article/chloe-b-corp-certification-sustainability.
[51] *Chloé, Mission Report 2023 (Paris: Chloé, July 2024),* pp. 8–33.
[52] Andrea Runfola, Giulia Monteverde, and Simone Guercini, "Sustainable Innovations in Business-to-Business at the Crossroad: Emerging Paradoxes in the Fashion Industry," *Journal of Business & Industrial Marketing*. Vol. 40, no. 13 pp. 87–102. 28 march 2025. https://doi.org/10.1108/JBIM-08-2024-0569

even without actual **wrongdoing** on the company's part. This occurs because, unlike other sectors, sustainability in luxury is subject to structural paradoxes, related to:

1) public perception.
2) symbolic coherence of the brand.
3) reputational value of intangible assets.

A structural paradox, as such, represents a contradiction that arises from the deep dynamics of a sector or business model. In this specific case, the structural paradoxes depend on how the luxury ecosystem operates, particularly in fashion: suppliers, production, consumption, language, culture. The first critical element is the symbolic dimension, which has been already discussed. A second level of complexity is misinformation: although highly sensitive to sustainability, luxury consumers are not - paradoxically - fully informed about it. This creates a gap between the CSR message a brand wants to convey and how it is actually received. This is what the fashion industry refers to as the "**misleading perceptions paradox**", that is, the presence of confused or inaccurate beliefs about what sustainability really means (e.g.: confusion between "natural" and "vegan"). In this sense, even authentic practices can be perceived as inconsistent or opportunistic, fuelling accusations of greenwashing and putting customer trust and loyalty at risk. Finally, it must be noted that in luxury, the brand is the product itself: corporate reputation is a legally and economically protected asset. For this reason, any misalignment between storytelling, actual practices, and perceived CSR immediately becomes a threat to competitive positioning. In the luxury industry, where symbolic value weights as much as tangible value, CSR can generate value only if it is experienced as a coherent, transparent, and integral part of the brand's identity. Only in this way it stops being a reputational risk, becoming a competitive advantage.

2.1.1. CSR from strategy to compliance: successes and failures

After analyzing how CSR can generate strategic value in luxury, it is now appropriate to understand how it is actually implemented, in light of the new European legal framework. . CSR must be formalized through appropriate governance tools, capable of guaranteeing transparency, consistency and control across the entire value chain. The following section will examine some significant examples, both successful and critical, relating to corporate groups or individual brands. The variety of approaches adopted highlights both the potential and the challenges of effectively integrating CSR into corporate structure, especially in an industry characterized by complex supply chains, strong reputational exposure, and strong symbolism such as luxury sector.

In this perspective, a first significant example of advanced CSR implementation, in line with the obligations imposed by the most recent European regulations, is represented by the Kering Group. This model provided not only transparency but also comparability, anticipating the harmonisation goals later pursued by the CSRD. One key aspect to keep in mind when discussing this group is that all the brands within it maintain their own creative identity, but their main strategic functions are centrally coordinated by the Kering Group. The success of this model stems precisely from its strong centralization, which has uniformly guided and integrated the implementation of CSR, along the entire value chain. Specifically, the issue of sustainable governance has been formally integrated into the corporate structure[53]. Kering's Board of Directors is directly involved in supervising the ESG strategy and is supported by the *Sustainability Committee* – a body dedicated to ethics and sustainable development – which is responsible for monitoring the implementation of environmental and social policies within the group. At the operational level, the Group Sustainability Department is tasked with coordinating the ESG initiatives of the different Maisons, ensuring alignment and consistency with the group's overall strategy. This structure fully meets the requirement set out by the CSRD to integrate sustainability into decision-making processes and corporate governance, overcoming the logic of CSR as a separate and marginal activity. Secondly, Kering has adopted advanced non-financial reporting tools. The most representative is the **Environmental Profit & Loss (EP&L),** an environmental accounting system that measures impact across the entire value chain in terms of CO_2 emissions, water consumption, land use, pollution, and other environmental indicators. This report is updated regularly and is independently audited, thus complying with the external assurance obligations established by the CSRD to ensure the transparency and credibility of non-financial information.

[53] Kering, *ESG Presentation* (Paris: Kering, November 2022). https://www.kering.com/en/sustainability

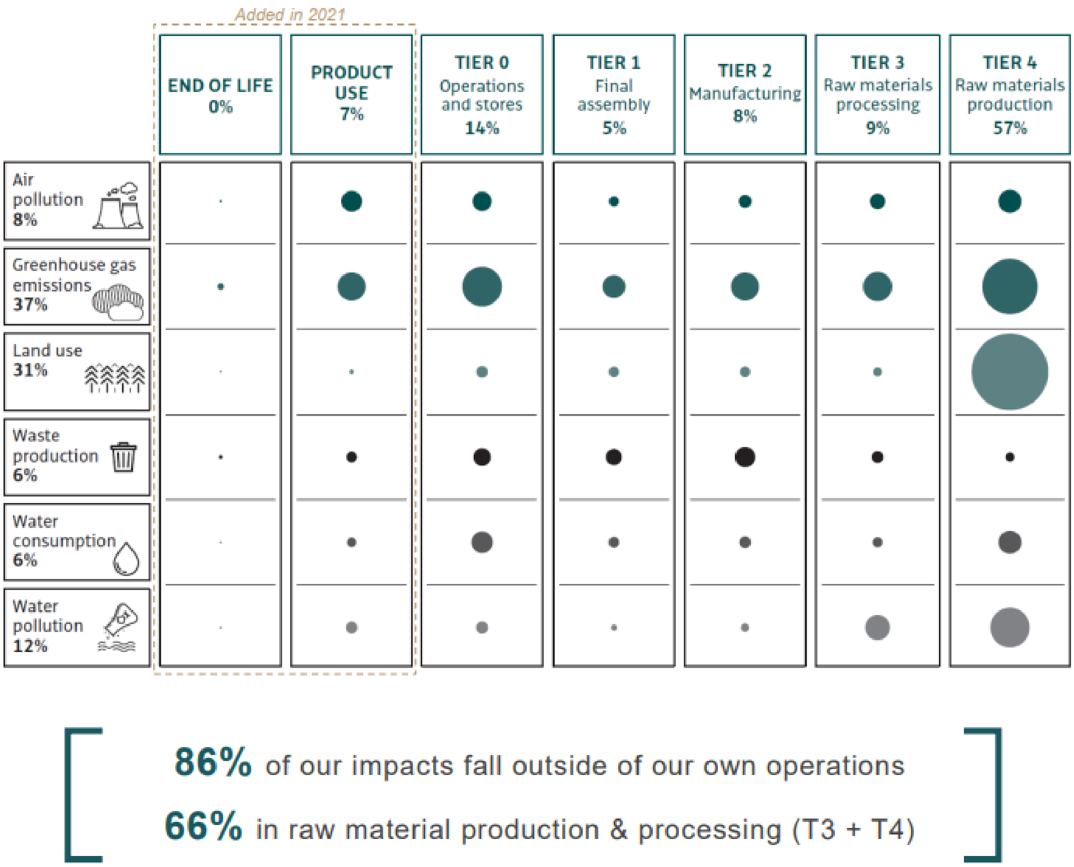
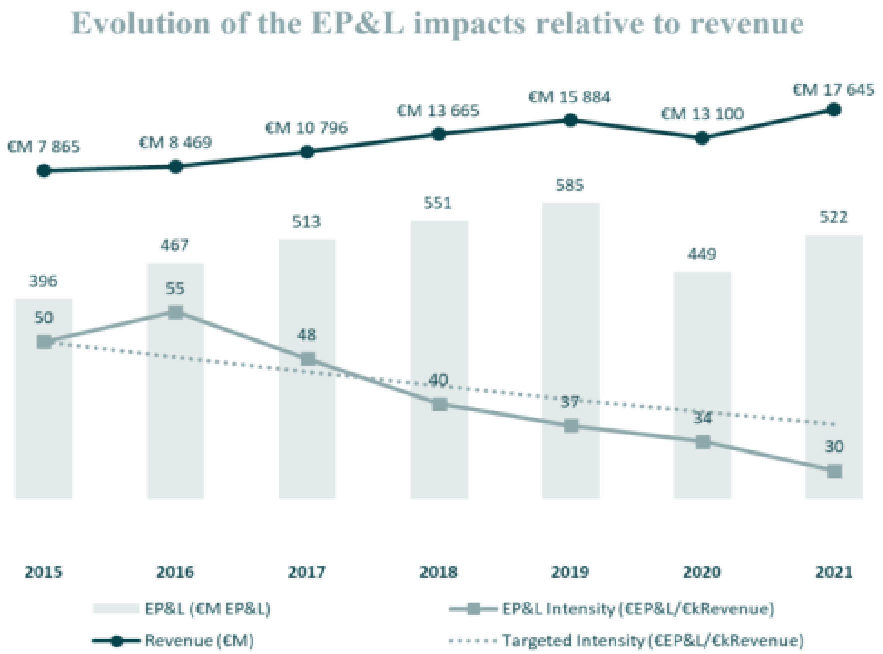


Figure 3. Kering EP&L by Value Chain Stages. *Source: Kering ESG Presentation, November 2022, p. 47.*

The table shows how Kering's environmental footprint is spread across the entire value chain.

- 86% of the impacts occur outside the company's direct operations (Scope 3).
- 66% are concentrated in raw material production and processing (T3 + T4).
- The most significant impact categories are greenhouse gas emissions (37%), land use (31%), and water pollution (12%).

This data highlights the strategic importance of upstream supply chain monitoring for both ESG compliance and risk mitigation in the luxury industry.



PROGRESS TOWARDS 2025 GOALS

41% reduction in our EP&L intensity between 2015 and 2021

→ Achieving Kering's EP&L target 4 years ahead of time

11% reduction in absolute terms between 2019 and 2021

Figure 4. Kering EP&L Intensity Trend 2015–2021*. Source: Kering ESG Presentation, November 2022, p. 47.*

The graph illustrates the evolution of Kering's EP&L intensity relative to revenue between 2015 and 2021.

- The group achieved a 41% reduction in EP&L intensity, reaching its 2025 target four years ahead of schedule.

This demonstrates improved environmental efficiency despite revenue growth, supporting corporate risk mitigation and compliance with CSRD and CSDDD reporting standards.

A further important element introduced in Kering's governance is the link between ESG performance and executive remuneration: about 20% of it is tied to ESG indicators. In addition, the incentive system for top management includes KPIs related to environmental and social sustainability, such as the use of certified materials, emissions reduction and gender equality. In this way, sustainability is translated into concrete, measurable and incentivised objectives, strengthening internal accountability and company's strategic coherence. Finally, in response to the obligations introduced by the CSDDD regarding sustainable due diligence, Kering has implemented a series of tools for supply chain monitoring. These include a **Supplier Charter,** which imposes minimum sustainability standards on suppliers, who are periodically checked. It is an ESG data collection system that involves the entire supply chain, material traceability and mapping projects that allow the company to verify the origin and environmental impact of the raw materials used (cotton, wool, leather). This control system is consistent with the Directive's obligations to identify, prevent and mitigate environmental and social risks. Overall, the Kering model represents a positive benchmark of ESG compliance in the luxury sector, where sustainability is treated as a strategic asset and is integrated into all corporate dimensions: governance, operations, value chain, and reporting. This clearly demonstrates, in light of the new European standards, that CSR can serve not only as a reputational tool but also as a driver of sustainable competitiveness, based on responsibility, transparency and consistency.

Unlike the highly centralized model adopted by Kering, the LVMH Group offers a more complex and decentralized approach, which provides interesting insights into ESG governance. In 2021, LVMH adopted the LIFE360 environmental strategy, which was updated in 2024.[54] The programme is based on four pillars: *creative circularity*, *biodiversity*, *climate*, traceability & transparency; and it is designed to integrate sustainability into all the activities of the group and its Maisons, setting measurable environmental and social targets aligned with EU sustainability objectives. The LVMH model stands out for its strong strategic ambition, but also for its greater organizational complexity.[55] This complexity derives in part from the group's size – which includes more than 75 Maisons operating in all six major luxury business sectors, from fashion to cosmetics, from wines and spirits to hotels, from jewellery to retail – and in part from its more decentralized governance structure, which allows a high degree of autonomy for the

[54] LVMH, "For the Environment," *LVMH*, https://www.lvmh.com/en/commitment-in-action/for-the-environment

[55] *LVMH, Social and Environmental Responsibility Report 2024 (Paris: LVMH, 2024)*.

individual operating entities. This makes it more difficult to achieve uniform standardisation of ESG practices and increases coordination costs. Although well structured, the sustainability governance model reflects this fragmented structure. The Board of Directors includes a *Sustainability & Governance Committee, which* assists in defining the ESG strategy and monitors its implementation, but the concrete execution is entrusted to a multi-level operating model. Central coordination is carried out by the **Environmental Development Department**, which reports to Antoine Arnault, member of the Board of Directors. This department works in close synergy with a network of around 200 "*environment correspondents*" located within the different Maisons. These individuals are employees responsible for communicating and implementing the LIFE360 guidelines within their respective business units, acting as a link between strategy and practice.

Their role is therefore essential in ensuring minimum environmental standards, but at the same time shows the difficulties of achieving full uniformity given the group's complexity. LVMH also made significant progress in non-financial reporting. The 2024 Sustainability Report adopted, for the first time, a double materiality analysis, conducted with the support of a third-party company, in accordance with the European Sustainability Reporting Standards (ESRS). The ESG information contained in the report has been subject to external assurance by Deloitte, in line with the obligations introduced by the CSRD. An entire committee has been dedicated to the latter, the CSRD Committee, which has the function of ensuring the group's compliance with the CSRD. This committee functions as a task force within a broader structure that oversees the group's ESG practices in their entirety.

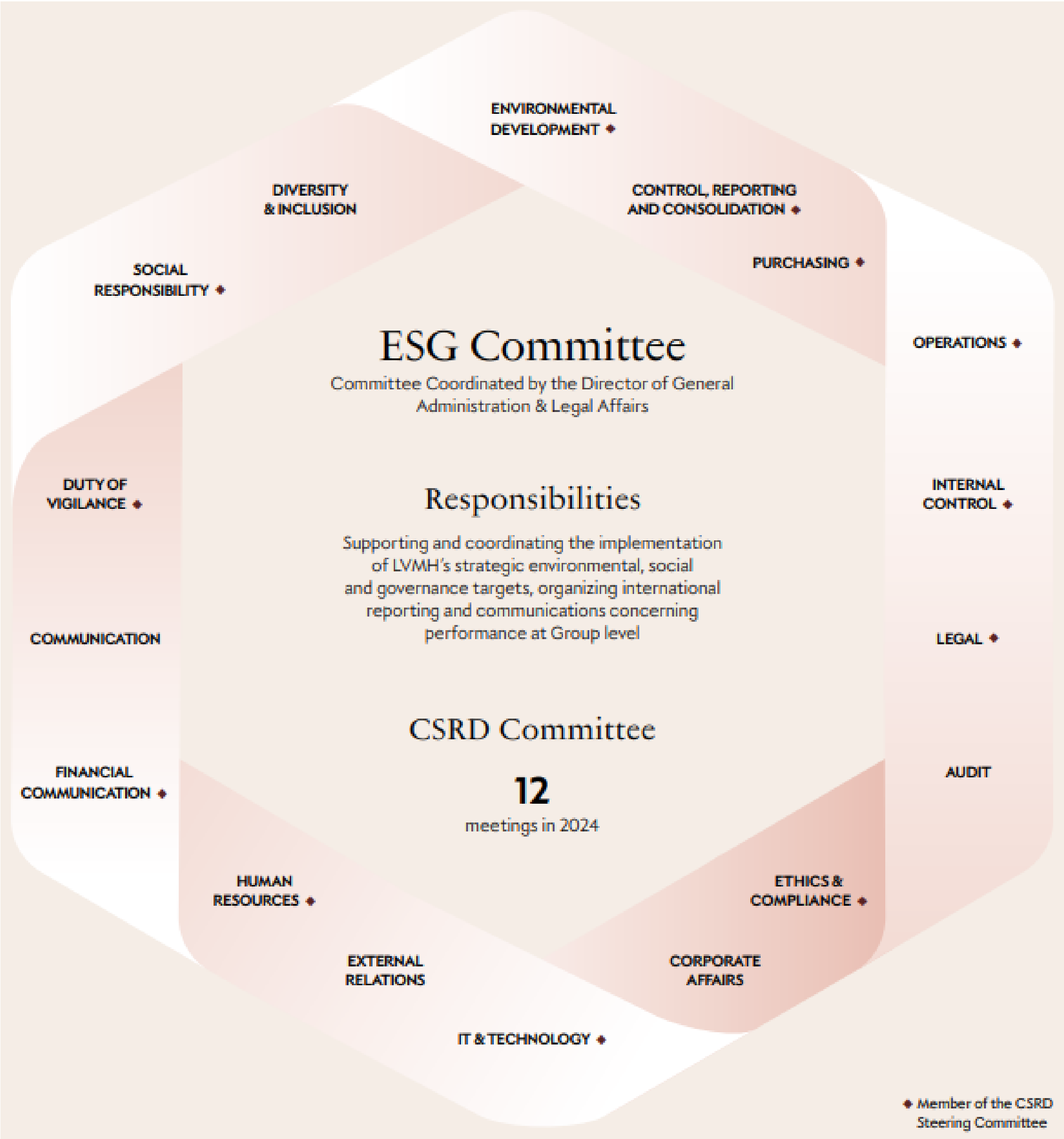


Figure 5. LVMH ESG Committee Structure (LIFE 360 Programme). *Source: LVMH, Social and Environmental Responsibility Report, November 2024, pp.26-27.*

In terms of transparency, LVMH has sought to solve the problem of traceability, at least in part, by implementing innovative digital solutions, such as the Digital Product Passport for consumers, and platforms like Guerlain's "*Bee Respect*", which enable the visualisation of the full life cycle of products. However, this practice is not applied across all products categories, or brands within the group. One of the strengths of the LVMH model lies in internal training of employees: with the launch of the **LIFE Academy Campus** in 2024 and numerous courses focused on the ecological transition; the group is promoting a cultural change that starts from within. However, even in this case, the actual impact of the initiatives varies depending on the Maison and its capacity for operational integration. As for incentives, LVMH, similarly to Kering, has introduced a correlation between ESG performance and top management remuneration, which is still subject to a progressive extension. The CEO and Group Managing Director receive a variable portion of the annual bonus linked to the objectives of the LIFE360 programme. Finally, in the field of due diligence, and in order to comply with the European CSDDD, LVMH established a dedicated *duty of vigilance* governance structure in 2024. In particular, *Duty of Vigilance Committees* were created, alongside a central department entirely devoted to supervision, with the task of coordinating risk assessments, standardizing procedures, and implementing action plans. At the same time, the contractual code of conduct for the supply chain, now renamed the ***Supplier and Business Partner Code of Conduct***, was reviewed. The rationale behind this was to strengthen the ethical standards that suppliers must follow, to introduce an obligation for business partners to ensure compliance with the same criteria across the entire supply chain and thus ensure adherence to the legal obligations established by the CSDDD. In short, LVMH represents an evolving CSR model: ambitious in content and aligned with the European regulatory framework, but still partially fragmented in its execution. Whereas Kering has already integrated sustainability as a cross-cutting strategic lever, LVMH is building a multi-level system that, if well-coordinated, could become a best practice. The LVMH case therefore demonstrates that the implementation of CSR in luxury industry depends not only on strategic intent, but also on the ability to manage the organizational complexity from within. These examples show how proactive companies have transformed CSR into structured governance models, institutionalising sustainability through internal audits, ESG committees and risk management systems. The legal goal of this mechanism is trying to anticipate compliance with upcoming regulations, reducing exposure to reputational and legal risks.

Conversely, the sector also reveals cases of failure. Within the group of LVMH, the case of **Christian Dior Couture** is an emblematic example of the critical issues that can emerge when CSR is not effectively implemented but remains confined to a purely communicative dimension. Dior, LVMH's second-largest fashion brand, is an emblematic example of failure in the implementation of CSR. In several cases it has represented a real example of misleading and outdated ESG communication, which in turn has led to a number of negative consequences for the brand, from legal risks to reputational damages, both from the point of view of consumers and competitors. This demonstrates how CSR can evolve from a voluntary strategy into a legal lever, particularly when a company's failure to comply with ESG statements results in such consequences.

This was particularly the case of Manufactures Dior S.r.l., which in 2024 had been placed under judicial supervision – later suspended – by the Court of Milan for one year, due to alleged labour exploitation.[56] Manufactures Dior S.r.l. is an Italian company controlled by Christian Dior Couture, responsible for the production of leather goods, shoes and *ready-to-wear*. According to the court, the company *failed to prevent and stem phenomena of labour exploitation in the subcontracted companies and therefore failed to combat the phenomenon of illegal intermediation.* In particular, the products were manufactured in Chinese workshops employing workers illegally, without proper safety conditions. The contracting company had not carried out adequate due diligence checks along the entire supply chain, including on third-party suppliers. This is directly connected to the *"prevent–mitigate–minimise"* principle outlined in Articles 10 and 11 of the CSDDD, and to the obligation of monitoring business partners and suppliers, even indirectly, if their actions are likely to cause serious harm to people or the environment. As a result, widespread discontent arose among consumers, who were paying premium prices to buy a Dior bag, while the company itself was paying as little as 2% of the final retail price, highlighting the disproportion between extreme profit margins and labour exploitation. This clearly undermined customer trust in the brand. The case ended at the end of February 2025, after seven months, when the court revoked the special regime in advance, having acknowledged the company's corrective measures: Dior terminated contracts with high-risk suppliers, hired new staff focused specifically on compliance, supply chain supervision, and ethical production standards.[57] The shortcomings of Dior's internal oversight system demonstrate that CSR, if not supported by binding legal instruments and effective enforcement mechanisms, can fail in its function of preventing

[56] Editorial staff, "L'azienda di moda Manufactures Dior è stata messa in amministrazione giudiziaria per presunto sfruttamento del lavoro" , *The Post*, 10 June 2024, https://www.ilpost.it/2024/06/10/manufactures-dior-amministrazione-giudiziaria-presunto-sfruttamento-lavoro/

[57] Editorial staff, "Manufactures Dior fuori dall'amministrazione giudiziaria" , *Pambianco News*, 3 March 2025, https://www.pambianconews.com/2025/03/03/manufactures-dior-fuori-dallamministrazione-giudiziaria-433475/

legal and reputational risk. Given the circumstances, the same public statements and materials issued by Christian Dior Couture S.A. Italia, were later reviewed by the **Italian Competition Authority (AGCM),** which initiated an investigation into possible violations of Articles 20 and 21 of the Consumer Code.[58] The suspicion was that Dior's public declarations on ethical and social responsibility were potentially misleading or did not correspond to the working reality of suppliers, particularly in the leather goods sector. In May 2025, the AGCM closed the investigation without confirming any formal violation of law, but accepting and making binding the corrective commitments proposed by Dior to address the identified issues, namely:[59]

- **2 million euros allocated over 5 years** to finance initiatives aimed at identifying and supporting victims of exploitation in the Italian fashion supply chain, also open to other brands.
- **Review of ethical statements** and more reliable disclosure of social responsibility commitments.
- **Updated procedures** for the selection and monitoring of suppliers and subcontractors.
- **Internal training** on consumer law for marketing and communication teams.
- **External training** for suppliers on labour law and the Dior Group's Code of Ethics.

The agreement aimed to increase the transparency and accuracy of the company's communications, empowering internal stakeholders and reinforcing the due diligence system throughout the supply chain. This triggering event led the AGCM to adopt a series of broader interventions against greenwashing practices among Italian and luxury companies, with the aim of addressing unfair commercial practices based on misleading ethical claims, even when such claims boasted environmental or social practices without

[58] Francesco Anglani and Stefano Grassani. *Formulario di impegni – Case PS12805 Dior Sustainability (Annex to AGCM Decision No. 31548)*. Autorità Garante della Concorrenza e del Mercato (AGCM). Rome, 2024.
[59] AGCM, "*PS12805 - The Italian Competition Authority secures 2 million euro over 5 years from Dior for victims of labour exploitation*," *Autorità Garante della Concorrenza e del Mercato*, Rome, 6 May 2025, https://en.agcm.it/en/media/press-releases/2025/5/PS12805

real foundation.[60] Also in 2024, Dior found itself at the centre of controversy in United Kingdom.[61] In particular, the Dior UK website reported an outdated statement on the *Modern Slavery Act* (2015) for both 2021 and 2022. This legislation requires companies with certain turnover to publish on their websites *"the steps they are taking to combat forced labour in their business and supply chains globally."* In addition, Dior's website also showed a so-called *Butterfly Mark*, a certification awarded by Positive Luxury – a sustainability mark for the luxury sector, which was no longer valid for the current year. The important British news agency, Reuters, investigated and reported these issues, alerting investors, particularly in light of Dior's simultaneous legal exposure in Italy due to the ongoing judicial investigation. It was only following this media coverage that the site removed the certification and published *a 2023 Modern Slavery Statement*. The French Maison part of the LVMH Group, also announced a training plan for employees of Christian Dior UK, aiming to raise awareness of the Modern Slavery Act and "*to encourage them to take action if they suspect wrongdoing*".

The Dior case represents the concrete manifestation of the contradictions between the official ESG narrative of the LVMH Group, of which it is part as expressed in the Sustainability Reports, and the actual practice that emerged through its violations.[62] Here, CSR serves merely a storytelling function, without fulfilling any effective role in risk management. LVMH builds in its reports what some scholars refers to as a "*corporate fairy tale*", presenting itself as a hero saving the planet through sustainable luxury, an environmental vision, and ethical leadership. There is a global problem (the climate crisis), a protagonist (LVMH), magic solutions (LIFE 360, green innovations) and a happy ending. The obvious consequence is that such narrative while having strong reputational and image-building power, merely conceals structural weaknesses in sustainability governance. This becomes evident from the nature of the indicators used,

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[60] AGCM, *"PS12793-PS12805 - Italian Competition Authority: investigation launched against Armani and Dior group companies for alleged unfair commercial practices," Autorità Garante della Concorrenza e del Mercato*, Rome, 17 July 2024, https://en.agcm.it/en/media/press-releases/2024/7/PS12793-PS12805

[61] Helen Reid and Mimosa Spencer, 'LVMH's Dior Lagged in Supply Chain Disclosure, Made Outdated ESG Claim', *Reuters*, 6 August 2024, https://www.reuters.com/business/retail-consumer/lvmhs-dior-lagged-supply-chain-disclosure-made-outdated-esg-claim-2024-08-06/

[62] Annamma Joy, Joanne Roberts, Bianca Grohmann, and Camilo Peña, 'Confronting Climate Crisis through Corporate Narratives: The Fairy Tale in LVMH's 2020 and 2021 Social and Environmental Responsibility Reports', *Luxury: History, Culture, Consumption,* Vol. 10, nos. 1–2 pp. 81–118. 11 December 2023. https://doi.org/10.1080/20511817.2023.2280321

which are often unclear, unmeasurable or unverifiable, reporting ESG outcomes that are equally ambiguous and partial. What tends to be prioritised is the symbolic dimension, the image, frequently celebrated with words rather than with real-time data. It follows that cases like Dior should not be very surprising, since: if CSR is used as a solely narrative strategy rather than an operational lever supported by binding tools and clear accountability, it becomes ineffective in addressing environmental crises, deprived of its preventive and managerial function, and disconnected from reality. However, these episodes underscore the vulnerability of intangible assets in luxury: what is legally defensible may still be reputationally catastrophic, and in today's regulatory environment reputational harm often triggers legal consequences. Legally, the key evolution lies in the institutionalisation of ESG governance. Mechanisms once considered voluntary best practices, are now becoming mandatory under the CSRD and CSDDD. This shift transforms CSR from an optional reputational strategy into a compliance imperative, where failures may expose directors to liability. The consequences in M&A practices are evident: successful CSR integration, supported by measurable standards, strengthens the credibility of disclosures and facilitates due diligence, increasing a target's value. Conversely, failures force acquirers to discount reputational and legal risks, negotiate broader warranties, or even withdraw from transactions. In this sense, the "successes and failures" of CSR in luxury are not only matters of public perception, but central variables in the legal and economic structuring of extraordinary operations.

2.2. Luxury's challenges and responsibilities in ESG

After analyzing how luxury brands build CSR internally, it is important to consider the external and cultural scope of the sector, which amplifies both responsibility and risk. Despite being based on the value of exclusivity and operating with limited production volumes, the luxury sector faces structural challenges in integrating ESG principles into its business model. . Its relevance in ESG themes does not derive solely from its direct or indirect environmental and social impacts, but also from the symbolic and cultural capital it holds on to a global scale. Luxury is an aspirational model worldwide, characterized by high media visibility and a strong imitative influence, which amplifies the consequences of brand choices. Its public visibility generates a multiplier effect: the practices and messages conveyed by this sector influence not only its own consumers, but also those of other market, including fast fashion. It is precisely for its influence that the luxury industry can represent the main actor of a necessary and systemic change in terms of CSR.[63]

An emblematic example of this dynamic is the phenomenon of ***conspicuous consumption***. In the luxury sector, different consumer profiles coexist: some buy luxury goods for personal enjoyment (*self-indulgence*), others for signalling status and prestige through an ostentatious consumption. Social media significantly amplify this trend: the sharing of content related to conspicuous consumption feeds imitative desires and shapes the *purchasing intentions* of observers, through three main psychological variables: *personal consumer involvement*, *personal image representation* and *shared satisfaction*. The resulting imitative effect often feeds into unsustainable logic, as consumers only replicate luxury aesthetics without considering its underlying ESG values, favouring goods that appear expensive rather than ethical or responsible. The result is market pressure that favours *green marketing* practices without real supply chain transformation. However, it is precisely from this symbolic centrality that the greatest opportunity may arise, transforming sustainability into a long-term strategic vehicle. Luxury therefore exerts a cultural influence disproportionate to its economic weight, a phenomenon also known as *cultural overexposure*.[64] While this condition provides an advantage in terms of visibility, it also involves high responsibilities and significant reputational risks, which can quickly translate into economic and financial damage. As highlighted by McKinsey sustainability is not yet a strategic lever fully adopted by all brands, but companies that do not integrate ESG risk suffering damage to their image and loss of value. Furthermore, it cannot be ignored that this public exposure is accompanied by considerable economic resources, which impose a duty of consistency between image and operational reality. The luxury sector stands out for its remarkable economic resilience, having been able to expand even in periods of deep crisis, such as during the COVID-19 pandemic. In recent years, it has recorded average growth rates of **+5% per year between 2019 and 2023**, two percentage points higher than global GDP. This expansion was not driven by higher volumes but by the constant increase of selling prices (+4% year-on-year), which

[63] İbrahim Halil Efendioğlu, 'The Impact of Conspicuous Consumption in social media on Purchasing Intentions', *Journal of Business Research-Turk* Vol. 11, no. 3.2019 pp. 2176–2190. https://doi.org/10.20491/isarder.2019.732

[64] McKinsey & Company and The Business of Fashion, *The State of Fashion: Luxury* (2025), slides 6–15.

strengthened the exclusivity of the brands. However, a strategy based solely on exclusive growth, is profitable but raises questions from an ESG perspective: the luxury brands that are more visible and capitalized today can no longer justify a lack of sustainable action by citing the scarcity of resources, being fully capable of investing in innovation and social responsibility.

However, the symbolic centrality of luxury is accompanied by profound contradictions, which raise questions about the actual environmental and social impact of the sector. Within the luxury market, the most heavily and consistently criticised sector is undoubtedly fashion.[65] Environmentally, luxury fashion is often perceived as non-essential and potentially harmful, due to the use of rare and non-renewable materials, such as exotic animal skins, gemstones and precious metals. The extraction and farming of these resources have significant environmental impacts: deforestation, loss of biodiversity, soil and water pollution, alteration of local ecosystems. Some brands, such as Hermès, have acquired directly crocodile farms or cashmere farms in Australia and Japan, with the aim of ensuring the constant availability of strategic raw materials for their iconic products. This illustrates that the rarity of these resources is both a distinctive element and a potential risk. Socially, luxury raises significant concerns which involves precarious working conditions, exploitation in production countries, irregular subcontracting and limited social inclusion. The historical practice of extensive outsourcing has reduced direct control by brands over production processes, making it more difficult to carry out effective due diligence and increasing the risks of human rights violations, including cases of irregular and illegal labour, even within certified *"Made in Italy"* supply chain.

A further structural problem is the lack of traceability along the entire supply chain, which is both in the production phase – where indirect emissions (*Scope 3*) are among the highest and least disclosed in the sector – and in the distribution phase, aggravated by international transport and resource-intensive packaging. In addition, there is also a general lack of transparency, as demonstrated by numerous emblematic cases reported in recent academic literature. The lack of traceability has favoured the emergence of

[65] Jacqueline Campos Franco, Dildar Hussain and Rod McColl, 'Luxury Fashion and Sustainability: Looking Good Together', *Journal of Business Strategy* Vol. 41, no. 4. pp. 55–61. 20 August 2019. https://doi.org/10.1108/JBS-05-2019-0089

particularly problematic phenomena, such as the **Grey Market.**[66] The latter, also known as *the parallel market,* refers to the trade in authentic products through unofficial distribution channels or not authorized by the original manufacturer. Unlike the *black market*, where products are counterfeit or illegal, in the *grey market* the goods are authentic, but they leave the official supply chain, compromising the brand's control. There are three main drivers of this phenomenon: (1) ***regional price disparities*** due to duties, taxes or differentiated pricing strategies between markets; (2) ***product scarcity*** and long waiting lists, which drive consumers towards alternative channels; (3) ***e-commerce and globalization***, which facilitate the bypassing of official channels. The consequences for the luxury market are significant: loss of revenues, margin compression, reputational damage and erosion of brand exclusivity. The problem also has implications for public authorities, which suffer tax losses and encounter *enforcement* difficulties, aggravated by regulatory divergence across jurisdictions: for example, the European Union has a more permissive regulation on parallel imports, while the United States adopts a more restrictive approach. A notable example of *grey market* is the ***Daigou Phenomenon***, which literally means "*buying on behalf of.*"[67] It is a common practice in the Chinese market, in which shopping agents buy overseas products that are unavailable, hard to find or that cost too much in China, to resell them domestically by exploiting price differences and poor traceability. This dynamic involves further risks of tax evasion and damage to the brand's image. In response to these critical issues, many luxury companies have embarked on a *retailization strategy:*[68] a progressive strengthening of direct sales to the end consumer through flagship or *mono-brand stores* and proprietary platforms, with the aim of replacing *wholesale* with *direct-to-consumer (DTC)* models. This allows them to reobtain control over *distribution channels*, both physical and digital, improve *brand governance* and traceability, and collect first-party consumer data.

Given these structural challenges, the **Triple Bottom Line** today serves as the key framework for assessing sustainability in the luxury sector, as well as being the guiding

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[66] Manas Sakthivel, K. Sahit Reddy, Mitesh Murthy, and Sandhya S, 'Unraveling the Grey Market: Impacts on Luxury Brands, Pricing and Exclusivity', *International Journal of Enhanced Research in Management & Computer Applications* Vol. 14, no. 2, pp. 19–24. 2 February 2025.
[67] Fanny Tang, 'In China, the Resale Market (Daigou) Is Impacting Luxury', *Luxury Tribune*, 30 May 2023, https://www.luxurytribune.com/en/in-china-the-resale-market-daigou-is-impacting-luxury
[68] Joëlle de Montgolfier (President, Global Retail and Luxury Practices, Bain & Company), 'Remarks during Inside LVMH course session', lecture, Inside LVMH, 2024.

principle of many European regulations on CSR.[69] On this basis, the priority challenges can be grouped into three dimensions:

1. **Social**: enhancement of workplace conditions, inclusive and philanthropic initiatives. (***People***)
2. **Environmental**: greater vertical integration and use of eco-sustainable or lab-grown or bioengineered materials. (***Planet***)
3. **Economic**: extension of the product life cycle through rental, second-hand and upcycling models. (***Profit***)

In relation to the economic dimension (*Profit*), circularity represents a strategic lever, but yet still far from being fully adopted in the sector. Historically, luxury has shown a lot of resistance to circularity, perceiving it as potentially incompatible with the exclusivity and prestige of the product. The industry has long been rooted in linear models of *take-make-dispose* and, in some cases, have involved the systematic destruction of unsold inventory. A case in point is that of Burberry, which in 2024 was harshly criticized for burning about 30 million euros of unsold garments, generating significant reputational damage. Subsequent investigations revealed that this practice was not an exception, but rather an established habit of the brand. The circular economy is now at the core of strategic considerations, driven by increasing regulatory pressures, including the proposed European **Eco-design for Sustainable Products Regulation (ESPR).**[70] Presented by the Commission in March 2022 as part of the 2020 *Circular Economy Action Plan*, the ESPR represents a regulatory breakthrough in the field of sustainability, with the aim of ensuring that all products placed on the European market compatible with the principles of the circular economy. Unlike instruments such as CSRD or CSDDD, which mainly target corporate behaviour to *foster corporate responsibility*, the ESPR acts directly on the product, introducing binding criteria concerning product design and end-of-life management. In fact, the Regulation extends eco-design requirements to almost all physical goods, with the aim of improving their durability, repairability, reuse, regeneration and recyclability. The **Digital Product Passport (DPP)** is also introduced:

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[69] Campos Franco, Hussain and McColl, 'Luxury Fashion and Sustainability', pp. 56-60.
[70] European Commission, 'Ecodesign for Sustainable Products Regulation (ESPR)', *European Commission*, https://commission.europa.eu/energy-climate-change-environment/standards-tools-and-labels/products-labelling-rules-and-requirements/ecodesign-sustainable-products-regulation_en

a tool that increases transparency along the value chain and has already been adopted by some luxury brands such as Dior and Loro Piana. The DPP provides detailed data concerning composition of the product, methods of maintenance, disposal, and any environmental and social statements. The European Commission will also be able to set specific mandatory requirements for each product category, including textiles, and require companies to justify the destruction of stocks, also providing for possible explicit bans in the future. The entry into force of the Regulation will be gradual, but the textile sector will be one of the first to be involved, starting from 2026 to 2027. The new regulatory framework will be accompanied by a strengthening of *market surveillance* and customs controls, with the aim of preventing the circulation of products that do not meet regulatory standards. Regulatory compliance has prompted luxury companies to accelerate the transition to more sustainable models by 2030, accelerating the adoption of circular practices such as *second-hand luxury*, which is now increasingly perceived not as a compromise, but as a new expression of the authenticity and timelessness of luxury.[71]

According to numerous studies, one of the most effective solutions to enhance the transition to the circular economy, is to create synergies with *lean management practices*.[72] Born within the *Toyota Production System*, and subsequently spread to multiple industrial sectors, these practices have proven to be extraordinarily effective in *enhancing capabilities*, exerting a "*positive impact on sustainability".* The goal of *lean management* is to reduce waste, improve production quality and optimize the use of resources, through a systemic approach capable of combining process innovation and reduction of environmental impact. However, the integration of these models still faces significant obstacles, both structural and cultural. Among the main ones: *limited technological infrastructure*, coordination difficulties along complex global supply chains and strong organizational resistance, which manifests itself particularly in luxury brands.

[71] De Montgolfier, *Inside LVMH* course session, 2024.
[72] Alessia Bilancia, Federica Costa and Alberto Portioli Staudacher, 'Achieving sustainability and circular economy in the luxury fashion industry through lean practices: A systematic literature review', *Computers & Industrial Engineering* Vol. 206. August 2025 No. 111107, pp. 1-9. https://doi.org/10.1016/j.cie.2025.111107

Anyway, the luxury transition is not driven solely by economic growth or regulatory pressure, but also by shifting consumer expectations.[73] The younger generations and consumers in Asian markets, who have supported the post-crisis recovery of the sector, are now the main agents of change, bringing with them new expectations regarding sustainability, inclusiveness and transparency.

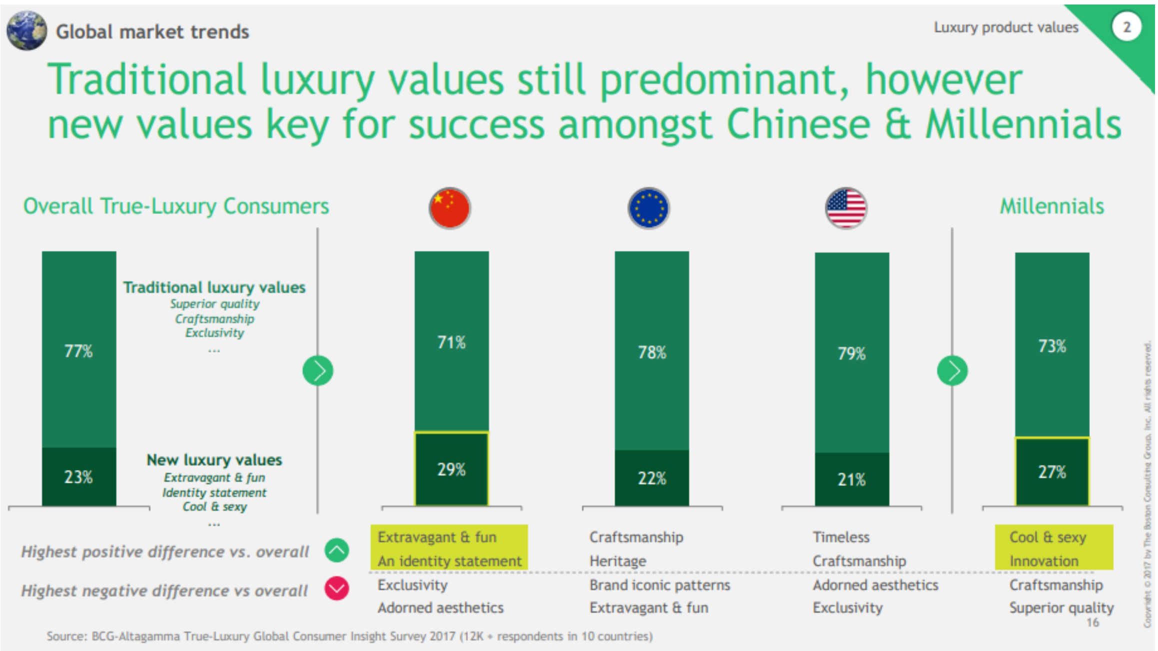

***Figure 6. New Values and Expectations of Luxury Consumers**. Source: BCG – True-luxury Global Consumer Insight – 5th Edition – Milan, February 20th, 2018, p.16*

The industry is therefore at a strategic crossroads: it must reconcile exclusivity and scarcity, core elements of its identity, with the growing ESG demands. After a phase of rapid expansion, the sector is experiencing a slowing growth and a loss of cultural legitimacy. The price increase is no longer supported by real innovations or a culturally relevant narrative, while growing concerns over the exploitation of labour and the progressive decline of craftsmanship emerge. As a result, the challenges to be faced are not only about economic expansion but are deeper, focused on redefining brand values and protecting reputation. We are thus witnessing the emergence of *value-driven* models, which place authentic and shared values at the centre of business strategy, going beyond the simple enhancement of *heritage* and nostalgic branding.

[73] McKinsey & Company and The Business of Fashion, *The State of Fashion: Luxury* (2025), slides14-15, 21–23.

This shift creates both opportunities and legal risks. On the one hand, luxury firms can align with consumer expectations by embedding sustainability into brand identity, thereby transforming CSR into a competitive advantage. On the other, failure to meet these expectations exposes firms not only to reputational backlash but also to legal consequences. The CSRD requires verifiable disclosure of ESG performance, while the CSDDD imposes civil liability for human rights or environmental violations along the value chain. What was once a matter of consumer preference is now embedded in binding legal standards.

To further complicate this scenario, the influence of fast fashion introduced logics of immediacy and rapid consumption even in the luxury segment.[74] *"Fast fashion relies on speed and output."* Unlike luxury fashion, which is traditionally structured around four seasonal collections (Fall-Winter, Cruise, Spring-Summer and Pre-Fall), fast fashion operates according to a weekly calendar, with new proposals every seven days. It is clear that a production model of this type is inherently neither ethical nor sustainable. However, it thrives because it aligns perfectly with the ever-changing desires of younger generations, increasingly attracted by ephemeral trends and instant gratification. This dynamic of rapid change forced luxury sector to adapt to new expectations. In response, many high-end brands have accelerated their production cycles, increasingly launching capsule collections, limited editions and collaborations with artists and celebrities. At the same time, they have strengthened their online presence to respond to the new market rule: *"everything, immediately."* However, this strategy has not always been managed in the best possible way and has often contradicted the founding values of luxury, undermining not only its exclusivity and perceived scarcity, but also its dimension of timelessness, and therefore brand equity. The growing tension is reflected in the *Paradox of luxury,* given that luxury brands to remain competitive, accelerate production and adopt fast fashion dynamics, but in doing so they risk compromising their core values and the credibility of their sustainability message. Yet, the apparent incompatibility between luxury and sustainability is contrasted with a structural truth:[75] the durability and craftsmanship of luxury make it naturally closer to sustainability than fast fashion. It is

[74] Danielle L. Illum, 'Fast Fashion, Luxury Fashion, and Their Sustainability Efforts' (Undergraduate Honors Thesis, University of Arkansas, 2024), pp. 8–16.
[75] Campos Franco, Hussain and McColl, 'Luxury Fashion and Sustainability', pp. 56-57.

precisely in this moment of transformation that luxury is enriched with new meanings, and consumers evolve from *conspicuous consumption* to ***conscientious consumption***. In other words, the answer to the paradox is clear: not only is sustainable luxury possible, but it represent a strategic imperative. The challenge for luxury firms is therefore to reconcile these conflicting logics. From a legal perspective, this means that compliance is not simply an administrative cost but a strategic necessity: violations can undermine brand equity, generate liability, and compromise the value of the firm in extraordinary transactions. The new consumer values act as a catalyst for regulatory enforcement. What consumers penalise reputationally, the legislator increasingly sanctions legally. In this sense, reputational risk in luxury is no longer separable from legal risk: both converge in shaping the conditions under which a brand can maintain legitimacy, attract investors and participate competitively in M&A.

2.3. Reputation and legal risk in luxury

After examining the structural and regulatory challenges of sustainability in luxury, it is necessary to focus on the most vulnerable yet strategic asset for brands: reputation. The strong media and cultural exposure that defines the luxury sector makes luxury brands particularly vulnerable to reputational risk. As previously noted, the image of a high-end brand relies on intangible and symbolic capital that incorporates brand identity values. In this context, even a single violation, real or perceived, of CSR standards can generate immediate reactions difficult to control: loss of image, erosion of *brand equity*, consumer disengagement, and, in the most extreme cases, boycott campaigns.

Illustrative case in point for these dynamics is that of Dolce & Gabbana in China, where an advertising campaign perceived as culturally offensive has unleashed a violent media and commercial backlash, with long-term effects on the brand's presence in one of the key markets for global luxury. In November 2018, Dolce and Gabbana had planned an important event in Shanghai called *The Great Show*, aimed at celebrating Italian culture and strengthening the brand's presence in the Asian markets.[76] A few days before the event, the brand published a series of short promotional videos on its social channels in

[76] Editorial staff, 'Dolce & Gabbana Cancels Shanghai Show after Chopsticks Ad Causes Uproar', *Reuters*, 21 November 2018, https://www.reuters.com/article/world/dolce-gabbana-cancels-shanghai-show-after-chopsticks-ad-causes-uproar-idUSKCN1NQ142/

which a Chinese model tried to eat iconic Italian dishes, using chopsticks. In the videos, the narrative voice in a deliberately ironic tone highlighted the "difficult" encounter between Italian refinement and Chinese tradition. What was intended to be a light-hearted campaign was immediately perceived by the local public as culturally offensive and stereotyping. Numerous users pointed out that the content reproduced a caricatured view of the Chinese and their culture, insinuating that they were unable to approach Western sophistication without being clumsy or ridiculous. Before long, the outrage turned into a widespread viral backlash on Chinese social media. The media pressure had immediate and tangible consequences.[77] Many Chinese celebrities and prominent influencers have publicly announced their exit from the show, while major local e-commerce platforms have progressively removed Dolce & Gabbana products from their digital catalogues. The company was forced to cancel the Shanghai event at the last minute, suffering incalculable damage to its image and significant economic losses, resulting in a significant drop in sales in Asia in the following months. A decisive element in the escalation of the crisis was the role of Diet Prada, a social profile followed by professionals and fashion enthusiasts all over the world, known for publicly denouncing controversial or inconsistent behaviour of luxury brands.[78] During the hours following the release of the videos, Diet Prada relaunched content and screenshots of presumed private messages from Stefano Gabbana, with a contemptuous tone towards China and its citizens. Although the fashion house later claimed that it was a hacked account, the public perception was devastating: the story of an elitist brand, culturally insensitive and disconnected from the local market imposed itself strongly in global public opinion. At this point, the crisis from a simple reputational episode has turned into real long-term economic and reputational harm. Dolce & Gabbana had to release a public video apology to the Chinese people. Despite the initiative, the brand has experienced a sharp drop in sales in China and has struggled for years to rebuild its credibility in the Asian market, testifying to the weight that the reputational aspects holds in luxury: a single mistake can produce persistent effects on brand value and consumer trust. However, for the purposes of this thesis, the most relevant implication is the legal implication. Following the

[77] Adam Jourdan, 'Dolce & Gabbana Founders Seek Forgiveness in China with Video Apology', *Reuters*, 23 November 2018, https://www.reuters.com/article/business/dolce-gabbana-founders-seek-forgiveness-in-china-with-video-apology-idUSKCN1NS0TS/

[78] Sindhu Sundar, 'Diet Prada Cofounders Push Back Against Dolce & Gabbana Suit', *WWD: Women's Wear Daily*, 5 March 2021, p. 6.

reputational collapse and the economic losses suffered, in 2019 Dolce & Gabbana filed a civil defamation lawsuit before the Court of Milan against the founders of Diet Prada, Tony Liu and Lindsey Schuyler, accusing them of orchestrating an international reputational attack and seeking compensation of approximately €4 million. Three million in favour of the company and one in favour of Stefano Gabbana in his personal capacity, for loss of revenues and damage to brand image. Diet Prada's defence is supported by the *Fashion Law Institute* of Fordham Law School, which framed the case not only as a commercial dispute, but also as a matter of freedom of critical expression in fashion, arguing, among other things, that the Court of Milan was not the competent judge to decide the lawsuit filed by the brand, given that the boycott had taken place in China and that Diet Prada is an American business. The status of the lawsuit is still pending, with no final ruling resulting, while Dolce & Gabbana's reputational and economic damage has continued to grow with estimated losses of up to 20% of the company's total revenue and estimated annual costs of €150 million just to counteract the effect of the damaged image.[79] This story represents a paradigmatic case of how, in the luxury sector, a CSR event perceived as a violation can evolve according to a well-defined trajectory:

- **Stage 1 - Reputational phase**: public outrage and loss of consumer confidence.
- **Stage 2 - Economic phase:** collapse of sales, boycotts and termination of strategic partnerships.
- **Stage 3 - Legal phase**: lawsuits for defamation, financial damages, possible regulatory interventions or sanctions in cases of green/social washing.

In such high-exposure context, Dolce & Gabbana's experience demonstrates the critical need to integrate governance and risk management systems capable of preventing and mitigating these risks. In ESG era, reputational risk is increasingly intertwined with legal risk: failures in sustainability are no longer punished only by consumer backlash, but also by regulatory enforcement and potential liability. These instruments become strategically relevant mostly in extraordinary transactions, as will be explored in Chapter 3, where the

[79] Lucil Aguada, "The High Cost of Racism in High Fashion: A Case Study on Dolce & Gabbana's Cultural Appropriation," *About Resilience*, 16 May 2023, https://www.aboutresilience.com/high-cost-of-racism-in-high-fashion-a-case-study-on-dolce-and-gabbanas-cultural-appropriation/.

value of a luxury brand increasingly depends on its ESG conduct and the strength of its intangible capital.

This convergence of risks is illustrated by greenwashing and social washing. When companies exaggerate or misrepresent their sustainability efforts, they not only undermine stakeholder trust but may also breach disclosure obligations under the CSRD or due diligence duties under the CSDDD. What once amounted to reputational damage can now trigger civil liability, fines, and litigation. In recent years, for example, several brands have been involved in proceedings launched by the *Italian Competition Authority* (AGCM) for unfair commercial practices related to greenwashing or social washing practices, i.e. exaggerate or misrepresent their sustainability efforts. In cases of unfair or misleading commercial practice, the AGCM has the power to prohibit or stop a specific conduct pursuant to Article 27, paragraphs 3 and 4 of the Consumer Code (Legislative Decree 206/2005). In particular, it can:

- **Open an investigation** to ascertain the impropriety of the communication, ex officio or following a report by consumers, competitors, or associations.
- **Prohibit the practice** with an immediately enforceable measure, such as the removal of the misleading environmental or social claim from marketing campaigns, social media platforms or corporate websites.

If deemed necessary, according to paragraph 8 of Article 27, the Authority may impose a series of supplementary measures such as publishing the decision or emitting the corrective statements. Under Article 9, the Authority may impose fines up to €5 million, depending on the severity and duration of the conduct, the potential effect that it has or could have on consumers and the economic size of the trader. Once the sanction becomes public, this may turn a legal issue into a reputational crisis for the brand. This is the case of Giorgio Armani S.p.A., which in 2025 was sanctioned with a €3.5 million fine for misleading social responsibility claims (social washing).[80] The company communicated on its official website its commitment to worker protection, attention to the supply chain and social responsibility, and compliance with codes of ethics and ESG standards.

[80] AGCM, *"PS12793 – Italian Competition Authority: Fine of 3.5 Million Euros on the Companies Giorgio Armani S.p.A. and G.A. Operations S.p.A. for Unfair Commercial Practice,"* Autorità Garante della Concorrenza e del Mercato, Rome, 1 August 2025, https://en.agcm.it/en/media/press-releases/2025/8/PS12793.

However, these communications were found to contradict the actual conditions identified along the supply chain: from subcontracted workshops in Italy run by Chinese operators, to the lack of adequate supervision and regular working conditions. The immediate obligation for the company was to remove the misleading claims and publish the AGCM's decision across its official channels. It can be said that the sanction had a double impact: both financial and reputational.

[81]At the same time, risks related to the supervision of the production chain are increasingly subject to judicial scrutiny, made even more significant the due diligence obligations introduced by the CSDDD. Luxury brands, especially those in fashion segment, often produce in Italy through subcontractors, and it is precisely on these subcontracting chains that labour exploitation, illegal hiring or irregular work emerge. Brands also often fail to conduct adequate due diligence, sometimes not preventing illegal behaviour. Then, the court intervenes by ordering judicial administration, and therefore with the appointment of a court-appointed commissioner to control production, supply chain and contractual arrangements, without blocking the activity which is however placed under control. Obviously, in these cases, the company must review compliance procedures and has remediation obligations. This is the very recent case of Loro Piana, which in July 2025, similar to Dior Manufactures, was placed under judicial administration for 12 months by the Court of Milan.[82] The investigation found that the fashion house did not have an adequate due diligence and monitoring system, and that in its supply chain it had subcontracted workshops managed by Chinese operators, in which irregular workers or illegal immigrants produced the goods working 90 hours a week, paid 4 euros an hour, in precarious hygienic conditions and total absence of basic safety measures. Similarly, Valentino, through its subsidiary Valentino Bags Lab S.r.l., was involved in a similar investigation, still in Milan in May 2025.[83] The checks revealed

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[81] Dr. Hoffmann, Sonja, Clare Connellan, Carolin Kuehner, Dr. Pia Kremer,*'Luxury and ESG: Navigating the new EU legal landscape for the fashion and luxury goods industry'* 30 August 2024, https://www.whitecase.com/insight-alert/luxury-and-esg-navigating-new-eu-legal-landscape-fashion-and-luxury-goods-industry

[82] Emilio Parodi, *"LVMH's Loro Piana Put under Court Administration in Italy over Labour Exploitation,"* 14 July 2025, https://www.reuters.com/business/retail-consumer/lvmhs-loro-piana-put-under-court-administration-italy-over-labour-exploitation-2025-07-14/

[83] Emilio Parodi, *"Valentino Unit Put under Court Administration in Italy over Labour Exploitation,"* 15 May 2025, https://www.reuters.com/business/retail-consumer/valentino-unit-put-under-court-administration-italy-over-labour-exploitation-2025-05-15/

subcontracts to unauthorised workshops, showing insufficient monitoring by the parent company. Even here, the company has been placed again under judicial administration for a year, with the appointment of commissioners to oversee the supply chain and implement corrective actions to strengthen internal controls.

In conclusion, the analysis of the recent events involving the luxury sector shows how the reputational risk linked to CSR of a certain company, is not an abstract notion, but a legally relevant variable. These episodes demonstrate how reputational crises rapidly evolve into legal disputes, threatening brand equity. Reputation thus emerges as a measurable asset tied to legal compliance and risk management, a factor that not only affects daily governance but also plays a decisive role in extraordinary M&A transactions. The valuation of a luxury target now depends heavily on the credibility of its ESG performance. With investors, stakeholders, and regulators placing growing emphasis on sustainability disclosures, third-party assurance, and detailed supply chain due diligence. Where such guarantees are absent or unreliable, transactions may require broader indemnity clauses, reduced valuations or even withdrawal. In this sense, reputation functions as both an asset and a liability: it can enhance a firm's value when supported by credible compliance or erode it when undermined by legal and ethical controversies. . Chapter 3 will explore these aspects in greater detail, analyzing concrete case studies to assess how reputational risk, as well as social and environmental concerns, shape M&A transactions in the luxury sector – affecting strategic decisions, brand value and the overall transaction success.

3. Introduction to M&A practices

The luxury industry is particularly exposed to reputational dynamics, as brand equity is largely based on symbolic and intangible values rather than tangible assets. In this context, Corporate Social Responsibility (CSR) is not only a reputational driver but also a critical factor in ensuring business continuity and protecting intangible value. While the first two chapters of this thesis have analysed CSR as a strategic and legal framework, this section turns to its practical implications for extraordinary corporate transactions. In mergers and acquisitions (M&A), where valuation and negotiation depend heavily on risk assessment, reputational risks associated with CSR have become increasingly relevant. Reputational risks linked to social or environmental issues can influence the valuation of a target company, alter negotiations or even compromise the outcome of the transaction.

Recent literature has demonstrated that CSR and ESG practices play a significant role in corporate value and in shaping investor decisions. These practices are increasingly integrated into organizational processes and directly affect long-term financial performance and capital market attractiveness.[84] Empirical evidence shows that firms with stronger CSR frameworks benefit from higher trust among stakeholders, more resilient governance structures, and improved market performance, all of which enhance their attractiveness in M&A scenarios. At the same time, the M&A literature underlines that a substantial share of transactions fail to deliver the expected value because the parties underestimate the role of intangible factors such as reputation and stakeholder perception.[85] When reputational vulnerabilities are not properly addressed during the transaction, synergies often remain unrealised, and the acquisition premium turns into a destruction of value. This demonstrates that CSR and reputational capital cannot be treated as ancillary aspects of M&A, but as core variables that determine whether transactions create or destroy value. In other words, CSR credibility sustains reputation, reputation underpins valuation, and valuation ultimately drives the success of the deal. From a legal point of view, CSR has progressively moved from voluntary codes of

[84] Robert G. Eccles, Ioannis Ioannou, and George Serafeim, *"The Impact of Corporate Sustainability on Organizational Processes and Performance," Management Science Vol.* 60, no. 11. pp. 2835–2857. November 2014.
[85] Mark L. Sirower and Sumit Sahni, *"Avoiding the 'Synergy Trap': Practical Guidance on M&A Decisions for CEOs and Boards," Journal of Applied Corporate Finance* Vol. 18, no. 3, pp. 83–95. 1 March 2023. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=962507

conduct to an element of corporate accountability.[86] Within the European framework, CSR principles are increasingly embedded into corporate governance and compliance duties, consequently shaping the legal structure of transactions and the way risks are allocated between the parties. Professional reports confirm this trend in practice: the latest data indicate that ESG and sustainability considerations are now a central component of M&A due diligence.[87] Beyond traditional financial and legal checks, acquiring companies systematically assess environmental impact, labour conditions, human rights, and governance mechanisms, as reputational risks in these areas can materially affect valuation of the target or even jeopardise the transaction.

Despite this growing recognition in both academic and professional literature, little research has addressed the triangular relationship between CSR, reputational risks and M&A in sectors where intangible assets are predominant. The luxury industry, in particular, remains unexplored, even though the market value of its companies is almost entirely intangible. In this context, neglecting CSR-related risks means undermining not only consumer trust but also the legal and financial stability of acquisitions. Against this background, the main research question of this thesis is: ***How does CSR-related reputational risk affect mergers and acquisitions in the luxury sector?***

To address this question, the chapter adopts an empirical approach based on case studies of recent M&A operations in the luxury sector. The analysis combines a corporate law perspective with the examination of reputational and CSR-related factors, in order to assess how they shape the structure, negotiation, and success of transactions. The chapter is structured as follows: Section 3.2 discusses how reputational risk and CSR are addressed in M&A transactions from a corporate law perspective, focusing on legal instruments such as due diligence, representations and warranties, material adverse change clauses, and post-closing covenants. Section 3.3 presents a set of case studies from different segments of the luxury industry, ranging from fashion to jewellery, cosmetics and hospitality, to illustrate the concrete impact of CSR-related risks on M&A operations. Section 3.4 develops a critical reflection on the increasing financialization of luxury and

[86] Leyens, "Corporate Social Responsibility in European Union Law," pp. 157–176
[87] PwC Japan, *The Importance of ESG and Sustainability in M&A* (Tokyo: PwC, September 2022), https://www.pwc.com/jp/en/knowledge/thoughtleadership/assets/pdf/sustainability-ma-report-2022.pdf

its tension with CSR principles, while Section 3.5 highlights the main limitations and implications of the analysis.

3.1. CSR and reputational risk in M&A: a corporate law perspective

In M&A transactions, not only financial and corporate aspects matter, but also CSR and reputational profiles, which today have a direct impact on the value and stability of deals. These risks must be managed through legal instruments such as due diligence, contractual clauses, and risk allocation mechanisms. A research study conducted by BCG together with the law firm Gibson, Dunn & Crutcher LLP interviewed 120 global dealmakers, including private equity funds, large corporations, and legal and financial advisors, in order to understand how ESG factors are treated in M&A operations.[88] More than 70% of respondents declared that ESG considerations have now become a stable part of their due diligence checklists, making ESG due diligence a central element alongside financial and legal due diligence. ESG due diligence is therefore no longer seen as a "nice to have" element. Its impact on deal value is also fundamental, since it can preserve or even create up to 10% of the transaction value. This result is achieved through instruments such as:

- **Price adjustments**, i.e., reduction of the purchase price if ESG risks emerge.
- **Indemnities**, seller's obligations to indemnify the buyer if ESG risks materialize after the closing.

[88] Ferdinand Fromholzer, Dirk Oberbracht, Jan Schubert, Jens Kengelbach, Jana Herfurth, and Dominik Degen, *"The Payoffs and Pitfalls of ESG Due Diligence," Harvard Law School Forum on Corporate Governance,* 15 May 2024, https://corpgov.law.harvard.edu/2024/05/15/the-payoffs-and-pitfalls-of-esg-due-diligence/

- **Deal restructuring**, renegotiation of clauses or of the overall structure of the transaction.

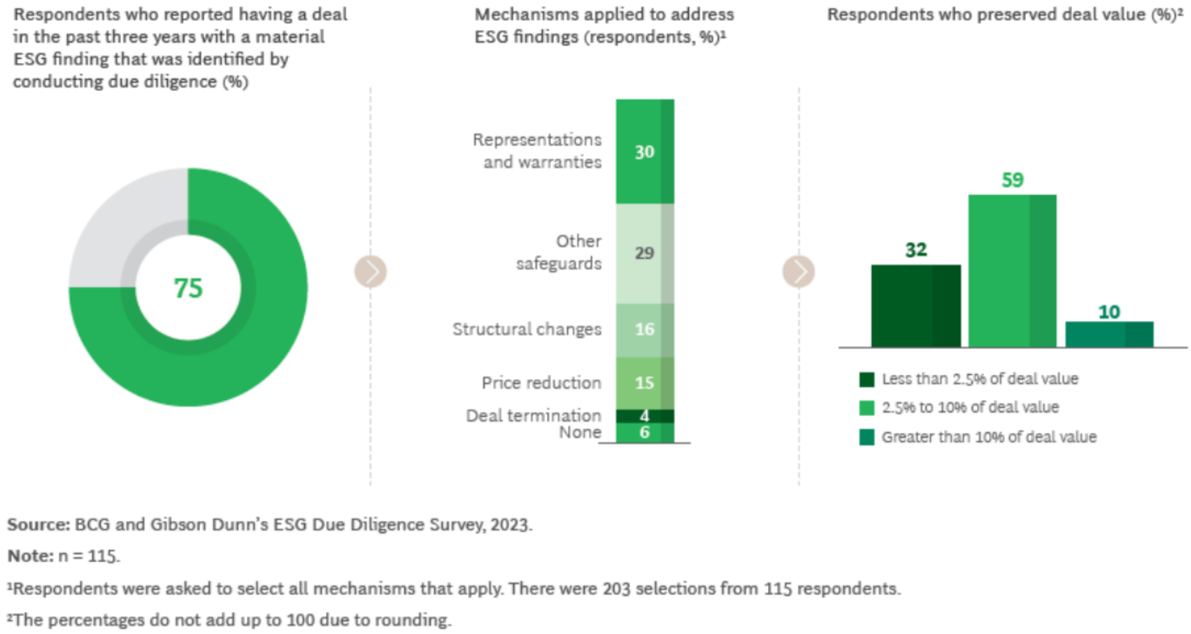

Figure 7. ESG due diligence findings in M&A transactions*. Source: BCG and Gibson Dunn, ESG Due Diligence Survey (2023).*

The chart shows that 75% of respondents reported identifying significant ESG findings, which were addressed mainly through representations and warranties, other safeguards, structural changes, or price reductions. These mechanisms contributed to preserving up to 10% or more of deal value.

The legal implications are clear: ESG due diligence is now considered part of the duty of care of both management and advisors. Failure to include it exposes directors to risks of negligence or misrepresentation. This explains the growing use of contractual clauses directly linked to ESG, such as *Representations and Warranties* or *Material Adverse Change clauses*. Reputational risks, deriving from the failure to comply with social and environmental standards, can lead to several consequences when due diligence is weak, such as **post-closing scandals**, resulting in an immediate loss of value for the acquirer or **integration failure**, linked to cultural and organizational problems due to ESG misalignment. However, the pitfalls identified by the study show that many companies still conduct ESG due diligence in a superficial way, treating it as a mere formal exercise. In most cases, quantitative tools are lacking, such as standardized metrics to assess ESG impact, which creates serious disclosure issues and difficulties in obtaining reliable information from the target company. While this is true in general, the stakes are even higher in the luxury industry.

In the luxury sector, due diligence is even more crucial, as M&A transactions in this industry are particularly exposed to the risk of incompleteness. An acquisition carried out without a thorough assessment of the target can easily turn into a *value destroyer*.[89] There are two main reasons for this vulnerability: first, the key value drivers are intangible (brand, reputation, heritage) difficult to measure but fundamental; second, the luxury value chain itself is extremely complex. It involves global houses, authorised distributors, mono-brand boutiques, digital platforms, logistics providers, and regulatory authorities. This specific structure makes indispensable a multidisciplinary due diligence, able to identify hidden risks before closing, without undermining the valuation and ultimately jeopardise the success of the deal. The consequences of incomplete due diligence can be severe and manifest on multiple levels:

- **Overvaluation**: an inflated valuation of the brand due to a superficial analysis of intangible assets and supply chain robustness, or to an inaccurate audit of brand equity. This can lead to paying a purchase price above the real value, with subsequent risk of post-closing devaluations.
- **Operational risks**: insufficiently verified supply chains may critical dependencies or ESG violations (such as child labour or unreliable suppliers), which compromise operational continuity and brand equity.
- **Legal risks**: unregistered intellectual property, customs non-compliance, or pending litigation, including environmental and labour disputes, may translate into significant liabilities for the acquirer.
- **Reputational risks**: failure to meet ethical standards in the supply chain, or misleading sustainability declarations, can cause immediate reputational damage, triggering boycotts and stakeholder distrust.
- **Deal failure**: in the most serious cases, hidden liabilities or undeclared debts may lead to the termination of the transaction or to a failed integration, with inevitable

[89] Lawcrust Business, *"Hidden Hazards: The Dangers of Incomplete Due Diligence in Luxury M&A"* (2025), https://lawcrustbusiness.com/luxury-ma-due-diligence-luxury-goods/

litigation and financial losses. In some circumstances, the deal may collapse even after signing.

These risks show that in the luxury industry the boundaries between legal, financial and reputational dimensions are blurred. What appears as a contractual or valuation issue often originates from weaknesses in CSR practices, supply-chain governance or sustainability disclosure. For this reason, reputational risk cannot be isolated from the legal architecture of M&A but is instead embedded in it.

To mitigate these risks, it has become common practice to adopt a cross-functional due diligence, described as a "**Hybrid Lens**", which integrates financial, legal, technological, and managerial expertise. This approach includes:

- **Finance**: forensic accounting to detect irregularities or hidden debts, revenue quality analysis, and valuation of IP.
- **Legal**: audit of distribution and licensing contracts, IP registry audit, and litigation checks.
- **Tech**: cybersecurity, audits of digital systems and IT infrastructure, including CRM and ERP platforms.
- **Management/HR**: analysis of founder dependency, HR obligations, and pension liabilities.

This framework demonstrates that in the luxury industry, where reputation and intangible assets are essential, due diligence must be exceptionally rigorous. Nevertheless, beyond due diligence, residual risks must still be formalised and managed contractually. This heightened exposure explains why ESG is no longer considered a secondary element, but now is incorporated upstream into the M&A strategy, starting from the first discussions on the target's valuation and in the ***letter of intent (LOI)***.[90] This is because the ESG performance of the target company directly influences the buyer's willingness to pay and the seller's negotiating position, who may use a positive ESG track record to justify higher valuations and attract capital. A McKinsey survey conducted in 2019 revealed that 83% of executives and investment professionals declared they would be willing to pay a 10%

[90] Virginie Frémat and Frederik Verstreken, *"ESG and M&A – Two Communicating Vessels," Financier Worldwide,* September 2022, https://www.financierworldwide.com/esg-and-ma-two-communicating-vessels

premium *"to acquire a company with a positive record on ESG issues over one with a negative record."* From the sell side, integrating ESG into strategy makes the asset more attractive: for instance, developing a credible ESG storytelling, divesting critical activities, or embedding ESG in corporate governance. From the buy side, ESG integration serves to align all potential targets to the same standards, making them comparable through common metrics and benchmarks. This prevents the risk of overvaluing or undervaluing a target by ensuring that all candidates are aligned with the ESG strategy of the acquirer group. The absence of uniform standards across companies makes ESG data unreliable and underlines the necessity of introducing ESG considerations already in the LOI, in order to set clear parameters on what will be measured and how. In the absence of harmonised metrics, the legal system of M&A acts as a substitute regulator: parties use the LOI and transaction documents to fill the gaps left by disclosure regimes. This contractualization of CSR obligations shows how reputational risk becomes a legally negotiable variable, shifting from a public matter of accountability to a private issue of risk allocation between buyer and seller. In other words, the buyer must "speak the same ESG language" across all targets to make objective evaluations possible.

The LOI should therefore explicitly state that ESG issues fall within the scope of due diligence and that the seller undertakes to provide adequate disclosure. In some acquisitions, compliance with ESG regulations is even considered an essential condition for continuing with the process. Given the complex and extended nature of ESG risks both upstream and downstream, due diligence must not only cover regulatory and reputational risks but may also extend to the target's entire supply chain. Consequently, it is necessary that the parties anticipate potential post-closing risks linked to litigation, damages, or remediation costs. The findings of this process can directly affect both valuation and deal structure. During negotiations and the drafting of transaction documents, ESG must remain central. Contractually, this translates into clauses such as **Representations & Warranties (R&W)**: statements of fact made by the seller to certify the good standing of the target company, covering various aspects from financial performance to legal compliance. The buyer must ensure that the ESG risks identified during due diligence are adequately covered through R&W provisions. When specific ESG-related representations and warranties are not accepted by the seller, because they are perceived as too buyer-friendly, one solution is to strengthen standard R&W with ESG references, or alternatively to include ESG clauses among the **conditions precedent (CP)** or as **post-closing undertakings**. In essence, the key point is to ensure that a solid ESG framework is embedded in the transaction documents. With the increasing weight of ESG risks, companies and investors also look for new ways to protect themselves. In addition to the contractual tools mentioned, environmental insurance policies and, in particular, **Warranties and Indemnity (W&I) insurance** are increasingly used. These policies are designed to protect either the buyer or the seller from losses resulting from breaches of warranties and representations contained in the acquisition agreement. The *rationale* is to provide coverage for future liabilities and even legacy risks that may emerge during due diligence. Once the strategy has been defined, the transaction initiated, due diligence completed, and the acquisition executed, buyers must also consider the integration process, which is a crucial step in the ESG chain. The buyer must plan how to align the target's policies and processes with its own ESG framework, which may involve carve-outs or remediation of non-compliant areas, as well as the introduction of ESG-related KPIs for senior management. At the same time *"ESG considerations will lead companies to adjust their governance structure after acquisitions to ensure that the acquired target is also subject to ESG monitoring and responsibilities."*

Another central instrument in M&A contracts is the **Material Adverse Change (MAC) clause**.[91] This provision allows the buyer to withdraw from the deal or renegotiate if, between signing and closing, an event occurs that produces a "Material Adverse Effect or Change" on the target's business. Its function is to allocate the risk of unforeseen events that may arise during the contractual gap, serving as a safety net between signature and closing. These events may be both quantitative and qualitative: they can relate to measurable financial parameters, such as a decrease in EBITDA or the net assets of the target company, or they can refer to negative changes that are not expressed in numbers, such as reputational scandals or restrictive legislation affecting the industry. However, MAC clauses generally exclude entire categories of risks, in particular macroeconomic events, and are therefore limited to "company-specific" risks. Today there is growing

[91] Rory Moriarty, Kimberley Bruce, and Victoria Hu, *"Material Adverse Change Clauses: How Much Protection Do Buyers Really Have?" Clayton Utz Insights,* 3 July 2025, https://www.claytonutz.com/insights/2025/july/material-adverse-change-clauses-how-much-protection-do-buyers-really-have

interest in whether ESG or reputational scandals may fall within the definition of "Material Adverse Change": for instance, the discovery of serious environmental violations, forced labour scandals in the supply chain, or reputational crises that drastically reduce sales. Such events are highly relevant, especially in the luxury sector, because they strike at the core of the brand's value and intangible assets, to the point of materially affecting the company's valuation and its ability to continue operating. In these circumstances, an ESG scandal cannot be considered a secondary incident but rather a transformative event that undermines the very essence of the target's reputation. For this reason, MAC clauses are particularly crucial in industries such as luxury. Nevertheless, their application remains controversial. To be effective, these clauses must be written with great precision to explicitly include "ESG or reputational matters." MAC clauses also present practical limits. Courts, particularly outside Europe, often adopt a restrictive interpretation, allowing the buyer to invoke the clause only if the impact is both substantial and long-lasting, not a temporary decline. In addition, the burden of proof rests on the buyer, who must demonstrate that the event constitutes a material change, a requirement that is frequently difficult to satisfy. Their effectiveness thus depends largely on careful drafting and on the explicit inclusion of reputational risks.

At this point, a question that naturally arises is, what happens when ESG risks cannot be fully resolved before closing? Even with thorough due diligence, not all ESG issues can be identified or addressed in advance.[92] Some require time, such as reorganising the supply chain or replacing suppliers, while others may only emerge after the transaction. For this reason, a legal mechanism is necessary to oblige the target company to manage these criticalities even after the acquisition. This is where *post-closing contractual solutions* come into play, allowing ESG risks identified during due diligence to be managed over time. The first and most common tool is the use of **covenants**: contractual obligations that continue to bind the parties even after closing. The negotiation of ESG-specific covenants may include: the adoption of an ESG code of conduct by the target's board of directors; the publication of annual ESG reports certified by an external auditor; or the implementation of a supply chain due diligence policy within one year of closing.

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[92] Bahr, *"ESG and Sustainability Due Diligence in M&A: Mitigating Serious Legal Risk, While Enhancing Value Creation," Bahr Newsletter,* 11 July 2025, https://bahr.no/newsletter/asset-management-private-equity-ma-esg-and-sustainability-due-diligence-in-ma-mitigating-serious-legal-risk-while-enhancing-value-creation

The key benefit of covenants is that they allow for the allocation of risk over time, so that the buyer does not immediately bear the full weight of ESG criticalities. In this way, CSR is transformed from a mere source of risk into an opportunity for value creation: if the ESG plan is respected, the brand can strengthen its market position and increase in value. Furthermore, covenants create an enforceable legal mechanism: if they are breached, penalties or indemnities can be applied. Alongside covenants, **Transition Services Agreements (TSA)** are also used. These are contracts under which the seller continues to provide certain services to the target after closing. For example, the seller may support the implementation of new ESG policies, the implementation of new strategies, or employee training. The objective is to ensure operational continuity while the new ESG standards are progressively introduced.

It is important to clarify that ESG due diligence does not emerge in a vacuum but is the result of a layered system in which binding rules, contractual commitments and voluntary standards are combined. At the regulatory level, European law has progressively introduced a framework that directly affects the behaviour of funds and asset managers. The **Alternative Investment Fund Managers Directive (AIFMD)** and the **UCITS Directive**, for instance, set strict governance and risk-management duties for investment funds, which necessarily include the consideration of sustainability risks. The **Sustainable Finance Disclosure Regulation (SFDR)** obliges financial market participants to disclose how ESG factors are integrated into their investment decisions, both at entity level and for single products. The **EU taxonomy**, on the other hand, provides a shared classification system that identifies economic activities considered environmentally sustainable, guiding investment choices. These rules obliged investors and managers to take ESG aspects into account in their operations. Alongside this binding layer, a second dimension is formed by contractual and voluntary instruments. **Limited Partnership Agreements (LPA)** and **Shareholders' Agreements (SHA)** increasingly include ESG undertakings negotiated with investors, while ***Side letters*** are often used to add customised commitments, such as exclusion or audit rights. In parallel, voluntary frameworks such as the **Principles for Responsible Investment (PRI)** or the **Global Reporting Initiative (GRI),** provide soft-law standards that, even if not legally binding, are largely adopted by the market and influence expectations and practices. This mix of binding obligations and voluntary standards is translated by funds and general partners into their own internal policies, which define how ESG factors must be considered in investment processes. The policies are obviously reflected in the M&A phase: they determine the scope of the ESG due diligence carried out on the target. Precisely the type of information requested, of supply-chain audits, and the way in which potential ESG risks are reported and managed. Summarily, ESG due diligence is therefore not the product of law alone, nor of voluntary private commitments, but of the intersection between the two. This hybrid context helps in explaining why ESG due diligence has become an essential step in extraordinary transactions.

Figure 8. ESG and Sustainability Due Diligence in M&A. *Source: Bahr, ESG and Sustainability Due Diligence in M&A: Mitigating Serious Legal Risk While Enhancing Value Creation (2025).*

Therefore, the luxury sector demonstrated that CSR is not a collateral consideration but a determinant of both valuation and contractual architecture in M&A. CSR credibility sustains reputation, reputation sustains brand equity, and both directly shape the outcome of extraordinary transactions. The following case studies will illustrate how this dynamic operates in practice.

3.2. Methodology: Case studies

To illustrate how CSR-related reputational risks concretely shape M&A transactions in the luxury sector, three case studies are presented. The first case, *Moncler–Stone Island*, is an example of a successful transaction in which the careful management of reputational factors and brand identity contributed to a smooth integration and long-term value creation. The second case, *LVMH–Tiffany*, highlights how reputational issues can generate tensions and even litigation during the transaction phase, although eventually leading to a positive outcome. Finally, the third case, *Capri Holdings–Versace*, shows how the failure to adequately protect brand identity and reputation may result in a long-term destruction of value, demonstrating the severe consequences of neglecting CSR-related risks.

3.2.1. MONCLER – STONE ISLAND

The **Moncler–Stone Island** case represents a particularly significant example of how reputation and brand identity can take on a central role in an M&A transaction within the luxury sector. The deal was announced on 7 December 2020, when Moncler disclosed that it had reached an agreement to acquire **70%** of the share capital of **Sportswear Company S.p.A. (Stone Island)**, held by the Rivetti family, for a consideration of approximately **805 million euros**[93]. It has been agreed that half of this consideration would have been reinvested by the Rivetti family in newly issued Moncler shares, through a reserved capital increase excluding the option rights of existing shareholders, according to Article 2441, paragraph 5, of the Italian Civil Code.[94] In practice, this meant that the Rivetti family did not only receive cash, but converted part of the consideration into an equity stake in Moncler. To enable this, the company approved an extraordinary capital increase reserved exclusively for Rivetti, excluding other shareholders from exercising their option rights. This mechanism, provided under Article 2441(5) of the Civil Code, is permitted when the transaction responds to a specific corporate interest, and must be supported by a report of the directors and an independent *fairness opinion*. The practical effect was twofold: on the one hand, it granted the Rivetti family a stable position as

[93] Moncler S.p.A., *Information Document Concerning Transactions of Greater Importance with Related Parties – Acquisition of 70% of Sportswear Company S.p.A. (Stone Island)*, 13 December 2020, paras. 2.1–2.2. https://www.monclergroup.com/en/governance/extraordinary-transactions
[94] Moncler S.p.A., *Information Document – Acquisition of 70% of Stone Island,* para. 2.4.

significant shareholders of Moncler (around 10% of the post-transaction capital), and on the other hand, it aligned their interests with those of the acquiring company, transforming the sellers into long-term strategic partners. This arrangement reduced the risk of misalignment or loss of confidence in management, ensuring continuity and strengthening corporate governance.[95] At the same time, an agreement was reached for the purchase of the remaining **30%** of the company, held by the SPV Venezio Investments Pte Ltd, linked to Singapore's **Temasek** fund, for a consideration of **€345 million euros.[96]** Anche in questo caso, parte dell'operazione si è svolta tramite un aumento di capitale riservato a favore di Temasek.[97] In this case too, part of the transaction was executed through a reserved capital increase in favor of Temasek. The completion of the acquisition brought Moncler to hold 100% of Stone Island, for a total valuation of approximately **1,15 billion euros.[98]**

From a legal and regulatory perspective, the transaction was qualified by Moncler as a **"major transaction with related parties"** under CONSOB *Regulation* n. 17221/2010.[99] This designation applies to those transactions which, by value and parties involved, require particular transparency safeguards: when a listed company enters into agreements with subjects having direct or indirect ties with its directors or controlling shareholders (related parties), the risk is that could emerge potential conflicts of interest to the detriment of minority shareholders. For this reason, the regulation imposes a stricter procedure, requiring the preparation of a detailed information document, the assessment by an independent board committee (the Related Parties Committee), and the obligation to make all relevant information public. In the case of Moncler, the link derived from the involvement of **Ruffini Partecipazioni Holding (RPH)**, the company controlled by Remo Ruffini (CEO of Moncler and its main shareholder), which was indirectly involved in the transaction through the corporate mechanisms in place.[100] To avoid any doubts of

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[95] Moncler S.p.A., *Information Document – Acquisition of 70% of Stone Island, paras.* 2.6–2.8.
[96] Moncler S.p.A., *Information Document Concerning Transactions of Greater Importance with Related Parties – Acquisition of the Remaining 30% of Sportswear Company S.p.A. (Stone Island)*, 2 March 2021, paras. 2.1–2.2. https://www.monclergroup.com/en/governance/extraordinary-transactions
[97] Moncler S.p.A., *Information Document – Acquisition of 30% of Stone Island,* para. 2.3–2.4.
[98] Moncler S.p.A., *"Agreements between Ruffini Partecipazioni Holding, Temasek and the Rivetti Shareholders – Ruffini Partecipazioni Strengthens its Stake in Moncler,"* press release, 23 February 2021, https://www.monclergroup.com/en/media/press-releases
[99] CONSOB, *"Regolamento recante disposizioni in materia di operazioni con parti correlate,"* Deliberazione n. 17221, 12 March 2010, as modified by Deliberazione n. 22144/2021.
[100] Moncler S.p.A., *Information Document – Acquisition of 70% of Stone Island,* paras. 1.3–1.5.

conflict, the company decided to carefully apply the *related-party transactions* discipline. This entailed the drafting of the Information Document, the release of a favorable reasoned opinion by the Related Parties Committee, the disclosure of all relevant information pursuant to Article 17 of the Market Abuse Regulation (EU Reg. 596/2014). The latter obliges listed companies to promptly disclose to the market any inside information capable of influencing the price of shares. In this way, Moncler ensured that minority shareholders and the market as a whole were adequately informed and protected. Finally, the transaction was subject to the necessary antitrust approvals by the competent competition authorities, particularly in Germany and Austria, where both Moncler and Stone Island had significant commercial presence. This step is part of standard practice in extraordinary operations: the authorities must verify that the concentration does not reduce competition or create dominant positions in those markets.[101]

From a strategic and reputational perspective, Moncler presented the transaction as a *"Beyond Fashion, Beyond Luxury"* project, with the goal of creating an Italian platform capable of enhancing the identity and creativity of the brands involved.[102] On this occasion, the company chose to highlight not only the financial aspects, but also its strong affinity with Stone Island in terms of social responsibility and sustainability. Already at the announcement stage, Moncler emphasized how the two brands shared values linked to community, innovation, and material research. CSR, therefore, was not presented as an accessory element, but as a true driver of the transaction, intended to strengthen the reputation of the brands and to make post-acquisition integration more solid. In legal scholarship, the transaction has been interpreted as an example of identity-based merger, in which the enhancement of symbolic capital and the management of reputational risks were mixed with the legal structure of the M&A.[103]

The integration between Moncler and Stone Island benefited from a significant convergence in CSR philosophies, an element that presumably played a key role in legitimising and facilitating the acquisition.[104] Through its ***"Born to Protect"***

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[101] Moncler S.p.A., *Information Document – Acquisition of 70% of Stone Island,* para. 2.7
[102] Moncler S.p.A., *"Beyond Fashion, Beyond Luxury: Stone Island Joins Moncler,"* press release, 7 December 2020, https://www.monclergroup.com/en/media/press-releases
[103] Edoardo D'Alterio, *Two Giants, One Merger: An Analysis of Moncler's Acquisition of Stone Island* (Master's Thesis, Nova School of Business and Economics, 19 December 2023), chaps. 5-7.
[104] Moncler Group, *Sustainability Plan 2020–2025*, Moncler, https://www.monclergroup.com/en/sustainability/strategy/sustainability-plan

sustainability plan (2020-2025), Moncler has integrated sustainability into its business model with clear commitments, such as:[105] achieving net-zero carbon emissions by 2050, recycling nylon production waste, using over 50% of materials from low-impact sources by 2025, and supporting five strategic pillars: climate action, circular economy, responsible sourcing, diversity and inclusion, and community support.[106] At the same time, Stone Island had consolidated a strong identity rooted in textile innovation and functional design, with a heritage of revolutionary textile technologies such as thermosensitive materials, which reinforced its reputation for technical excellence and durability. Following the acquisition, the Group emphasized the shared commitment to embedding sustainability across both brands.[107] In summary, the alignment between Moncler's structured ESG approach and Stone Island's innovation-oriented philosophy has likely facilitated a smoother post-merger integration, strengthening stakeholder confidence and brand consistency. This alignment on CSR appears to have been more than a marginal factor: it has acted as a strategic driver, enhancing the resilience and long-term value creation of the combined group.

In conclusion, the Moncler–Stone Island case demonstrates how, in the luxury sector, corporate law aspects (related-party procedures, antitrust regulation, regulatory disclosure) and those of reputation/CSR are not separate but jointly determine the success of an extraordinary transaction. Compliance with rules and transparency procedures help reduce legal risks, while the management of brand values and thus its identity contribute to strengthening consumer trust. In this way, the long-term sustainability of integration is also reinforced.

3.2.2. LVMH – TIFFANY

The acquisition of **Tiffany & Co.** by **LVMH Moët Hennessy Louis Vuitton** represents one of the most emblematic cases in recent luxury history, both for its economic scale and for the reputational and legal implications that characterized it. The transaction was

[105] Annachiara Biondi, ‘Moncler Close to Carbon Neutral Goal’, *Vogue Business*, 23 October 2020, https://www.voguebusiness.com/sustainability/moncler-close-to-carbon-neutral-goal

[106] Jessica Beresford, ‘How Stone Island Reset the Fashion Compass’, *Financial Times*, 30 May 2024, https://www.ft.com/content/8c4b09aa-7be0-41ab-94a8-08293367b3e1

[107] *Fibre2Fashion,* ‘Moncler Group Leads in Sustainability Indices for Fifth Year’, *FashionNetwork*, 13 December 2023, https://us.fashionnetwork.com/news/Moncler-group-leads-in-sustainability-indices-for-fifth-year,1585946.html

announced on 25 November 2019, when LVMH disclosed that it had reached an agreement to purchase Tiffany at a price of USD 135 per share, corresponding to a total equity value of approximately **USD 16.2 billion**, the largest acquisition ever completed in the luxury sector.[108] The agreement was formalized in an *Agreement and Plan of Merger* signed by the parties and filed with the Securities and Exchange Commission (SEC), which regulated in detail the price, closing conditions, and protective clauses.[109] From a legal standpoint, the contract included, among others, provisions requiring management *"in the ordinary course of business"* until closing, as well as a definition of *Material Adverse Effect (MAE)*, which would later become central in the next litigation.[110] It also included a *specific performance clause*, allowing Tiffany, in case of dispute, to petition the court ordering LVMH to perform the contract, that is, proceeding to closing under the agreed conditions. This clause would prove decisive in the following months.

The Covid-19 pandemic radically altered the balance. In September 2020, LVMH declared that it no longer intended to proceed with the closing, claiming that Tiffany had suffered a significant deterioration in its performance and had breached the contract by failing to manage its business *"in the ordinary course."* At the same time, LVMH also invoked a diplomatic factor: a letter from the French government requesting a postponement of the transaction, giving the ongoing trade tensions with the United States.[111] Tiffany responded by filing an appeal with the **Delaware Chancery Court,** invoking precisely the *specific performance* clause, and arguing that neither an MAE nor a contractual breach had occurred, and thus asking the court to compel LVMH to complete the transaction.[112] The litigation gained enormous media attention, raising doubts over the reputational strength of both Tiffany and LVMH.[113] On one side, Tiffany publicly accused

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[108] LVMH, 'LVMH Reaches Agreement with Tiffany & Co.', Press Release, 25 November 2019, https://www.lvmh.com/news-documents/press-releases/lvmh-reaches-agreement-with-tiffany-co/

[109] *PVH Corp., Exhibit 21.1 – List of Subsidiaries of PVH Corp. (Form 10-K, fiscal year ended February 3, 2019), filed with the U.S. Securities and Exchange Commission (SEC), Washington, D.C., 2019, pp.6-7* https://www.sec.gov/Archives/edgar/data/98246/000119312519299997/d840067dex21.htm

[110] *PVH Corp., Exhibit 21.1 – List of Subsidiaries, 2019.* arts. 1–4, pp. 1-20

[111] LVMH, 'LVMH Files Countersuit against Tiffany: The Conditions to Close the Acquisition Are Not Met', Press Release, 29 September 2020, pp.1-2, https://www.lvmh.com/news-documents/press-releases/lvmh-files-countersuit-against-tiffany/

[112] *Verified Complaint, Tiffany & Co. v. LVMH Moët Hennessy-Louis Vuitton SE, Breakfast Holdings Acquisition Corp., and Breakfast Acquisition Corp.*, Court of Chancery of the State of Delaware, Case No. 2020-0768, 9 September 2020.

[113] Editorial staff. 'Tiffany & Co. v. LVMH: The Timeline Behind Luxury's Biggest Deal to Date'. *The Fashion Law*. 7 January 2021. https://www.thefashionlaw.com/a-running-timeline-of-the-16-2-billion-tiffany-co-v-lvmh-battle/

LVMH of attempting a renegotiation to lower the price; on the other, LVMH suggested that the American company's management had not been up to standard during the pandemic crisis. This confrontation highlighted how brand reputation and stakeholder perception can directly influence a multibillion-dollar deal, to the point of becoming both a legal and a negotiating lever. On 29 October 2020, the parties reached a settlement: LVMH agreed to proceed with the acquisition, but at a reduced price of USD 131.50 per share, with an overall discount of approximately **USD 425 million** compared to the original price.[114] At the same time, the reciprocal lawsuits in Delaware were dismissed *with prejudice*, meaning without the possibility of reopening the proceedings. The transaction was definitively closed on 7 January 2021, marking Tiffany's entry into the LVMH group.[115]

From a reputational and strategic perspective, the Tiffany case is emblematic because it shows how CSR and brand value can become negotiating variables as important as financial data. Tiffany, historically associated with heritage, craftsmanship, and social responsibility (for example, its ethical communication on diamond sourcing), based part of its defence on the value of its image and the continuity of consumer trust.[116] For LVMH, instead, the acquisition had a long-term strategic purpose: strengthening its jewelry division, already integrated with Bulgari, and securing a dominant position in the U.S. market. The case demonstrates how the reputation of luxury brands can act both as a negotiating and as a defensive lever: symbolic and reputational value was the driving force behind the deal, it became an obstacle at one stage when LVMH attacked Tiffany's image, and it was also used as a defensive weapon when the agreement was threatened. The dispute also attracted legal scholarship, particularly on the subject of *Material Adverse Effect.* Several studies noted that the threshold for validly invoking an MAE is extremely high: it must involve a structural and lasting change, not a temporary event or

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[114] LVMH, 'LVMH Files Countersuit against Tiffany'. pp.1-2

[115] LVMH, 'LVMH Completes the Acquisition of Tiffany & Co.', Paris and New York, 7 January 2021, https://www.globenewswire.com/news-release/2021/01/07/2154951/0/en/LVMH-completes-the-acquisition-of-Tiffany-Co.html

[116] Guhan Subramanian, Julian Zlatev and Raseem Farook, *LVMH's Bid for Tiffany & Co.*, Harvard Business School Case N9-921-049, 22 March 2021, p. 3.

one linked to general market conditions.[117][118] The pandemic, precisely because it was global and transitory, did not appear to satisfy these criteria. This greatly reduced the likelihood of LVMH prevailing in court and suggests that the argument was primarily used as a negotiating lever to reduce the price.[119]

As noted earlier, Tiffany's ability to lean on its brand reputation during the legal dispute over closing was not merely a matter of heritage, it was sustained by long-standing CSR commitments - especially diamond provenance and supply-chain transparency.[120] Tiffany's Sustainability Report of 2024 describes that 99% of diamond suppliers and 96% of tier-one gold suppliers are certified to the **Responsible Jewellery Council (RJC) Code of Practices**, an audited standard covering ethics, human rights, labour and environmental practices across the jewellery value chain. In simple terms: not only the origin is disclosed, but it is also verified externally through supplier certification. Tiffany also guided the development and implementation of the **LVMH Source Warranty Protocol for Diamonds** within the Group's Watches & Jewelry division, reinforcing the industry's highest standards of responsible sourcing.[121] Essentially, it was a framework of requirements and certifications that suppliers must provide to declare origin/transfers in a traceable way that conforms to Group policies. These policies complement Tiffany's **Diamond Source Initiative** (information on the region/country of origin for registered diamonds) and its goal of net-zero emissions by 2040, making the firm's transparency claims testable by design.[122] This reinforced stakeholder trust when the deal narrative was under stress, and facilitated the post-agreement transition to climate and materiality objectives at Group level. Concretely, LVMH's supplier engagement mechanisms and

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[117] Rachel Wynn and Emily Buchholz, 'Hard Luxury: Material Adverse Effect in the LVMH and Tiffany Merger', *Minnesota Law Review (De Novo Blog)*, 10 May 2022, https://minnesotalawreview.org/2022/05/10/hard-luxury-material-adverse-effect-in-the-lvmh-and-tiffany-merger/

[118] *Alexandra Boeriu, 'Does a Buyer Really Have the "Luxury" of Invoking an MAE Clause? A (Hypothetical) MAE Analysis of the LVMH-Tiffany Merger After Akorn', (2024) 74 Case Western Reserve Law Review 829.*

[119] *Akorn Inc. v. Fresenius Kabi AG, No. 2018-0300, 2018 WL 4719347 (Del. Ch. 1 October 2018), aff'd 198 A.3d 724 (Del. 2018). The only precedent in which the Delaware Chancery Court recognized the existence of a MAE, in the presence, however, of serious accounting misrepresentations and a structural and permanent collapse in financial performance.*

[120] Tiffany & Co., *2024 Sustainability Report*, Tiffany & Co., 2025. pp.1-20.

[121] Tiffany & Co., 'Tiffany's Legacy: Pioneer of American Luxury', *Tiffany & Co. newsroom*, https://press.tiffany.com/our-story/tiffanys-legacy-pioneer-of-american-luxury/

[122] LVMH, *Supplier and Business Partner Code of Conduct*, September 2024, https://www.lvmh.com/en/suppliers

code of conduct (e.g., LIFE 360 Business Partners, Group Supplier Partner Code) provided a track for integrating Tiffany's commitments on sourcing and climate, transforming a potential point of friction (policy alignment) into a governance synergy (shared protocols, joint audits, unified reporting). During the controversy phase, this alignment acted as a reputational shock absorber; after closure, it accelerated operational convergence between standards and disclosures. In short, CSR was not peripheral: it supplied credible proofs (traceability metrics, third-party certifications, Group protocols) that mitigated legal-reputational risk during the dispute and powered standardization synergies afterward, supporting long-term value creation for the combined business.

In conclusion, this acquisition demonstrates how, in the luxury industry, reputation and CSR are not merely marketing tools but can directly influence the contractual and judicial aspects of an extraordinary transaction. The price reduction and the necessity of a negotiated compromise made it evident that reputational risk management is not a secondary aspect, but a decisive factor for the stability and success of the operation.

3.2.3. CAPRI HOLDINGS – VERSACE

The acquisition of **Gianni Versace S.p.A.** by **Michael Kors Holdings** (later renamed **Capri Holdings Limited**) represents one of the most significant and controversial M&A transactions in the luxury sector in recent years. The deal was announced on 25 September 2018 and had a total value of approximately **USD 2.12 billion**, financed partly through bank loans and partly through the available cash of the acquirer company.[123] Contextually to the transaction, the Versace family did not limit itself to collecting the money, but converted approximately 150 million euros into shares of the new Capri Holdings group, thus becoming a relevant shareholder.[124] In this way, the agreement did not provide a complete exit of the family but rather a form of strategic reinvestment: continuity in the shareholding structure allowed the founding family’s interests to remain partly aligned with those of the new buyer. This was in line with a governance logic that was intended to promote stability and trust during the transition phase. The transaction also involved

[123] Michael Kors Holdings Limited, *Form 8-K (Current Report) – Completion of Acquisition of Gianni Versace S.p.A.*, filed with the U.S. Securities and Exchange Commission (SEC), Washington, D.C., 2 January 2019, https://www.sec.gov/Archives/edgar/data/1530721/000119312518362322/d653406d8k.htm
[124] Capri Holdings Limited, ‘Capri Holdings Limited Completes Acquisition of Versace’, *Business Wire*, 31 December 2018.

the exit from the Blackstone fund, which had acquired 20% of Versace in 2014, marking a complete transfer of control to Capri.

From a legal perspective, the acquisition fell under U.S. law, with disclosure obligations to the SEC, which regulated the closing conditions, payment mechanisms, and warranty clauses.[125] However, for the European and Italian markets the transaction carried even greater significance: it marked the transfer of one of the most iconic Maisons of the Made in Italy under the control of a U.S. group listed in New York. This raised questions not only about the future governance of the brand but also about the acquirer's ability to safeguard its identity and symbolic capital Legal scholarship has subsequently underlined that, particularly in the luxury sector, the protection of brand identity and reputational value is not a secondary factor but an essential profile of corporate law, as much as shareholder protection and market transparency.[126] The sensitivity of this aspect was heightened by the fact that Versace held a prominent position in the *high luxury* segment, built on exclusivity, heritage, and creative identity, while Capri Holdings came from a different positioning, that of so-called *accessible luxury*. The convergence of this two such distant models implied an amplified reputational risk the transaction would have required particularly careful governance and integration mechanisms in order not to compromise the brand's intangible value. On the strategic level, Capri Holdings declared its intention to create a global luxury group with three pillars: Michael Kors, Jimmy Choo and Versace. The idea was to replicate a the European models of LVMH and Kering and competing on an international scale.[127] The inclusion of Versace was central to this strategy: according to IMD Business School's analysis, it was expected to provide Michael Kors with that legitimacy and "credibility" in the luxury segment bridging the positioning gap with the major players.[128] Versace represented for Capri a brand with iconic heritage, rooted in Italian culture and closely associated with Donatella as creative director. However, this integration entailed an evident risk: transferring a *high luxury*

[125] Michael Kors Holdings Limited, *Form 8-K – Versace Acquisition*, 2 January 2019.
[126] Anaita Vas, *Corporate Law Implications of M&A in the Luxury Fashion Sector: Brand Integrity and Shareholder Interests* (Master's Thesis, March 2025), chaps. 2–3. pp. 19-47
[127] Capri Holdings Limited, 'Completes Acquisition of Versace', (2018).
[128] Stéphane J. G. Girod, 'Versace Acquisition: Michael Kors Needed to Boost Its Credibility to Make It in the Luxury Market', *IMD Business School – Research & Knowledge*, October 2018, https://www.imd.org/research-knowledge/corporate-governance/articles/versace-acquisition-michael-kors-needed-to-boost-its-credibility-to-make-it-in-the-luxury-market

brand into a conglomerate accustomed to mass-market expansion logics, exposed it to the danger of undermining its coherence and producing an *"americanization"* effect perceived negatively by consumers and stakeholders, with reputational consequences difficult to contain.

Over the years, these criticalities materialized. Despite the declared investments and retail expansion strategies, Versace struggled to maintain its distinctive positioning. Financial results fell short of expectations, with shrinking margins and a progressive loss of competitive relevance. Above all, the integration failed to safeguard the brand's reputational value: Versace lost part of its aura of exclusivity, coming to be perceived as excessively profit-oriented and embedded in a conglomerate that did not fully respect its identity.[129] This failure did not immediately translate into litigation, but it highlighted that the true "risk" was not formal or legal in nature, but reputational and strategic: the symbolic capital, at the heart of a luxury brand's value, had not been adequately protected during the due diligence and integration phases. In January 2025, the media began reporting on a possible sale of Versace by Capri, with Prada named among the potential buyers.[130] On 10 April 2025 Capri announced that it had reached a definitive agreement to sell Versace to **Prada S.p.A**. for **USD 1.375 billion** in cash,[131] corresponding to an **enterprise value** of approximately **1.25 billion euros.** This figure was significantly lower than the USD 2.12 billion paid by Capri Holdings in 2018, resulting in a net loss of more than USD 700 million, in addition to the absence of any meaningful return on investment after seven years of strategically ineffective management.[132] Capri justified the sale as part of a strategy to refocus on its core brand Michael Kors, while Prada presented the transaction as Versace's *"heading home to Italy,"*[133] underlining the importance of returning the brand to an Italian cultural and creative context in which heritage and

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[129] Edward Fung, Freya Zhang, Kelvin Chan, Terry Zhang, George Luo and Leo Wu, 'Prada's $1.38bn Acquisition of Versace', *Mergersight*, 2 June 2025, https://www.mergersight.com/post/prada-s-1-38bn-acquisition-of-versace

[130] Andres Gonzalez and Elisa Anzolin, 'Prada Has Been Working with Citi on Possible Bid for Versace, Source Says', *Reuters*, 10 January 2025, https://www.reuters.com/markets/deals/italys-prada-considering-buying-versace-capri-holdings-daily-reports-2025-01-10/

[131] Capri Holdings, 'Completes Acquisition of Versace,' (2018).

[132] Fung *et al*., 'Prada's $1.38bn Acquisition of Versace'.

[133] Hilary Milnes, 'Prada to Buy Versace from Capri', *Vogue*, 10 April 2025, https://www.vogue.com/article/prada-to-buy-versace-from-capri

craftsmanship could be fully valued.[134] This difference in communication highlights how the failure of the Capri transaction was linked not only to financial figures but above all to the loss of reputation and identity: the American group had been unable to integrate a highly symbolic brand without compromising its positioning.

It is fair to also analyse that both Capri Holdings and Versace undertook corporate social responsibility initiatives that protected them from reputational scandals during and after the transaction.[135][136] Capri has published climate targets in line with the Science Based Targets initiative (SBTi), recorded a 38% reduction in emissions compared to 2019 and purchased 91% of its leather from **certified tanneries**, while Versace has committed to becoming **fur-free**, and launched upcycling capsules. These policies functioned as a reputational parachute: they preserved legitimacy and avoided controversies at a time when reputational risk could have compounded financial distress. However, in this particular case CSR was not sufficient to prevent value destruction.[137] First, Capri's own CSR framework showed structural weaknesses: the company explicitly disclosed that its ESG data were not externally assured, undermining credibility; its initiatives remained peripheral rather than embedded in the business model failing to transform the operating model (e.g. supply chain, pricing, distribution) where the real critical issues were concentrated. Moreover, the communication of the company was at times fragmented and inconsistent, presenting different goals without narrative and strategic coherence.[138] Second, core strategic errors played a crucial role: analysts and executives highlighted mistakes in assortment, distribution and pricing of the products that distanced Versace from the evolving demand for "discreet luxury", leading to declining revenues and losses. At least, CSR operated only as a reputational safeguard; it did not translate into a shock absorber capable of preserving performance and value.

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[134] Prada Group, 'Prada Group Reaches an Agreement with Capri Holdings for the Acquisition of Versace', Press Release, 10 April 2025, https://www.pradagroup.com/en/news-media/press-releases-documents/2025/25-04-10-prada-group-versace.html
[135] Capri Holdings Limited, 'Capri Holdings Releases 2022 Corporate Social Responsibility Report', Press Release, 15 December 2022, https://www.capriholdings.com/news-releases/news-releases-details/2022/Capri-Holdings-Releases-2022-Corporate-Social-Responsibility-Report/default.aspx
[136] Versace, 'Sustainability', *Versace*, 2025, https://www.versace.com/row/en/stories/sustainability/
[137] Capri Holdings, '2022 CSR Report'. pp.1-3
[138] Aditi Bharade, 'Capri's CEO Says Versace's Revenue Sank Because It Made 2 Mistakes', *Business Insider*, 2025, https://www.businessinsider.com/capri-ceo-says-versace-revenue-sank-made-2-mistakes-2025-1

In conclusion, the Capri-Versace case stands as an emblematic example of value destruction in a luxury M&A transaction. The acquisition, even if formally completed and fully executed, failed at a substantive level: the lack of protection of brand identity and reputational capital progressively eroded the value of the investment, ultimately leading to a loss-making divestment. This case demonstrates that, in luxury, reputational and identity risks are not merely contextual variables but legal and strategic factors that directly impact the sustainability and profitability of an extraordinary transaction.[139][140]

3.3. Limitations and critical implications

The analysis developed in this chapter inevitably has some limitations. First of all, there is a very small number of M&A transactions in the luxury sector that could be examined in view of the research question. Differently from other sectors where transactions are frequent and diverse, the luxury sector is dominated by a few global groups and highly selective acquisitions. This means that only a limited number of cases provided sufficient evidence to explore the interaction between CSR and reputational risk in extraordinary transactions. Another limitation regards the availability of information. Luxury companies are known for their selective communication, and only a few of the relevant data on transactions are made public. Moreover, aspects related to CSR or reputational risk management rarely appear explicitly in contracts or financial documents. Indeed, most of this dimension must be inferred indirectly through corporate narratives, consumer reactions, or social coverage. A further difficulty was encountered in the nature of the assets involved. Intangible elements such as brand identity, heritage and symbolic capital are fundamental to the luxury sector but escape traditional valuation tools. Legal and financial due diligence can hardly capture their fragility or the speed with which reputational crises can develop. Finally, the analysis is based on a qualitative approach: case studies provide an understanding of certain mechanisms and patterns but cannot be used as statistical generalisations. Therefore, the insights that emerge should be interpreted as illustrations of broader dynamics, rather than definitive measurements of the entire sector. Although the range of this study is necessarily limited, the evidence collected highlights several critical implications that deserve a more in-depth analysis.

[139] Vas, *Corporate Law Implications of M&A in the Luxury Fashion Sector*, chap. 5. pp. 62-72
[140] Mergersight, *Prada's Acquisition of Versace* (2025)

These implications go beyond the specific cases analysed, affecting broader dynamics that characterise the luxury sector today. What clearly emerges is a structural tension between a financial logic that drives conglomerates to pursue continuous growth through acquisitions and the role of CSR in safeguarding reputation, stakeholder trust and long-term value. Moreover, the cases considered demonstrate that reputational risk is not a marginal issue, but a decisive factor in determining the outcome of extraordinary transactions. At the same time, cases reveal how legal, and governance frameworks are evolving to integrate more explicitly CSR and ESG obligations into M&A practices.

The limited number of transactions that it has been possible to analyse is significant in itself. It reflects not only the scarcity of available data, but also the structural transformation of the luxury sector, which is increasingly concentrated in the hands of a few global groups. In other words, the lack of cases is a symptom of an industry in which acquisitions are no longer isolated incidents, but rare and highly strategic moves, managed at the level of a few conglomerates with the financial power to reshape the market. These transactions embody the deeper dynamics of the industry. Over the last forty years, the luxury sector has changed at remarkable speed.[141] Many brands that once operated as independent Maisons, often family-owned and with a strong artisanal tradition, have gradually been absorbed into conglomerates with diversified portfolios and centralised control. This process has led to the creation of an almost oligopolistic market, in which the survival of small independent firms has become increasingly difficult. This strategy of acquiring resources and expand internationally has gradually evolved into a system in which growth itself is driven by acquisition. The groups that dominate today (LVMH, Kering, Richemont, Capri Holdings) are not only industrial players, but financial actors whose strength lies in their capacity to continuously add new assets to their portfolio.[142] The logic behind these transactions goes beyond the search for operational synergies. Acquisitions are pursued as a way to guarantee constant growth, to diversify risk, and above all to satisfy the expectations of capital markets.[143] In this sense,

[141] Alessandra Cabigiosu, 'An Overview of the Luxury Fashion Industry', in *Digitalization in the Luxury Fashion Industry* (Palgrave Advances in Luxury, Palgrave Macmillan) 14 July 2020, pp. 9-31. https://doi.org/10.1007/978-3-030-48810-9_2
[142] McKinsey & Company and The Business of Fashion, *The State of Fashion: Luxury* (2025).
[143] João Pedro Matos, The Investment Wardrobe: The Financialization of Luxury Fashion, *FEP Finance Club,* 7 April 2025, https://fepfinanceclub.org/2025/04/07/the-investment-wardrobe-the-financialization-of-luxury-fashion/

M&A become an instrument of *financialization*: they transform cultural and creative entities into financial assets, whose value is measured not only in terms of heritage or design innovation, but in their ability to generate predictable returns. Reports such as McKinsey's State of Luxury underline how acquisitions are presented to investors as a lever of resilience and long-term profitability, reinforcing the view of luxury conglomerates as particularly attractive financial vehicles. This is consistent with the strategic narrative adopted in transactions such as LVMH-Tiffany, where the financial appeal of the deal was presented alongside its symbolic dimension. The financial logic also has direct economic consequences. In many cases, acquisitions in the luxury sector are associated with inflated valuations and the risk of devaluation, as pressure to ensure constant growth pushes buyers to pay excessive premiums. Empirical research confirms that solid ESG practices can mitigate these risks: by reducing information asymmetries, strengthening governance and limiting agency costs, companies with robust ESG frameworks are less likely to overpay and more likely to achieve stable performance after acquisition.[144] In this sense, the economic dimension reinforces the paradox: while conglomerates pursue acquisitions to satisfy financial markets, the absence of serious ESG integration increases the probability of value destruction rather than creation. However, this representation of market dynamics shows also some contradictions. In literature certain studies describe luxury as a "financial dream" because of its margins and the global demand it generates, but they also emphasise the fragility of this model.[145] The financial markets reward conglomerates with high valuations, but in doing so they tend to underestimate the volatility of the intangible assets on which these valuations are based. Reputation, heritage, exclusivity and identity are not commodities, and they cannot be scaled infinitely, nor can they be reduced to a balance sheet item. In fact, when acquisitions are treated as a means of capital accumulation, there is a risk of eroding the very basis of luxury value. For example, as the Versace case later showed, where integration strategies focused on expansion and profitability undermined the brand's aura of exclusivity. In this way, the "*financial dream*" of stable margins can quickly turn into

[144] Yixin Dang, Bingxiang Li and Lei Qin, 'The Impact of ESG Practices on the Valuation of Related Party M&A Assets: The Moderating Role of Digital Economy' Vol. 17 *Sustainability, no.* 3947. 28 April 2025. pp.1–25, https://doi.org/10.3390/su17093947
[145] Jean-Noël Kapferer and Olivier Tabatoni, 'Are Luxury Brands Really a Financial Dream?' 7 *Journal of Strategic Management Education* Vol. 1, January 2011, pp. 1-17. https://www.researchgate.net/publication/292770560

a nightmare if reputational crises damage the symbolic capital of the brand. The case studies analysed in the section 3.3 illustrate this paradox in practice. Transactions such as Capri-Versace or LVMH-Tiffany demonstrate that reputation concerns are decisive in shaping both the perception and the outcome of a deal. At the same time, however, they reveal how acquisitions are instrumentalised by groups as a way of strengthening their market position, diversifying their portfolios, and responding to financial imperatives. In both cases, the reputational dimension interacts directly with the financial one: a brand's attractiveness is inseparable from its ability to sustain growth and reassure shareholders. It is precisely this dynamic that reveals the tension at the core of the sector: while CSR and reputation are crucial to long-term success, the pressure to deliver constant financial performance risks reducing them to secondary and instrumental concerns. From this perspective, the scarcity of cases available for empirical analysis becomes meaningful. The limitations of the study reflect the limitations of the sector itself: an industry that continues to expand through acquisitions, while at the same time exposing itself to reputational vulnerabilities that financial logic alone cannot resolve.

Beyond the economic and strategic consequences, the analysis of recent M&A in the luxury industry also points to a series of legal implications that are becoming increasingly evident. CSR and ESG are no longer matters of voluntary policy or corporate image; they are progressively embedded in binding legal frameworks that directly shape how extraordinary transactions are structured and managed. European legislation, in particular, has accelerated this process. Instruments such as the CSRD and the CSDDD require companies not only to disclose non-financial information, but also to conduct due diligence on environmental and social impacts across their value chains. This means that an acquisition can no longer be assessed just in financial and operational terms: it must also be scrutinised through the lens of compliance with sustainability obligations. For luxury groups, where reputational capital is a primary asset, the legal weight of these requirements becomes even more significant. One of the most direct consequences concerns the duties of directors.[146] The growing expectation, both from regulators and from markets, is that ESG risks must be considered as part of the duty of care in corporate

[146] Wouter den Hollander, Monique van der Linden, Guan Schaiko, Stefanie François, and Florent Volckaert, 'ESG and Potential Director's Liability: Taking the Lead in the Transition to More Sustainable Business Operations', *Stibbe*, 22 December 2023, https://www.stibbe.com/publications-and-insights/esg-and-potential-directors-liability-taking-the-lead-in-the-transition

decision-making. When a board approves an acquisition without having carried out adequate ESG due diligence, it is exposed to potential liability not only for financial misjudgement, but for negligence in failing to identify predictable risks. As highlighted by legal practice, directors may increasingly be called to account if an acquisition later reveals hidden ESG issues that damage the company's reputation or expose it to litigation. This expansion of liability reflects a shift in corporate law: ignoring ESG is no longer simply a reputational risk, but a legal risk that can be pursued in court. A second implication emerges in the contractual phase of transactions. The traditional tools of M&A (representations and warranties, indemnities, covenants, material adverse change clauses) are being adapted to incorporate ESG dimensions. The International Bar Association has underlined how ESG factors today influence not only the valuation of a target, but also the negotiation of risk allocation between buyer and seller.[147] For example, contractual clauses may require the seller to guarantee compliance with labour or environmental standards, or to indemnify the buyer in case of hidden ESG violations discovered after closing. In other cases, post-closing covenants oblige the acquired company to implement specific sustainability policies within a certain period of time. This contractualization of CSR demonstrates that intangible risks are no longer left implicit but are translated into enforceable obligations, which can be invoked in case of breach. In this way, ESG becomes part of the legal architecture of the deal, not just a matter of corporate communication. These contractual mechanisms are not only designed to ensure compliance, but also to protect economic value. Reputational failures can translate into immediate financial damage: from renegotiated prices, as in the case of LVMH-Tiffany, to the erosion of market confidence and stock price volatility. By making ESG obligations legally enforceable, contracts aim to reduce the risk that hidden liabilities or consumer backlash undermine the very rationale of the transaction. In other words, the law functions here is a safeguard of intangible assets which, if neglected, can rapidly turn into tangible financial losses. The legal implications also affect the due diligence process itself. In the past, due diligence focused primarily on financial accounts, tax compliance, and legal disputes. Today, ESG due diligence is emerging as a parallel and equally essential component. Under the CSRD and CSDDD, buyers must verify

[147] Sasha Stepanova, 'The Role of ESG Factors in Shaping M&A Deal Value and Reputation', *International Bar Association*, Prague, 11 May 2023, https://www.ibanet.org/Role-of-ESG-factors-in-shaping-M%26A-deal-value-and-reputation.

whether the target company is compliant with sustainability obligations and whether its value chain hides potential liabilities, from labour exploitation to environmental damages. This means that the scope of due diligence is expanding, requiring multidisciplinary teams and new metrics. Empirical evidence confirms that good ESG practices can materially improve the accuracy of valuations: a recent study found that companies with stronger ESG frameworks are less likely to suffer overvaluation in M&A and more likely to deliver stable performance post-acquisition.[148] The study also shows that ESG reduces the risk of stock price crashes by preventing inflated valuations and by aligning the interests of controlling shareholders with those of minority investors. In legal terms, this suggests that ESG due diligence not only protects against reputational harm but also mitigates the risk of shareholder litigation and strengthens compliance with fiduciary duties. Taken together, these trends indicate a deep transformation of the legal landscape of luxury M&A. CSR is no longer an optional layer of reputation management, but an integral part of corporate accountability. The legal frameworks oblige directors and managers to incorporate sustainability into their decisions; contracts explicitly allocate ESG risks; and due diligence processes must adapt to capture intangible liabilities that were previously ignored. In the luxury sector, this evolution has a particular resonance: since reputation and identity are the true assets involved, the legal obligation to safeguard them is both a necessity and a challenge. The paradox is that while financialization pushes groups towards acquisitions as instruments of capital accumulation, the law increasingly requires that these same transactions be conducted with attention to responsibility, transparency, and stakeholder protection.

[148] Dang, Li and Qin, 'The Impact of ESG Practices on the Valuation of Related Party M&A Assets'. pp. 20-21

4. Conclusions

The path traced by this thesis shows how Corporate Social Responsibility has gradually lost its voluntary nature and has become an integral part of corporate governance. The European framework confirms this development: starting from the Green Paper, which set out the first common principles, to the introduction of the NFRD and its later reform into the CSRD, and finally to the CSDDD, which imposes a real duty of due diligence on companies. These steps highlight a progressive shift from soft law to binding regulation. CSR is no longer an optional practice, nor a simple reputational strategy, but a legal and strategic requirement that companies must integrate into their governance structures and daily operations. This transformation has important consequences for the way companies define and manage risks. CSR, in fact, becomes a risk management tool: by identifying environmental and social vulnerabilities, companies can prevent reputational crises, reduce exposure to sanctions and litigation, and preserve their ability to operate over the long term. Therefore, the link between sustainability and risk is direct. A company that ignores its impact on stakeholders exposes itself to the possibility of consumer backlash, regulatory intervention, or judicial measures. Conversely, a company that integrates CSR into its processes strengthens its resilience and credibility.

From a legal perspective, this evolution also affects directors' duties. Traditionally, the duty of care referred to the diligence in managing financial and operational aspects. Today, however, the same duty requires the ESG risks being considered as part of corporate decision-making. This means that directors can be held liable not only for economic misjudgement but also for failing to anticipate predictable risks connected with sustainability. In this way, CSR is part of the standards that guide and constrain managerial conduct, becoming a parameter of legality and accountability.

The luxury sector amplifies these dynamics. The distinctive feature of luxury is that its value is based less on tangible assets and more on intangible ones: brand identity, reputation, and symbolic capital. For this reason, it is especially vulnerable to reputational risk, which can quickly undermine not only consumer trust but also the economic value of a brand. In such a context, the research question of this thesis finds a clear answer: CSR-related reputation is not a marginal element, but a decisive factor in luxury mergers and acquisitions. It affects how companies are valued, the way negotiations are conducted, and the success of post-closing integration.

4.1. Overall findings

A deeper reflection on the findings of this thesis allows us to see how the different dimensions explored are not separate but interconnected. The regulatory evolution of CSR, the paradox of sustainable luxury, the role of intangible assets, and the contractual mechanisms of M&A all converge on a common point: reputation. What emerges is that CSR, when reduced to external initiatives or philanthropic gestures, can improve visibility but does not guarantee credibility. Reputation in luxury, however, is not built on external communication alone. It originates from within the company, through governance structures, employee well-being, transparent supply chains, and consistency between declared values and actual practices. This internal CSR is what gives substance to external commitments and makes them credible to stakeholders. Without a solid internal base, even generous initiatives risk of being perceived as opportunistic or instrumental and so fail to generate trust. This link is reinforced by the transformation of markets and consumer expectations. New generations of customers, as well as the growing influence of Asian markets, are placing increasing importance on sustainability, inclusivity and transparency. Luxury is no longer perceived only as a symbol of exclusivity, but also as a cultural actor that must demonstrate its responsibility towards society and the environment. At the same time, investors and regulators now integrate ESG factors into their assessments: CSR performance directly affects access to capital, the cost of financing and overall market attractiveness. In this sense, CSR is not only a reputational factor, but also a financial and strategic one. It has become the language through which companies communicate their legitimacy to all stakeholders: consumers, investors, employees and regulators. Moreover, the coherence between the internal and external dimensions of CSR can also represent a solution to the paradox of luxury - exclusivity on the one hand and social responsibility on the other. If a brand succeeds in aligning its internal values with its external narrative, then the tension between exclusivity and responsibility becomes less divisive and can even generate competitive advantage. By contrast, when the two dimensions are disconnected, the gap is quickly exposed by consumers, amplified by media coverage, and often sanctioned by regulators. This mechanism has become particularly evident in the luxury industry, where consumers not only buy a product but also identify with the cultural and symbolic values of the brand. A misalignment between what is promised and what is practiced undermines this identification and produces reputational fragility.

The empirical cases analysed in this thesis make these dynamics tangible. Moncler's acquisition of Stone Island showed that when CSR is rooted in shared identity and internal governance, it strengthens reputation and facilitates post-closing integration. The reinvestment of the Rivetti family through a reserved capital increase was not only a financial instrument but also a mechanism to preserve continuity, align interests, and incorporate reputation into the very structure of the deal. The company's careful use of related-party procedures and transparency obligations equally acted as reputational signals towards markets and minority shareholders, confirming that compliance mechanisms are also tools of trust-building. In contrast, the Versace–Capri case revealed the opposite: the lack of alignment between the brand's symbolic capital and the growth logic of the acquirer produced a gradual destruction of reputation, culminating in a divestment at a loss. The LVMH–Tiffany dispute further confirmed that reputation is not only a symbolic asset but also a negotiating variable with concrete financial consequences. The discussion on the Material Adverse Effect clause shows how reputational or ESG issues can directly affect valuation: in practice, reputation travels through price, shaping the final terms of the deal even when litigation does not reach a court ruling. These observations also underline how law and contracts translate intangible risks into tangible obligations. Representations and warranties, indemnities, MAC clauses and post-closing covenants make it possible to allocate reputational risks contractually, turning reputation into a form of collateral for the transaction. These examples demonstrate that CSR, reputation, and M&A outcomes are not three separate fields but different sides of the same process: the construction, preservation, and transmission of trust in extraordinary transactions. What connects the regulatory dimension, the strategic choices of companies, and the contractual instruments of M&A is therefore the same fundamental principle: CSR is the mechanism through which intangible values become tangible assets. Internal CSR gives substance to external communication, reputation transforms into measurable value, and legal instruments such as due diligence or contractual clauses translate that value into enforceable rights and obligations. In this way, the invisible connections between law, management, consumer behaviour, and financial markets converge, showing that the protection of reputation in luxury is not a matter of appearance but of structure.

4.2. Future outlooks

Looking to the future, the findings of this thesis suggest that the role of CSR in luxury M&A will likely become increasingly significant. The progressive shift from voluntary disclosure to binding obligations, as illustrated by the implementation of the CSRD and the CSDDD, may be further reinforced by complementary instruments such as the Eco-design Regulation and the Digital Product Passport. These measures could make sustainability not only a reputational matter but also a verifiable element of compliance, transforming CSR into a set of obligations that companies will need to prove through documentation and assurance processes. From a governance perspective, it is reasonable to expect that directors will face growing pressure to integrate ESG risks into their decision-making. Audit functions, sustainability committees, and internal control systems will become permanent structures in luxury firms, while in M&A transactions the contractual allocation of ESG risks will grow in importance.

At the same time, the ongoing financialization of the luxury industry raises questions about how firms will balance short-term growth objectives with the long-term protection of symbolic capital. The analysis carried out here indicates that this tension may intensify, especially as investors and financiers integrate ESG performance into their assessments of creditworthiness and market value. In this scenario, sustainability could become a necessary precondition for access to capital, with reputational fragility directly reflected in the financing terms and in the success of negotiations. The relative scarcity of M&A operations in the luxury industry may further intensify these dynamics, since each deal involves a very high concentration of reputational and legal risk.

Finally, the methodology of due diligence itself may need to adapt. The evidence presented suggests that traditional financial and legal assessments are not sufficient to capture intangible risks such as reputation and brand identity. In the future, a more hybrid form of due diligence, combining legal, financial, technological, and human resources expertise, could become necessary to measure what current tools struggle to capture. This evolution would also call for the development of new metrics to evaluate intangible assets, thereby reducing the risk of overvaluation and post-closing disputes.

Rather than offering definitive answers, these reflections underline that CSR in luxury M&A is still a moving target. The evidence examined here points towards an increasing convergence between law, governance and reputation, but the exact form this will take remains open. What can be stated is that the ability of firms to anticipate regulatory developments, to design governance structures that give credibility to their commitments, and to negotiate transactions that respect identity as well as value, will play a decisive role in shaping the future of the industry. In this sense, CSR does not close the debate but rather opens new questions: how can intangible assets be measured with accuracy? How can boards reconcile financial pressures with reputational stewardship? And how will regulators, investors and consumers continue to redefine the boundaries of responsibility? These questions indicate that the relationship between CSR, reputation and M&A will remain a crucial field of inquiry, where the different ways of intersection between law and markets will demand further study.

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