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SUMA PS4100
December 7, 2021

Pirelli's Sustainability Strategy

Pirelli is an Italian tire company. Their main products are high-value tires, mainly associated with high-end performance and safety measures. They are known for their partnerships with premium value cars, and also for their involvement in the motorsport industry. Additionally, Pirelli is known for designing tires that match specific characteristics of the vehicles they're partnered with. Recently, Pirelli has been working hard to be known as the tire manufacturer leading in sustainability efforts. This case study will introduce Pirelli's sustainability strategy and progress, as well as understand how sustainability encompasses more than just environmental factors within the company.

Pirelli's Definition of Sustainability

Pirelli's definition of sustainability is inspired by the United Nations Global Compact, a global initiative for businesses to align with the UN principles on human rights, labor, environment, and anti-corruption. The initiative urges businesses to take action in advancing societal goals, such as the UN Sustainable Development Goals, aligning Pirelli's business principles with society values within the same organizational strategy. Pirelli's overall definition of sustainability extends to more than just environmental factors, and includes social factors, transparent reporting, workers safety measures, and risk management. This case study will analyze all of these aspects of sustainability within Pirelli according to their reported sustainability strategy for 2025¹.

First, we will focus on sustainability factors as they relate to environmental factors to address Pirelli's definition of sustainability. Within this sphere, Pirelli aims to reduce total carbon emissions and reach carbon neutrality by 2030. To do so, they address several areas in the production process such as introducing innovative materials used in their products to reduce fossil-based ones, recover end-of-life tires, increase the use of renewable and recycled materials, and manage waste and natural resources more effectively. Pirelli also puts a lot of focus in their supply chain, and aims to enhance their supply chain's sustainability standards and compliance.

Pirelli's definition of sustainability also focuses on non-environmental factors, such as social goals, business reporting, and worker safety measures. In terms of social goals, Pirelli has introduced risks and impact human rights assessments throughout the supply chain. They employ due diligence in places where they are entering or creating new markets, to avoid conflicts over

¹ "Our Sustainability Plan: 2021-2022 I 2025 Industrial Plan", Pirelli Corporate, March 31, 2021.
https://psi-dotcom-prd.s3-eu-west-1.amazonaws.com/corporate/Piano_Sostenibilit%C3%A0_v.FINALE.pdf

minerals, especially with the use of cobalt, a prime mineral used for the transition to renewable energy. Pirelli introduces compliance declarations for every worker within the company and supply chain, continuously leads on-site trainings and actively encourages their factories to participate in annual sustainability standards compliance audits led by third-parties. More policies that are in place along the supply chain include a worker code of conduct, equal opportunities statement, and whistleblowing procedures².

What may be one of the most fascinating, and unusual, sustainability factors within Pirelli's definition of sustainability is their "multi-stakeholder" approach to business. Under this approach, customers, employees, suppliers, shareholders, the environment and institutions are all taken into account and included in the decision-making process towards a sustainable transition. Pirelli interacts with its stakeholders by conducting interviews and surveys about their sustainability priorities and how they compare to Pirelli's priorities. Pirelli also receives feedback from them and includes this information into their overall sustainability strategy³. Operating under this "materiality matrix" offers opportunities for all of Pirelli's stakeholders to voice their concerns around sustainability and for the company to act towards achieving them more efficiently and equitably.

Another non-environmental factor of sustainability within Pirelli is worker wellbeing and safety measures. Pirelli aims to introduce its values within the organization, linking the organizational purpose to their workers across the company. Pirelli wants to put the wellbeing of the workers as a top priority. By 2025, their priorities are to show employees that they care about their mental and physical wellbeing by providing worker flexibility and employee protection within the organization, as well as by tailoring welfare programs suited for different employee needs. By caring about their employees, Pirelli shows them that they are the most important resource within the company. They also aim to support business transformation by providing up/reskilling trainings, and create a common company culture rooted around more diverse personal and professional backgrounds.

Management addresses sustainability within the organization as well, and it considers its supply chain, customers and stakeholders. In terms of their organization, Pirelli is focusing on increasing efficiency in their management of natural resources and waste, increasing worker satisfaction and safety measures, and disclosing these measures publicly. They also consider the supply chain management and its producers by implementing assessments and sustainability trainings, granting best practices awards and including direct partnerships with innovative technologies. Lastly, Pirelli keeps their customers and stakeholders informed of their

² Ibid.

³ "Materiality Analysis", Pirelli Corporate, June 11, 2019.

<https://corporate.pirelli.com/corporate/en-ww/sustainability/multi-stakeholder-approach/materiality-analysis>

sustainability efforts by publishing annual reports on waste and natural resource management, as well as worker wellbeing indexes and the company's long term strategy around sustainability.

All in all, Pirelli's definition of sustainability is one focused on transparency and public disclosure. It has released an annual report every year since 2015, each report comprehensively analyzing different company values such as financial performance, intellectual and human capital, natural resource management and efficiency, and societal goals.

Pirelli's Structure and Capacity

Pirelli's overall organizational structure is very top down, with a CEO and vice-chairman at the top, followed by strategic advisors, a deputy CEO in charge of senior officers, including the Senior Vice President for Sustainability and Future Mobility, followed by a general manager and senior vice-presidents for multiple operations (cybersecurity, supply chain, marketing, tire services, etc...) Within this overall structure, we see the mention of sustainability three times. The first mention of sustainability is an advisor to the CEO and vice-chairman of Pirelli as Senior Advisor for Sustainability. The second we've already talked about briefly, the Senior Vice President for Sustainability and Future Mobility. The third mention is seen at the bottom of the page, explaining other duties and responsibilities that the CEO has. One of them is as "Director in charge of the Sustainability matters"⁴.

The organizational structure within the sustainability group is led by the "Sustainability Steering Committee"⁵, chaired by the CEO and composed of the Top Management representing all structures of the organization. This committee meets at least once a year. Within the sustainability department, there's the Sustainability and Future Mobility Department which proposes sustainable development plans to the Sustainability Steering Committee. The whole department receives support from the Country Sustainability Managers. Finally, the Board of Directors, supported by the Audit, Risks, Sustainability and Corporate Governance Committee, approves the sustainability targets.



Figure 1, Sustainability Steering Committee⁶

⁴"Organizational Structure", Pirelli Corporate, July 29, 2021.

<https://corporate.pirelli.com/corporate/en-ww/aboutus/organizationalstructure>

⁵"Organizational Structure in Sustainability", Pirelli Corporate, September 15, 2020.

<https://corporate.pirelli.com/corporate/en-ww/sustainability/organizational-structure>

⁶ Ibid.

The people working within the sustainability department are mainly from the finance and business sector. This shows that Pirelli's sustainability strategy is spearheaded by managers who understand the monetary value of becoming a more sustainable company. The sustainability department is in charge of improving Pirelli's sustainability efforts by identifying strategies, implementing projects within those strategies as well as monitoring and disclosing the results. These strategies include decreasing natural resource consumption within the organization and in the supply chain, decreasing overall carbon emissions, assessing operations within the supply chain and increasing their sustainable operations.

Strategy and Metrics

Pirelli's sustainability goals align with the UN Global Compact, and in doing so, their sustainability strategy focuses on environmental, social, and management factors. Pirelli has social, sustainability, and economic key performance indicators (KPIs) where they identify key areas for improvement⁷. Pirelli discloses these KPIs annually. In this section, we'll cover Pirelli's sustainability strategy and metrics as they relate to the environment.

Pirelli has a well developed emissions reduction strategy in their production process. They plan to reduce CO2 emissions and the use of fossil based materials by 28% compared to current levels, and increase renewable and recycled materials by 40% and 3% respectively when extracting raw materials⁸. They plan to meet these targets by introducing innovative materials into their products, including the use of rice husk (a byproduct of rice production) and paper pulp (used to make paper), and the recovery of carbon black by burning end-of-life tires.

Within their manufacturing, Pirelli aims to increase the use of renewable energy to become carbon neutral, as well as managing waste more effectively. They want to decrease their emissions by 25% compared to 2015 levels, and operate 100% off of renewable electricity. Considering that during 2020, 52% of their manufacturing energy came from renewable sources, this emissions reduction could be achievable within the five year time frame. In terms of resource efficiency, Pirelli is currently recovering 97% of its waste and wants to increase it to 98%⁹. In terms of tire use, Pirelli aims to decrease rolling resistance (the resistance between rubber and road) which in turn decreases fuel and energy consumption and increases the life of the tires. Pirelli has also developed a specific tire for electric vehicles, that matches the car design and weight, and has a decreased rolling resistance to improve battery life. Additionally, Pirelli aims to reduce their water consumption throughout every step of the supply chain. Their strategy includes a water risks assessment, minimizing water consumption, ensuring safe and good quality water, and returning good quality water back to the environment.

⁷ "Main Performance Indicators", Pirelli Corporate, 2020.

<https://corporate.pirelli.com/corporate/en-ww/sustainability/main-performance-indicators>

⁸ "Our Sustainability Plan: 2021-2022 I 2025 Industrial Plan", Pirelli Corporate, March 31, 2021.

https://psi-dotcom-prd.s3-eu-west-1.amazonaws.com/corporate/Piano_Sostenibilit%C3%A0_v.FINALE.pdf

⁹ Ibid.

Pirelli's supply chain is a key factor within their sustainability strategy. They focus on compliance with sustainability standards put forward by conducting assessments on possible suppliers, reviewing Pirelli's contract with suppliers, and yearly factory audits¹⁰. Pirelli also highlights the importance of engaging with the supply chain directly to reduce suppliers' emissions by providing trainings and enhancing partnerships with green technologies.

Pirelli has also become the first company in the world to produce an FSC-certified (Forest Stewardship Council) tire, containing natural rubber and increasing the sustainability of tires¹¹. This specific certification affirms that rubber plantations are not only being managed sustainably by preserving biodiversity, but it also sustains economic development in the local community. Pirelli's strategy is to begin its sustainable development from the extraction of raw materials all the way to production and sales. Pirelli has also established a sustainable natural rubber policy that makes them, Pirelli, a tire manufacturer, and not an owner of the rubber plantation¹². This helps foster an environmentally-conscious culture throughout its entire supply chain and gives more power to the local communities to sustain and protect their plantations.

While there is no set sustainability component for an employee's performance, there is however management compensation depending on the achievement of sustainability targets. Pirelli includes a bonus for employees who meet specific sustainability targets, combining both profits and purpose simultaneously.¹³ Therefore, there is a clear push within the company to incentivize managers to comply with and achieve sustainability standards.

Pirelli has achieved numerous sustainability outputs based on their performance indicators between 2015 and 2020. They have reduced their fossil fuel based energy consumption by 590 million kilowatts, as well as their absolute emissions within the company and across their supply chain¹⁴. They saved 11 million cubic meters of water and recovered 16 thousand tons of materials that would have otherwise been discarded.¹⁵ This aligns with their sustainability goals of increasing energy efficiency and reducing waste and depletion of natural resources.

¹⁰ "The Supplier Handbook", Pirelli Corporate, July 2020.

<https://psi-dotcom-prd.s3.eu-west-1.amazonaws.com/corporate/Supplierhandbook.pdf>

¹¹ "Pirelli Produces The World's First FSC-Certified Tyre", Pirelli Corporate, May 19, 2021.

https://press.pirelli.com/pirelli-produces-the-worlds-first-fsc-certified-tyre/?_ga=2.106292679.518651355.1634160063-1861726170.1631750122

¹² "Sustainable Natural Rubber Policy", Pirelli Corporate, October 2017.

https://s3.eu-west-1.amazonaws.com/psi-dotcom-prd/corporate/2164_English_Version.pdf

¹³ "Pirelli: a Story of ESG Integration and Performance", Cornerstone Capital Group, January 15, 2015.

<https://cornerstonecapinc.com/pirelli-a-story-of-esg-integration-performance/>

¹⁴ "Main Performance Indicators", Pirelli Corporate, 2020.

<https://corporate.pirelli.com/corporate/en-ww/sustainability/main-performance-indicators>

¹⁵ "Our Sustainability Plan: 2021-2022 I 2025 Industrial Plan", Pirelli Corporate, March 31, 2021.

https://psi-dotcom-prd.s3-eu-west-1.amazonaws.com/corporate/Piano_Sostenibilit%C3%A0_v.FINALE.pdf

Pirelli uses routine monitoring for sustainability standards across the company, updates their sustainability strategy goals and outcomes every year in the form of annual reports, and uses third-party certifications for their sustainability programs. Through their annual reports, they undergo numerous audits by third-party companies to assess their implementation of sustainability targets.¹⁶ Additionally, Pirelli uses a third-party sustainability certification program (the Forest Stewardship Council) for their production of natural rubber.¹⁷ All these choices help achieve a more environmentally-conscious company culture, from management to suppliers, and ease the ability to meet sustainability targets holistically.

Finally, Pirelli has a comprehensive risk management system from which they base their company targets. They have implemented three types of risk assessments: external company risks, strategic risks, and operational risks¹⁸. This risk management model lessens possible management risks. By being “proactive”, this system anticipates risks, and delivers better overall performance by thinking ahead. It promotes a company culture around risk management, and improves overall business performance¹⁹. Lastly, a risk management model helps Pirelli stay transparent by providing risk assessments and public reports about strategies implemented to address external, managerial, and operational risks.

Relations with Suppliers and Partners

Pirelli’s relationship with suppliers and partners reflects their commitment to sustainability, and incorporates them to be part of their sustainability goals. As previously mentioned, Pirelli uses a multi-stakeholder approach to build a relationship with their suppliers and partners. Through a series of continued interviews and surveys, Pirelli provides a “materiality matrix” where they compare stakeholders’ expectations as they relate to sustainability issues and their importance for the success of the company.²⁰ The stakeholders included in this matrix are customers belonging to representative markets, dealers, suppliers, international NGOs, as well as employees representing different countries where Pirelli operates. Understanding their stakeholder’s sustainability expectations is key for Pirelli to build foundational relationships between their partners and suppliers (stakeholders) and the success of the business.

¹⁶ *ibid.*

¹⁷ “Pirelli Produces The World’s First FSC-Certified Tyre”, Pirelli Corporate, May 19, 2021. https://press.pirelli.com/pirelli-produces-the-worlds-first-fsc-certified-tyre/?_ga=2.106292679.518651355.1634160063-1861726170.1631750122

¹⁸ “Pirelli’s commitment to governance and sustainability”, World Finance, February 24, 2014. <https://www.worldfinance.com/strategy/pirellis-commitment-to-governance-and-sustainability>

¹⁹ “Sustainable Natural Rubber Policy”, Pirelli Corporate, October 2017. https://s3.eu-west-1.amazonaws.com/psi-dotcom-prd/corporate/2164_English_Version.pdf

²⁰ “Materiality Analysis”, Pirelli Corporate, June 11, 2019. <https://corporate.pirelli.com/corporate/en-ww/sustainability/multi-stakeholder-approach/materiality-analysis>

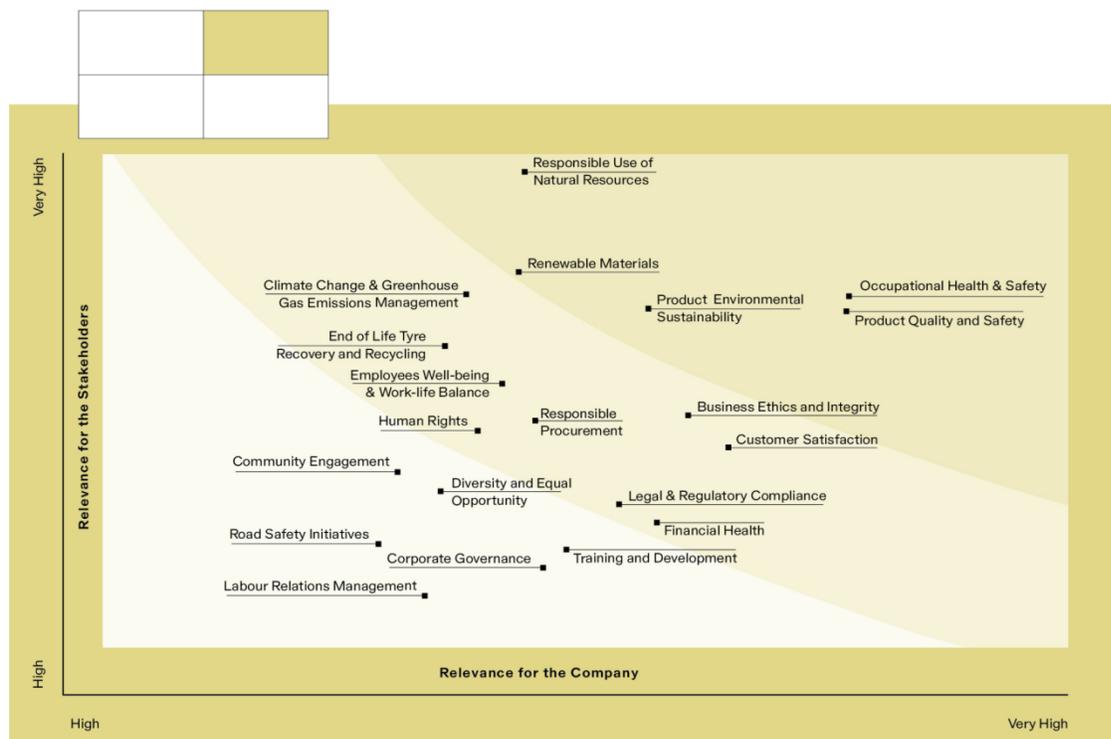


Figure 2, Piorelli's "Materiality Matrix"²¹

With suppliers specifically, Piorelli seeks to increase their sustainability standards and compliance through their sustainable natural rubber policy, in which they directly work with farmers, producers, processing plants and manufacturers to comply with Piorelli's sustainability standards.²² Through this policy, Piorelli works with suppliers to participate in third-party environmental accreditations and certification systems. To ensure compliance, Piorelli dedicates training sessions and undergoes supply chain third-party audits for suppliers to meet set environmental standards, aiming to create a skilled, qualified and sustainable supply chain. For example, the Forest Stewardship Council certification ensures that rubber plantations are "managed in a way that preserves biological diversity and benefits the lives of local people and workers".²³ This natural rubber policy implements aspects of Piorelli's sustainable value chain not only through responsibly sourcing natural resources, but also by protecting worker and human rights across the production chain, while also upholding the company's social ethics and values.

The Future of Sustainability in the Organization

²¹ "Materiality Analysis", Piorelli Corporate, June 11, 2019.

<https://corporate.pirelli.com/corporate/en-ww/sustainability/multi-stakeholder-approach/materiality-analysis>

²² "Sustainable Natural Rubber Policy", Piorelli Corporate, October 2017.

https://s3.eu-west-1.amazonaws.com/psi-dotcom-prd/corporate/2164_English_Version.pdf

²³ "Piorelli Produces The World's First FSC-Certified Tyre", Piorelli Corporate, May 19, 2021.

https://press.pirelli.com/piorelli-produces-the-worlds-first-fsc-certified-tyre/?_ga=2.106292679.518651355.1634160063-1861726170.1631750122

The overall sustainability strategy of Pirelli is set on a good foundation of core sustainability values within the company. Thanks to their annual reports, key performance indicators, and their continual training and development of a sustainable and efficient workforce, Pirelli has cemented a formidable company culture rooted around sustainability, worker wellbeing, and social responsibility. Nevertheless, there is still work to be done within the company.

One of the main challenges within Pirelli is that of a male-dominated culture. Pirelli, being a tire company, is naturally more conditioned to attract workers who are men. Within the overall organizational structure of Pirelli²⁴, there was only one woman, out of more than 30 managers, and no person of color. Noticing this, one of the major changes Pirelli should address is a better implementation of Diversity, Equity and Inclusion within the company, and work harder to attract and retain people from different genders as well as backgrounds, cultures and socioeconomic levels. This challenge is part of Pirelli's sustainability strategy under "social inclusion"²⁵. However, it lists it as an effort to "integrate company culture with perspectives, coming from diverse personal and professional areas", making it too broad to correctly identify their targets for social inclusion. Nonetheless, by implementing this first change, Pirelli will be better able to consider how their organization's activities affect society in broader and more diverse governing circles.

Another change Pirelli should consider is to increase staff and resources within the sustainability team in order to accelerate the implementation of their sustainability efforts. Having analyzed the organizational structure in terms of the overall company as well as in terms of the sustainability committee, Pirelli should increase their sustainability efforts across the organization, not just within a department. This is achieved not just by creating a Sustainability and Future Mobility team, but also through sustainable work done by the communications, administration, and strategic teams, to name a few. By increasing staff and resources dedicated towards sustainability efforts, Pirelli's overall sustainability strategy will be able to be implemented with more ease, speed and efficiency. Pirelli's sustainability bonuses, where they give their managers bonuses if their sustainability targets are met, is a good example of increasing sustainability interest among their staff. But these bonuses should be expanded to more than just managers and applied to supply chain and factory workers, as well as employees with non-managerial status that work towards achieving sustainability targets too. This helps to further steer the company culture towards sustainable practices and meet the highest environmental standards.

The future of sustainability within Pirelli is one of further growth through their production and management practices, making them a company worthy of emulating. Their sustainable practices

²⁴"Organizational Structure", Pirelli Corporate, July 29, 2021.

<https://corporate.pirelli.com/corporate/en-ww/aboutus/organizationalstructure>

²⁵ "Our Sustainability Plan: 2021-2022 I 2025 Industrial Plan", Pirelli Corporate, March 31, 2021.

https://psi-dotcom-prd.s3-eu-west-1.amazonaws.com/corporate/Piano_Sostenibilit%C3%A0_v.FINALE.pdf

are commendable and can easily transfer to other companies eager to improve their sustainability strategy. To make a company more sustainable, first you have to make it last. By prioritizing workers' wellbeing and safety, a company can ensure long-term employee satisfaction. In adding value to a supply chain and providing trainings, assessments and audits, one ensures that the production line meets their desired sustainability standards. Implementing a proactive risk management system addresses risks in advance and draws attention to responsibilities a company must take into account to thrive in the long-term. By providing annual reports and performance indicators, transparency and trust in the company is built, and it eases the implementation of comparative sustainability targets. Finally, by building a “multi-stakeholder” approach, there can be a higher degree of prioritizing not only the shareholders of the company, but also employees, suppliers, partners, investors, customers and, most importantly, the environment.

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