

Chapter 2

Social Capital and Sustainability Strategies

Abstract The chapter identifies in social capital the strategic resource for the implementation of sustainability strategies in small- and medium-sized enterprises. The relational nature, typical of these actors, has drawn attention to social capital and emphasised its significant strategic role, which, with a responsible view, would enable these actors to reinforce their relational resources. Relationships are thus vital connectors and the stakeholder engagement amongst the best viable approaches to sustainability development in small-sized enterprises. The chapter covers a literary review on the concept of corporate social responsibility and identifies the distinctive features of the sustainability strategy while describing business advantages and stakeholders' benefits. It is highly important for a SME to be part of a network or a business cluster considering their amplifying impact on relationship-building strategies. Supply chains, clusters and local systems are thereby privileged survey units especially in the view of the growing productive processes de-verticalisation and the Italian economic and productive tissue primarily characterised by small and medium-sized entities. Through an overall review of literature, the chapter investigates the concept of sustainability in these networks, from their conceptions to the underlying motivations and conditions for success. It also identifies the need to establish a link between business social capital, productive systems competitiveness and institutions in order to create to "unique" sustainable networks bearing the economic and cultural characteristics of their local contexts.

2.1 Engagement and Social Capital for SMEs' Sustainability

The prospect of social capital is a useful means for identifying and altogether suggesting SMEs' sustainability paths.

In literature, the study of corporate social responsibility (CSR) in large enterprises should be based on the *stakeholder theory*, whereas SMEs should focus on the concept of *social capital* (Perrini 2006) while engaging in responsible conducts

by virtue of their strong ties to the local system (Harvey et al. 1991; Perrini and Tencati 2008).

It is undoubtedly more complicated for a single small-sized enterprise to adopt responsible conduct compatible with the standards for the protection of the environment and human rights as outlined in the international guidelines (Global Compact 1999; OECD for multinationals 2000, 2001, ISO 26000, etc.). By contrast, social responsible behaviour in supply chains and networks is more likely to be feasible for SMEs, considering their opportunity to share costs, gather the contributions of each actor and make a real impact on sustainable development. In this respect, precisely because SMEs play an important part in the supply chains, the adoption of ethical conduct in line with environmentally friendly production processes and strategies along with the respect for human dignity and social inclusion should not exclusively be the concern of a single actor. Conversely, such behaviour should apply to the majority of entities in the supply chain to increase the level of sustainability with positive impact on the entire community while preventing the unethical misconduct of others from undermining their efforts.

This insight, although influenced by the different production chains, may be applicable to several organisational structures of production processes. Nowadays, the tendency to refer to business in terms of “processes” clearly shows that the running of production processes goes generally beyond the organisational boundaries and requires the active participation of different units either inside or outside the business. Furthermore, the logics of competition and global research excellence have nourished the unbundling of production processes along with supply chains de-verticalisation and encouraged businesses to oversee primarily those highly effective activities or processes whose distinctive resources and skills may significantly boost their competitive advantage. The supply chains showing an increased division of labour and a high business specialisation in different activities widely support the aforementioned rationale (De Chiara 2013). In these circumstances, therefore a low environmental impact, human rights protection and recognition may be the effective outcome achieved by the joint efforts of all parties within or outside the supply chain in a broader network dimension.

In SMEs, the ability to maintain relationships and build confidence among stakeholders is considered the strategic resource par excellence. If social capital is a strategic asset, its management is strategic too (De Chiara 2012). For the purposes of responsible social capital management, SMEs will be able to strengthen the relationship nature of these actors (De Chiara 2012), in other words, the corporate social responsibility will help increase SMEs’ social capital. Several scientific contributions have underlined the existent positive relationship between responsible behaviour, its ecologic and/or social value and the possibility to enhance businesses relational nature by improving the social capital (Thompson and Smith 1991; Spence et al. 2003; Perrini 2006). In a self-referenced circle, the higher the confidence gained by management and/or entrepreneur, the less complex the governance (Jones and Thomas 1995). If social consensus and the enterprise’s overall credibility is

high, the conflicts with stakeholders and transaction costs will be consequently minimised and the image of the business on the market inevitably enhanced.

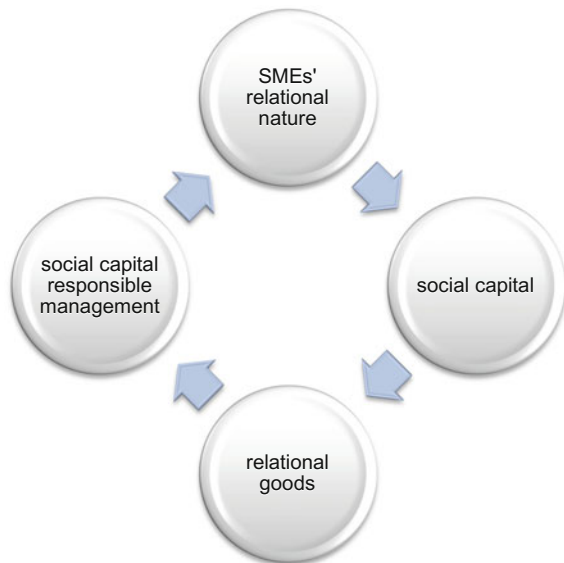
The abovementioned resources are non-material, exclusive, non-replicable, inimitable and the result of interactions fuelled by the continuous proliferation of well-established professional relationships between the business and the stakeholders. These resources are thus, at the base of the long-term performance of SMEs. Their undisputable value is also measured in terms of business evolution, which is even further down the road of virtual relationship implementation where trust becomes essential to the smooth running of activities and relation development (De Chiara 2005).

This virtuous circle describes the relational nature, typical of small-sized enterprises and brings *social capital* and the *relational goods* to the fore while stressing the strategic importance of social capital management and its function in responsible conduct. In fact, such conduct aims to enhance both social capital and the relational goods value—confidence, consensus, credibility, etc.—making clear for SMEs that sustainability principles should be applied through a network-based approach (Fig. 2.1).

These accounts clearly indicate the way forward to foster sustainable behaviour in SMEs: by developing socially responsible processes and policies on the base of their social capital asset.

In literature, several contributions have identified in some characteristics of SMEs' compatible traits for the adoption of socially oriented behaviours placing special emphasis on the influence of subjective sphere, the importance of internal and external relatedness, the rooting enterprises and their entrepreneurs (Spence et al. 2004). At the same time, their inclination to the good of the community, their

Fig. 2.1 Virtuous circle:
identity, social capital and
SMEs' sustainability



strong sense of identity and attachment to the land and relevant socio-economic background, contribute altogether to the definition of SMEs as “territorial enterprises” in terms of their abilities to intertwine with their local contexts (Del Baldo 2009).

Thus, relationships are vital connectors and stakeholders’ engagement has increasingly become the most viable approach for the implementation of sustainability plans. This approach meets at least two objectives: (1) it enables SMEs to apply corporate social responsibility strategies; (2) it has a clear and effective impact on the entire community through the implementation of sustainability basic principles, namely respect for the environment and human rights.

In this highly globalised scenario, sustainable-driven strategies become, among other things, a safe differentiation factor and a generator of competitive advantage, ensuring the enterprise enhanced visibility and increased profit margin (Molteni and Todisco 2008). Unfortunately, as pointed out by several international organisations, SMEs hardly engage in responsible conduct, probably due to cultural or financial barriers. In this respect, United Nations Industrial Development Organization (UNIDO) (2007) prompts the need for SMEs to provide a forum for dialogue with internal and external stakeholders to enhance confidence through consensus building and mutual satisfaction of needs.

In fact, all those advantages, extensively illustrated in literature, are the result of direct engagement and collaboration of different actors allowing cost sharing and effectiveness of sustainability operations. Furthermore, by pursuing cross-business synergy initiatives it is possible to identify and implement common activities including training programmes, professionalisation of human resources or joint actions for suppliers, customers and local communities. Sharing initiatives with other partners is crucial to effective cost sharing and the success of operations.

Being part of a local network or a business cluster is particularly significant for SMEs from a relational standpoint. A cluster facilitates interrelationships within the social, historical and business contexts, and contributes to the tightening of the bond with the actors involved. Social capital reinforces itself through proximity to businesses, which enables them to share knowledge and economic, human and material resources.

The business cluster also creates the conditions for enterprises to operate as meta-organisations (Battaglia et al. 2010), namely as single entities bearing the homogeneity and proximity of their industrial activities. Clusters may then encourage the dialogue with institutions and act as drivers for an integrated approach of all the actors to pursue common goals (Iraldo 2002). It is therefore essential for those SMEs integrated in a multi-stable system, including more interacting systems, to build collaborative relations with the existing local players— institutions, suppliers, sub-suppliers, trading systems—in order to quickly and easily manage both processes of adaptation and change. Institutions, in turn, act

either as mediators or as active proponents of dialogue to foster common sustainable development strategies (Antoldi et al. 2008; Battaglia et al. 2010).

Establishing a special bond between the business social capital, the production systems competitiveness and institutions is the pre-condition to enhancing territorial specialisation and regional distinctiveness, which allow the identification of sustainable paths to requalifying regional processes and products, boost local economy and improve its competitive advantage.

The collaboration with institutions, community and businesses is crucial, especially at a time of limited economic resources, private and public alike, and therefore, the creation of networks and the development of new synergies are the key premise to improve efficacy and efficiency of operations. The crisis of recent years has led to serious difficulties that are plain for all to see, i.e. business closures and staff reductions, which can all the same act as incentives for businesses, especially the small-sized ones, to open up to different forms of collaboration (Villa and Antonelli 2009; Massaroni and Ricotta 2011). On this line, European researchers have identified a steady increase of networks and clusters (EC 2009) and the European Commission, while backing up the operations of each enterprise, primarily favoured the implementation of accompanying measures in support of business networks and production centres to foster sustainability strategies, growth and competitiveness.

Enterprises and stakeholders—trade unions, workers, consumers, third sector organisations, and civil society—play indeed a key role in facilitating the processes of change and the involvement of the financial sector to encourage access, especially by small firms, to capital and credit (EC 2011).

A few Member States have developed new models to promote business co-operation. *The network business agreement* is an Italian example, which was set up to help entrepreneurs cooperate with each other by exchanging information or industrial, technical and commercial services to implement activities and projects in their respective fields of expertise so as to increase both individual and collective competitiveness.¹

Trust is an essential ingredient for collective action and yet it does not ensure alone the effective implementation of operations, neither does it in terms of benefits for all partners. With a view to sustainable planning, it is necessary to adopt plans and joint sustainability actions and entirely integrate them in the cluster strategic planning (UNIDO 2008). Individual practices have limited results, whereas partnerships' collaboration with supply chains also internationally, and public/private multilateral agreements, are critical for the development of exhaustive programmes ensuring better business performances and good results for all the stakeholders involved.

¹This measure enables businesses to come together while maintaining the autonomy and the independence of each so as to enter into a collective agreement, which fosters aggregation between micro-enterprises and SMEs.

2.2 The Theoretical and Institutional Background of the Concept of Sustainability

The main stages of the international project leading to the definition of sustainable development are outlined in the Table 2.1.

Reference should also be made to the UN Secretary General's initiatives: in 1983, the World Commission on Environment and Development was set up to develop a global agenda on change while the Global Compact, a sort of 'global agreement' based on a more inclusive and sustainable global economy, was being launched in 1999. In 2000, the OECD issued *The Guidelines on Multinational Enterprises*, later updated in 2011, with the aim to promote positive contributions by enterprises to economic, environmental and social progress worldwide (OECD 2011); in November 2000, worthy of note is the initiative of the International Labor Organization with the *Tripartite Declaration of Principles Concerning Multinational Enterprises and Social policy*.

Europe, in line with the above-mentioned initiatives, defined its strategy for sustainable development in 2001 (Commission of the European Communities 2001), later reviewed in 2005 (Commission of the European Communities 2005), and established, among other priorities, the principle of the integration of environmental concerns into those European policies indicated as having an impact on

Table 2.1 The main stages of sustainable development

1980—World Conservation Strategy Report prepared by the International Union for the Conservation of Nature and Natural Resources (IUCN), with the advice, cooperation and financial assistance of the United Nations Environment Programme (UNEP), and the World Wildlife Fund (WWF)	Sustainable Development is maintaining essential ecological processes and life-support systems, preserving genetic diversity and ensuring the sustainable utilisation of species and ecosystems
1987—World Commission on Environment and Development (United Nations Brundtland Report)	Sustainable Development has been defined as "the development which meets the needs of the present without compromising the ability of future generations to meet their own needs" (p. 16)
2000—Millennium Summit 2002—World Summit on sustainable Development	The concept of sustainable development has been broadened and divided into three specific scopes including the environmental, economic and social dimensions
2002—OECD	"Consumption of goods and services that meet basic needs and quality of life without jeopardizing the needs of future generations" (p. 2)
2010—Centre for Sustainable Enterprise	"A way of doing business that creates profit while avoiding harm to people and the planet" (web site)

the environment. The strategy, completed in the Communication of Lisbon 2000, intends to become the reference point for policy-makers and public opinion alike, in an attempt to contribute towards changing the community's attitude. It focuses on the promotion and protection of human rights, solidarity among generations as well as on the principles of a democratic society involving citizens, economic/social actors to ensure politics consistency, dissemination of the best possible knowledge and precautionary and causality principles. The "knowledge society" Europe intends to build, needs to rely on sustainable development through an extensive training programme enabling a significant number of actors to pursue shared objectives and scientific and technological innovation with the collaboration of universities, researches institutes and other bodies. In this respect, in order to foster production and products/services consumption with low environmental impact affecting consumers' behaviour accordingly, economic and financial means need identifying. Furthermore, the Commission and Member States need to carry out a joint action programme to improve European funding efficiency and encourage the dialogue among public bodies, national and European, including ONGs, the private sectors—consumers and social partners—for a full mobilisation of efforts by all stakeholders.

A broadening of the concept of sustainability to the social dimension ensures fair distribution, adequate standards of social protection, human and civil rights protection as well as respect for minorities, gender equality and international relations balance (Tencati 2007).

The double environmental and social dimension embedded in the concept of sustainable development is also expressed in the concept of sustainable consumption. This term, adopted at the Symposium in Oslo in January 1994, refers to: "The use of services and related products, which respond to basic needs and bring a better quality of life, whilst minimizing the use of natural resources and toxic materials, as well as the emissions of waste and pollutants over the lifecycle so as not to jeopardise the needs of future generation" (Sustainable Development Knowledge Platform-UN). In so doing, the institutions intend to define the purchasing behaviour of green and ethical products as well as identify responsible conduct in terms of consumption, usage and disposal of goods.

On a business level, the origins of the sustainability concept, better known as corporate social responsibility (CSR), go back even further and its historical evolution is characterised by an embarrassing number of scientific contributions.

The criterion used to describe the main evolutionary stages of this term lies in the identification of those definitions, which serve as a guidance for its origins and cover different scientific, institutional and geographical viewpoints.

The origins of the CSR concept can be traced back to the American school. Around the 30s, a few schools of thought encouraged primarily managers to fulfil social obligations over and beyond the profit from use of goods or services. Among major contributions, *The Function of the Executive* by Barnard in 1938, the *Social Control of Business* by Clark, in 1939 and in the *Measurement of the Social Performance of Business* by Kreps, in 1940.

The first author who stressed the social role of enterprises was Barnard in 1938. In fact, he highlighted the importance and the influence of the external environment on manager's decision-making processes. However, Bowen (1953) offers his best contribution by underlining the importance for the entrepreneur to pursue policies, make decisions or take actions in line with the objectives and values of our society.

Even though the reference addresses exclusively the manager's individual responsibility, these approaches offer some insights into an innovative way of doing business, for which the enterprise is seen as an entity capable of affecting, more or less directly, the other aspects of the surrounding reality.

During the same years, however, literature also provides controversial and opposite views to the abovementioned vision. In particular, Friedman, in his book *Capitalism and Freedom* (1962), claims this vision to be rather subversive as it diverts the enterprise from its key task of maximising shareholders' profits, also known as the business owners. Later, in 1970, such a position became apparent in the article *The Social Responsibility of Business is to Increase its Profits*, where the author affirmed that "There is one and only one social responsibility of business: to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud".²

Friedman's strict viewpoint has gradually been overcome by other authors: in the 60s, Davis defined CSR as "the businessmen's decision and actions taken for reasons at least partially beyond the firm's direct economic or technical interest" (Davis 1960, p. 70), in which both the power and social responsibility bond was crucial. During the same time, Frederick (1960) emphasised the business impact on the territory and claimed that the economic meaning of production lay in the possibility to enhance global socio-economic welfare. McGuire, in 1963, reaffirmed the need for businesses to oversee not only economic and legal obligations, but also the responsibilities beyond them. Walton (1967) defined CSR as "the new concept of social responsibility recognizes the intimacy of the relationship between the corporation and society and realizes that such relationships must be kept in mind by top managers as the corporation and the related groups pursue their respective goals" (Walton 1967, p. 18). Walton's merit lies in introducing for the first time the voluntary nature of business, which, in fact, should act on a voluntary basis and not under the effect of any external coercion while being able to sustain all costs, not necessarily profit-related.

In the last twenty years or so, the responsibility ownership was entirely attributed to the enterprise, whereas at the end of the 70s, Carroll provides an enlightening insight into the topic. Through a pyramidal structure, he illustrates the priorities all businesses should consider while defining their conduct and pursuing their objectives. In a bottom-up structure, *economic* responsibilities, which are the enterprise's primary and unescapable priorities, lie at the ground, followed by the *legal* responsibilities, considered the essential prerequisite in a functioning society and the *ethical*

²The work and the quote can be found on the University of Colorado Boulder website.

ones calling for the adoption of proper and fair conducts. Finally yet importantly, come the *discretionary* responsibilities meant to improve the standards of living beyond legal requirements (Carroll 1979). Later on, in 1983, the author rectified his previous definition by replacing the *discretionary* with the *philanthropic or voluntary* responsibilities, namely free business actions set to improve the community's quality of life by means of funding and human resources.

Around the 80s, the impulses provided by these contributions fostered the development of some branches of research, that is to say the *stakeholder theory*, *business ethics* studies and the *corporate social performance*.

The stakeholder concept, firstly used in 1963 by the Stanford Research Institute to indicate all actors involved in business activities (Rusconi 1988) was furtherly explored by Freeman, in 1984. Freeman, in fact, defined stakeholders as a group of individuals expected to be influenced or influence the achievement of corporate goals. He classified them into two types: *primary stakeholders*, including groups or individuals as being functional to the enterprise's survival—shareholders, employees, customers, suppliers and public institutions—and *secondary stakeholders*, namely each identifiable subject affecting or being affected by business' operational activities in terms of products, policies and work processes (Freeman 1984). The *stakeholder theory*, in Freeman's initial approach (1984), does not take people's value system into consideration. It was not until 2005 that, after many attempts to re-define and overcome the limits of the first contribution,³ a more explicit characterisation of business responsibility with a view to stakeholder relationship management was developed.

According to Donaldson and Preston (1995), ethical problems are indeed crucial in furthering the stakeholder concept. The authors claimed that it is important to specify which version of the stakeholder theory one is referring to. In fact, the stakeholder theory can be applied, in descriptive terms, considering the business as a combination of cooperative and conflictual interests among stakeholders; in functional terms, ensuring the effectiveness of stakeholders' relationships management whatever the purpose of the business; in regulatory terms, identifying in stakeholders' concerns the aims and not simply the corporate means.

Between the end of the 70s and mid-80s, a line of research called *business ethics* in America began to focus on the role of moral aspects and ethical values considered as the foundations of business behaviour. In general, *business ethics* studies have strongly contributed to furthering the notion of business social responsibility, especially by favouring CSR's double approach: the so-called *strategic vision*, which identifies potential advantages, not necessarily in economic but reputational terms, and the *ethics vision*, which prompts businesses to adopt proper conduct first because it is right, just and fair.

³One of main criticism made of Freeman's contribution is that it overlooks moral and value aspects while focusing exclusively on a business strategy for profit maximisation. Furthermore, the lack of a precise definition of useful means to identify the real stakeholders' characteristics has been subject of criticism too. The risk is to create a broader and Omni comprehensive theory.

The mainstream of studies on *corporate social performance* (CSP) starts spreading at the end of the 70s in the United States thanks to Carroll's valuable contribution (1979). The corporate social performance is due to the integration of three dimensions: *corporate social responsibility*, *corporate social responsiveness*, complying with the expectation of societal mores and ethical norms, and the *social issues*, namely the objectives or specific key areas of concern the enterprise aims to address. In this respect, in 1979, Sethi, in his article *A Conceptual Framework for Environmental Analysis of Social Issues and Evaluation of Business Response Patterns*, splits the corporate social performance into three-dimensional framework, which includes: *social obligations*, assessing the business responsiveness to legal and market requirements, *social responsibility*, namely complying with social values and moral norms beyond societal obligations and *social responsiveness*, which describes the active role of businesses in anticipating social needs and expectations.

At the beginning of the 90s, *the stakeholder theory* and *business ethic* studies had paved the way for further reflections on the issue.

At institutional level, the Committee for Economic Development (CED), as already in 1971, in the *Social Responsibilities of Business Corporations* states "business is being asked to assume broader responsibilities to society than ever before and to serve a wider range of human values. Business enterprises, in effect, are being asked to contribute more to the quality of American life than just supplying quantities of goods and services. In as much as business exists to serve society, its future will depend on the quality of management's response to the changing expectations of the public" (CED 1971, p. 16).

Also Europe delivered a contribution on this subject, earlier in 2001, by publishing a CSR definition in the Green Paper whereby it describes social responsibility as "(...) businesses' intention to integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis" (CE 2001, p. 7). Furthermore, in the last communication, *A renewed EU strategy 2011–14 for Corporate Social Responsibility*, the European Commission defines CSR as "the responsibility of enterprises for their impacts on society" (EC 2011, p. 6).

Several Italian authors have given their contribution to further investigate this concept. In this respect, worthy of note is Sciarelli's contribution, who in 1999 and later on in 2007, depicted business social engagement through tridimensional model based on the principles of solidarity and trust (*corporate social responsibility*), processes (*corporate social responsiveness*) and policies (*issues management*).

According to Sacconi (2005), corporate social responsibility is "an enlarged corporation governance model for which, who governs the corporation has responsibilities concerning the observance of trust duties regarding both property and in general all stakeholders as a whole (trans.)" (Sacconi 2005, p. 114). Furthermore, the author redefines the business ethics concept as "the study of the set of principles, values and ethical standards that govern, or should govern, the economic activities (trans.)" (ibidem-p. 257). Under this definition, business ethics is considered as a form of 'ethics applied' to institutions and economic practices.

During the same period Molteni (2004), referred to social responsibility as “the tension of the enterprise and, therefore, of corporate executives to meet, in ever-increasing extent, going beyond the law requirements, the various stakeholders’ legitimate social and environmental expectations as well as the economic ones, by carrying out its activities (trans.)” (Molteni 2004, p. 4). In the Italian debate, Perrini (2007) argues for responsible businesses to pin down, measure, monitor and assess the environmental, social and economic impact of their own practices. CSR is thus, based on “the integration of economic, environmental and social objectives (triple bottom line) while leaving a discretionary choice to the interaction with all stakeholders involved (trans.)” (Perrini and Pivato 2007, p. 77). On the other hand, Gallino (2007) reaffirms the limitations arising from the adoption of responsible conduct that would exceed the legal requirements enforced in a given territory. The author calls into question businesses sensitivity and asserts that corporations need to focus on all those cases in which local law is inconsistent with internationally accepted moral values and principles. This aspect refers to the principle laid out in the report on social responsibility of transnational corporations published in 1999 by the United Nations Conference on Trade and Development (UNCTAD). Therefore, Gallino summarises the CSR definition: a responsible enterprise is considered as such on an economic, social and environmental level, when it chooses to integrate in its decision-making process, including the strategies and the management of production units, the norms, the clauses, the suggestions, the prohibitions, recommendations, the obligations, ethical rather than legal, of international conventions and agreements. On this line the enterprise also needs to consider the consequences of their violation or avoidance, irrespective of the law enforced in countries in which they have headquarters and/or in others countries where they are represented by subsidiaries, or supply and sub-supply chains (Gallino 2007).

2.3 The Distinctive Features of a Sustainability Strategy

CSR is a concept intimately connected to the way an enterprise is conceived and therefore its purposes. It is certainly clear that it would have never appealed to a neo-classical type of business in which the owner/entrepreneur played the all-encompassing role and much less to that indicated by the Charnegie School, which, while relying on multiple business actors, it highlighted its submissive attitudes to adjust externally. Nor would it have broken through a vision of a corporation seen as a “third entity” endowed with self-regulation capacities, and yet, still unable to play an active role in its context and serve a social function that would be compatible with its economic objectives.

The most creditable corporate vision on responsible conduct and its contribution to the wellbeing of the community is provided by *the stakeholder theory* (Freeman 1984, 2005). Firstly introduced in all its meaning by the Stanford Research Institute (1963) and further re-interpreted by Freeman (1984, 2005), the stakeholder concept

identifies different categories of individuals, which, either are influenced or influence the achievement of business goals. However, it is in Clarkson's contribution, in 1995, that the classification broadens the concept to all potential stakeholders while considering them as those individuals or groups of people indicated as having expectations, shares, rights or interests in the past, present or future practices of a business.

The *stakeholder theory* is the foundation of corporate social responsibility, as it identifies the need in business management to comply with the concerns of all stakeholders involved. This condition prompts the enterprises to strike a balance between their economic objectives, maximise shareholders' profit and meet stakeholders' expectations. According to the concept of equity (fairness), which should guide the business in its management, and with reference to all stakeholders' categories, "the *stakeholder theory* opens up the field to an ethical governance by appealing to moral principles and values (trans.)" (Del Baldo 2009, p. 66).

A business has, by its very nature, a social function due to its internal and external relationships.⁴ It establishes external relations by retraining resources and offering goods and/or services. This exchange should occur in a competitive fashion considering the existing competitors, but at the same time, it should also meet a broader expectation that goes beyond the business ownership, namely that social and common interest critical to its survival.

The enterprise must be conceived as a social process within which an economic process develops (Bartels 1967): it needs to uphold the binomial "society and economy" (Sciarelli 2007).

In the business environment too, the enterprise enters into relations with the individuals operating within it and therefore needs to implement guidelines on social inclusion to ensure the overall coexistence among people (Ulrich and Maak 2000). Traditionally, the business had a social responsibility towards its employees and therefore it needed to find strategic and operative solutions to meet the workers' needs—e.g. the creation of houses, childcare facilities, cultural and sport centres around the factory. The concept has now widened to ensure survival, safety and professional growth. The enterprise needs to implement active prevention towards its employees to improve health conditions and safety measures (*do-no-harm principle*), must guarantee their survival, paying fair salaries (*the principle of fairness*), ensure professional growth through the training of staff and exchange of skills and abilities (*the benefit principle*) (Testa 2007).

The business is thus, an organ of society and serves a social function. The importance of this function has acquired the right value due to a growth in maturity of civil society that has high demands and expectations with respect to public and private institutions that, therefore, must find a balance and reconcile economic criteria with social objectives in the governance of their activities.

⁴"(...) businesses of all size must consider their role in today's society when making strategic and operational decisions" (Zadek and MacGillivray 2007, p. 13).

The business social function towards the community and external stakeholders involves the adoption of *do no harm* and *transparency* principles (Testa 2007). Business management practices relate to the first principle through the implementation of measures to secure the health, the safety and public wellbeing, namely the promotion of eco-friendly technological innovations, the sustainable use and disposal of resources as well as manufacturing processes respectful of human rights in the entire supply chain.

A transparent-based governance approach leads the enterprise to thoroughly assess and properly deliver the achieved performances' results to its stakeholders.

Although the prime responsibility of a company is generating profits, companies can, at the same time, contribute to social and environmental objectives by integrating corporate social responsibility: the business, as the most powerful institution in society, must be the instrument of social justice (Prahalad 2005). "Even the most private of business enterprise is an organ of society and serves a social function... the very nature of the modern business enterprise imposes responsibilities on the manager" (Drucker 1955, p. 375) and "it must consider the impact of every business policy and business action upon society" (ibidem p. 382). In the concept of the corporation as citizen stands out the corporations' social function, which can be able to bring benefits to society and environment while improving a firm's competitiveness (Porter and Kramer 2002; Husted and Allen 2004).

So economic responsibility is the first responsibility of a business, but economic performance is not the only corporate concern (Drucker 1992) and therefore the performance of a company should be measured on its combined contribution to economic prosperity, environmental quality and social capital, known as the *triple bottom line* (European Commission 2001).

Therefore, CSR is an essential element for doing business (Caselli 1998), regardless of the business size. It is clear that the bigger it is, the higher the level of social responsibility in its management (Harvey et al. 1991), but it is also important to examine the contribution of the small- and medium-sized enterprises.

Business purposes, well explained in *the stakeholder theory*, *business ethics*, *the systemic theory* and *the resource-based view* (Perrini and Pivato 2007), focus on value maximisation (*value theory*) while delivering that value to all stakeholders (*value dissemination*). As clearly stated in the last communication by the European Commission on CSR strategy 2011–2014, the enterprise must find the most viable solutions to create a shared value for owners, stakeholders and the entire society.

On a sustainable development level, the business behavioural model acts as a CSR strategy when it manages to uphold environmental issues and social inclusion, coordinate all business efforts towards environmentally friendly production processes and recognise the prime principle of respect for human dignity in the whole supply chain. It has already been affirmed: "CSR includes corporate social acts that satisfy social needs and at the same time are over and beyond just the legal

obligations of the firm” (Lii and Lee 2012, p. 66). Some authors, while recognising CSR strategy, have further examined two key elements: (1) a clear statement of social/environmental objectives in the business mission and strategies; (2) the formalisation of organisational solutions for strategy implementation (Porter and Kramer 2006; Contri and Maccarone 2009). By respecting the limits of exceeding law requirements, it is fair to add another two factors (Fig. 2.2): (3) the implementation of effective measures to reduce the impact of business practices on the environment or ensure a higher social cohesion—this refers to defining new products/services or a new way of organising the production/commercial process as well as all necessary investments and resources; (4) establish proper communication with all stakeholders on the ongoing business sustainability programmes. It is imperative for the business to communicate on sustainability objectives, performed investments, achieved improvements and expected results. Voluntary communication is in fact an essential element in the sustainability strategy, as the dissemination of social and environmental information, also according to the European Commission, facilitates stakeholders’ engagement, which may contribute toward enhancing public confidence in business (EC 2011). Business communications may take place through a communication plan including the most suitable means (public relations, sponsorships, green advertising or ethical publicity, social media, eco-label) and non-financial reports, namely CSR report, sustainability report, environmental report, social report etc.

The “responsible” strategic conduct is a competitiveness model allowing business to differentiate itself from competition in the sustainable development scope in



Fig. 2.2 Distinctive features in the sustainability strategy

order to gain visibility in the eyes of consumers. This approach may be classified as a competitive differentiation strategy based on the creation of the business offer through its ethical connotations, namely adding an “ecological value” or “social value” to the product/service it intends to provide. However, with reference to Porter’s observation (1980), sustainability strategy may be interpreted as (a) a differentiation strategy under which a business develops products/services for a particular sustainable-conscious market segment, combined with other offerings that meet specific market needs; (b) a focus strategy, whereby the enterprise strictly concentrates on a single offer to meet the specific needs of an ethical-oriented market.

The community and consumers’ concerns on social and environmental issues has been described as one of the best market opportunities allowing businesses to differentiate and re-position themselves, gain a competitive advantage and increase the economic return (Porter and Kramer 2011). The target market for enterprises applying sustainability strategies is a responsive sustainable-driven market, which has increasingly developed a moral consciousness in their purchasing choices (Eisingerich et al. 2011).

The adoption of this strategy implies a radical change of strategic and management perspective, which clearly has an impact on the decision-making process (Perrini and Pivato 2007). It actually requires implementing innovations not strictly product related, but more extensively, they cover the organisational and management structure in terms of how business practices and processes are sustainably driven. This approach will include all key areas of business management: production—environmental impact reduction, workers’ safety, product quality standards, etc.—marketing—design and product manufacturing, communications, labels, consumer satisfaction, etc.—human resources—career path management, training policies, management of redundancies, etc.—financial aspects to facilitate access to new resources, etc. (Perrini et al. 2006).

This strategy implies the regeneration of all resources and business capacities and consequently the enhancement of competitive factors. On the other hand, the enterprise can requalify its offer and address it to specific demand segments linked to sustainability issues, while tackling competition of medium/low quality products, especially coming from developing countries at a competitive price.

On this line, socially responsible conduct should not to be considered as an additional factor in business strategies implementation, but as an integral part of management, a safe differentiation element and a generator of competitive advantage (Molteni and Todisco 2008).

Along with the awareness of sustainable development issues, which defines the corporate culture (values system), a sustainability strategy distinguishes itself by identifying specific objectives, policies and activities through the adoption of proper communication and reporting tools. The preparation of the strategy must primarily focus on the “hierarchical” level of all potential decisions for planning sustainable



Fig. 2.3 The “credible pyramid”: effective relations between objectives, policies, operational tools and reporting on sustainability (adapted from De Chiara 2016)

projects that would comply with the business resources/abilities and be credible for all stakeholders. However, all preliminary decisions relating to sustainability goals and business conduct are therefore strategic choices, whereas production, marketing, reporting and operational choices are secondary. The enterprise should then follow a decision-making process based on the hierarchical level of the relevant decisions in order to build a “pyramidal” path as a reference model for all arising issues (Fig. 2.3).

Without a specific strategic path on sustainability, the business should not share eco-friendly communication, environmental labels, certificates, etc. namely all those operational tools supporting sustainability strategies and their differentiation choices (Ginsberg and Bloom 2004; Werther and Chandler 2005). By contrast, this approach might undermine business credibility with consumers and stakeholders and consequently jeopardise the possibility of building a strong brand identity (Benoit-Moreau and Parguel 2011).

A number of studies have examined the impact of corporate socially responsible initiatives and inferred the positive results to the business itself, its products and the purchasing consumers’ choices (Creyer and Ross 1997; Ellen et al. 2000; Sen and Bhattacharya 2001; Swaen and Vanhamme 2005; Mohr and Webb 2005).

On a business level, all advantages relating to a more direct involvement of employees, turnover reduction, transaction costs, minimisation and conflicts reduction among stakeholders (Freeman 2005) have been underlined. The business relations with the different actors and working people would efficiently improve and create a positive and more collaborative business climate. Furthermore, the resolution of conflictual relationships among employees would foster the creation of a good work environment, which, among other thing, might result in a valid support tool for building employees' confidence in the business (Berg and Gagliardi 1985).

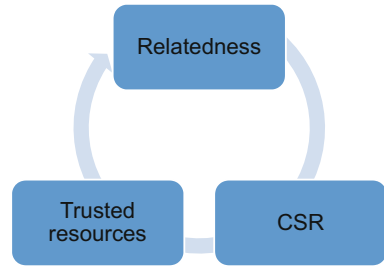
A peaceful and proactive working environment paves the way for a sustainable and responsible management, which brings about other positive results, namely, participation, involvement, professional growth and the proper identification of skills and abilities. In this light, it is possible to assume that working relations have a favourable impact on business performance and mood, which in turn contribute to creating a stimulating and rewarding environment. Sustainable human resources management also help reinforce the principle whereby the creation of a favourable working climate for employees upholds business innovation (European Parliament 2014).

It is no surprise that CSR has increasingly been referred to as a major asset in the core business, rather than a peripheral decision with philanthropic connotations (Sen et al. 2004).

Several increasingly important factors support CSR's economic implications: employees' expectations, consumer awareness, public and private markets trends, and the nature of innovation processes and the importance of financial markets on social and environmental issues. Furthermore, it has been widely shown that the enterprises surviving in the long term, also during downturn periods are those able to combine economic and ethical-social objectives together (Collins 1994): "At micro, individual business level, strategies that embrace the principles and practices of responsible competitiveness are increasingly recognised as having extraordinary potential for creating economic value and profitable outcomes" (Zadek and MacGillivray 2007, p. 11).

In terms of benefits from the business offers under CSR initiatives, the debate mainly focuses on brand effects issues (Knox and Maklan 2004). They actually include improvement of financial performances (Johnson 2003), better relationship with the market (Porter and Kramer 2002), *experiential benefit* in consumers and their perceived contribution to the general wellbeing (Hoeffler and Keller 2002) with the resulting reinforcement of their bond with the brand. In particular, the link between CSR and the brand has always been about building solid grounds for developing a brand value and its identity (Kitchin 2003) in terms of differentiation (Johnson 2003) while establishing at the same time a brand equity (Keller 2003).

Fig. 2.4 The virtuous circle
—Relatedness, CSR, Trusted
Resources



On a broader level, socially responsible behaviour improves the business image even though many believe the idea of a business operating exclusively to maximise the community wellbeing to be unfeasible (Sciarelli 2007; Freeman 1984).

Business social conduct generates a positive knock-on effect for consumers, which enables them to strengthen their commitment and loyalty to the brand. It is a trusted resource and corporations can resort to it only if they manage to build a high level of consumer satisfaction (Busacca 1994).

The abovementioned resources, namely the image, brand loyalty, trustworthiness, are all considered intangible resources, which, by their exclusive, non-replicable nature, enormously contribute to create a competitive edge and therefore they can neither be separated from the enterprise nor emulated by the competitors. Those resources are the result of all sorts of relationships the business weaves with its different actors, which in turn contribute to fuel them indefinitely. In a virtuous circle, the resources derived by the adoption of a responsible behaviour place emphasis on the business-relational dimension while developing it over time (Fig. 2.4).

Many researches underline the effects of socially responsible behaviours on enhancing business resources/expertise, creating synergies between society and economically competitive results, which help strengthen businesses' ability to handle stakeholders' expectations and accumulate immaterial trusted assets and knowledge ensuring higher and long-lasting competitive advantages (Waddock and Graves 1997; Orlitzky et al. 2003). Equally important are those studies that have identified those businesses capable of adopting sustainable conducts to attract a great number of investors (Brammer et al. 2005), or achieve better financial results (Aburdene 2007).

Finally, it seems now fair to call into question that part of literature that shows how CSR strategy manages to ensure a business' competitive advantage, and bring societal benefits to all people involved (Elkington 1994; Rodriguez et al. 2002; Smallbone 2004; Porter and Kramer 2006) (Fig. 2.5).

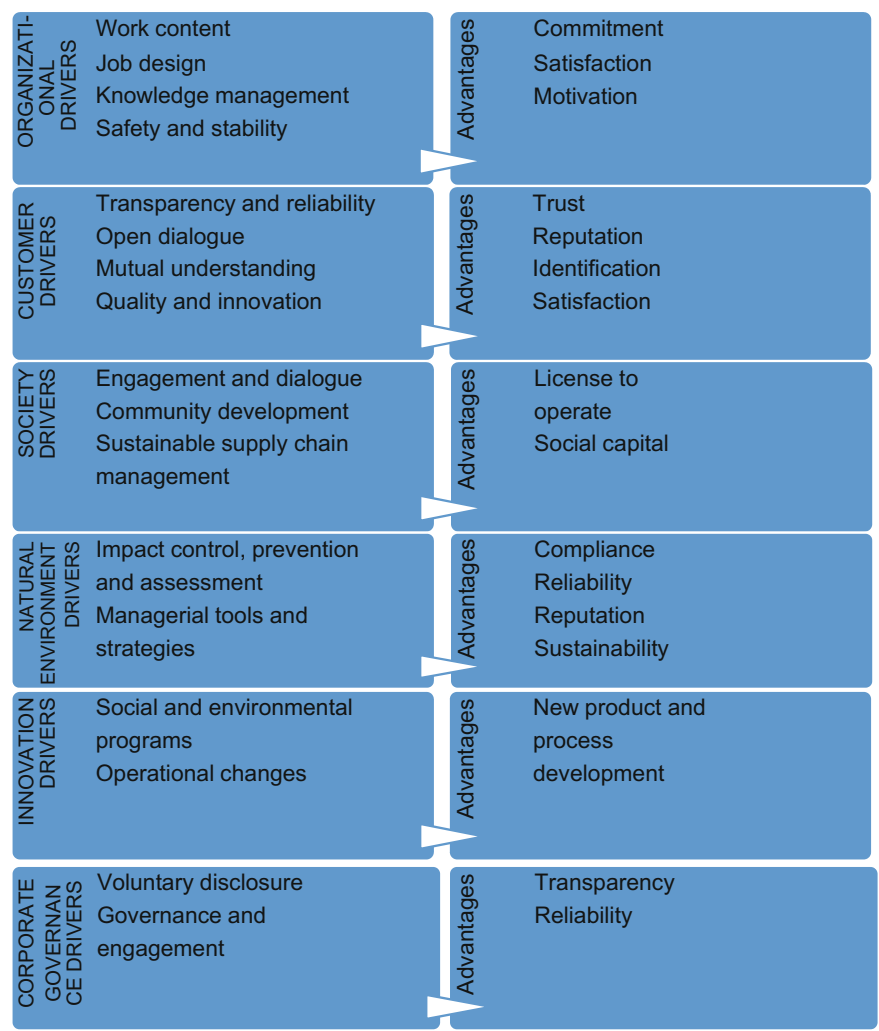


Fig. 2.5 Potential advantages in the CSR strategy (adapted from Perrini et al. 2009—EABIS)

2.4 From Corporate Social Responsibility to Supply Chains Sustainability

Sustainability strategy can also be applied to an entire supply chain, a cluster or a local system.

A sustainable behavioural analysis on a supply chain level is particularly significant due to de-verticalisation of activities, which is now a widespread practice in all sectors of the current production processes configuration. It substantially implies

the unbundling of activities among multiple actors within the supply chain including sub-suppliers, related activities and third sectors. These very actors, not always settled in the same territory of the leading enterprises or of those businesses operating in the downstream processes of the chain, are located in different geographic areas of the world, which show a comparative advantage. This organisational production process approach characterises almost all supply chains; furthermore, quite often the de-centralisation of production activities do not always coincide with the de-centralisation of decision-making processes. Thus, there are supply chains indicated as having their decisional functions positioning in developed countries and their production activities located in the developing ones.

Sustainability strategies applied within the production supply chains involve therefore, multiple actors, despite the fact that they operate in different geographical areas. The high fragmentation of production processes requires the engagement of all different professional actors involved, which can benefit from the specific experiences of each activity in the supply chain while giving their support in terms of resources and expertise. This collaborative approach also enables each productive chain to gain all the necessary support to foster sustainability strategy in all its facets and implement actions in line with the most appropriate ethical standards.

Furthermore, this approach finds it is fully applied at the level of the single enterprise, since, the high incidence of outsourcing make it necessary for all business supply chain partners to act in a socially responsible manner (Miles and Munilla 2004). The way supply chain handles environmental concerns, work conditions and health and safety issues affect (directly and/or indirectly) corporate customers' performances and therefore their image. At the same time, the global leading corporations in the productive chains exert competitive pressure to an endless race to the bottom upon the upstream suppliers, especially if settled in developing countries, to reduce manufacturing costs. This will inevitably lead to a reduction of labour cost, environmental investments and social expenditures to the detriment of production quality and value (Lim and Phillips 2008).

The abovementioned concerns have prompted the international institutions and the academic world to examine the CSR phenomenon throughout the whole supply chain.

In literature, the early CSR applications to the supply chain can be traced back to Poist, who, in 1989 combined these social concerns with the traditional economic aspects of supply. A few years later, three branches of researches have emerged and focused on specific issues: 1. the importance of business values and the key major role of suppliers for the implementation of a different value system (Lim and Phillips 2008; Gonzalez-Padron et al. 2008); 2. programmes and strategies for the development of sustainability within the supply chain (Carter and Jennings 2002), with an emphasis on cooperation among all operators in the supply chain (Carter and Jennings 2002; Faisal 2010) and the essential function of political institutions in providing an institutional framework and social responsibility regulations for businesses (Lawrence 2007; Lillywhite 2007); 3. the tools (codes of conduct, etc.) (Oehmen et al. 2010) and the specific activities related to implementation problems (Kolk and Van Tulder 2002), monitoring (Egels-Zandén and Wahlqvist 2007;

Boyd et al. 2007) and performance control (Nadvi 2008). The recent researches also include those studies that have explored the nature of ethical problems connected with the supply chain, e.g. respect for racial and gender diversity (Ibarra 1993) the impact on the eco-system (Shrivastava 1995), and local communities contribution (Jennings and Entine 1999).

The first line of research focuses on the influencing power of headquarters imposing their systems of values to the supply chain (Lim and Phillips 2008; Gonzalez-Padron et al. 2008). A few studies relating to the global supply chain and the location of suppliers in developing countries, address the cultural and economic imperialism of the big western enterprises (Khan and Lund-Thomsen 2011): “Such as when Western brands insist on eradicating child labor from the process of football stitching, without considering that such forms of labor might be a way for children to learn a new skill to help them support themselves and their families” (Lund-Thomsen et al. 2016, p. 17).

From a different perspective, some authors have pointed out that one of the challenges of ethical supply chain development lies in the distribution of benefits among the members of the supply chain (Lim and Phillips 2008), and therefore, in the mutual understanding and the pursuit of possible shared solutions. Citing the Mattel case, in 2007, the firm was forced to withdraw from the market a line of toys for having underestimated the supply chain’s cultural system of values. This real case has placed emphasis on the importance of understanding the partner’s cultural differences (Roloff and Aßländer 2010), and the need to operate on the grounds of shared solutions based on indicators and criteria provided by the headquarters rather than adopting control measures on suppliers (Russo Spena and De Chiara 2012).

In the second line of studies, Carter and Jennings (2002) identify the key factors each enterprise should consider in the responsible management of their supply chain including: corporate culture—as a reference guide to direct stakeholders—top management leadership, employees’ initiatives and clients pressure. However, their prime research focuses on how businesses, while striving to protect their reputation and production quality through the promotion of innovation and sustainability, are gradually shifting to a shared and more participated management of their productive chain. *Logistics social responsibility, purchasing social responsibility* (Carter and Jennings 2002, 2004), as well as *sustainable supply chain management* (Teuscher et al. 2006) are some of the main approaches highlighting the efficiency of social responsibility practices based on collaboration, and the strategic role played by suppliers (Maignan et al. 2002; Vurro et al. 2009; Andersen and Skjoett-Larsen 2009). These researches tend to agree on a sustainable supply chain definition that supports the voluntary integration of policies and tools promoting suppliers and distributors’ responsible commitment on social, environmental and safety issues.

The suppliers’ engagement enables them to implement a systematic approach to managing productive chains based on trust, safety and traceability as well as establishing solid partnerships with all actors involved, from the ultimate supplier, distributor to the ultimate customer (Perrini et al. 2006; Russo and Tencati 2009). Improving interaction abilities throughout the supply chain may boost, in some researchers’ opinion, the innovative potential inherent in cooperation (Dyer and Singh 1998;

Tencati and Zsolnai 2008), increase operation and process output value and quality (Dallocchio et al. 2010), and consequently, implement competitive models through differentiation (Burgess et al. 2006; Robinson and Malhotra 2005). In other words, better quality in terms of offer, improved production efficiency and enhanced capacity to create value for the final customers are the results achieved by reducing waste and enhancing business credibility (Carter and Jennings 2004; Morgan and Hunt 1994). Furthermore, going beyond the environmental concern, other benefits related to proper management and the upholding of human rights within the supply chain may ensure safety, respect for diversity and equal opportunities and thus, produce a positive impact on all local communities involved (Emmelhainz and Adams 1999; Mamic 2005).

Other issues tackled in this line of studies cover the role of government and institutional policies by providing an institutional framework of social responsibility rules for businesses (Lawrence 2007; Barrientos 2008). In this respect, a few scientific contributions have focused on supply chain sustainability and the role of suppliers in developing countries (Gereffi et al. 2005; Neilson and Pritchard 2009; Gereffi and Lee 2016).

The third line of researches deals with the implementation of standard measures—codes of conduct, implementation problems, monitoring and performance controls programmes—in the operation procedures. Some specific issues refer to social responsibility application to production, outsourcing and trade (Blowfield 2004).

On an institutional level, The United Nations Global Compact, drawing on the experiences gained in a wide range of market sectors has focused on the tools to achieve supply chain sustainability. The research underlines the need for businesses to adopt a strategic approach in choosing the appropriate instruments⁵ (Fig. 2.6).

The implementation of sustainability strategies within supply chains inevitably requires a preliminary analysis on the type of business-to-business relationship specific to each supply chain. However, the supply chain structure, the quantity of relationships and especially actors' positions in terms of their contractual power and influence, are the key factors of analysis (Oliver 1991; Rowley 1997; Neville and Menguc 2006). The work of Perrini and Vurro (2010) identifies different sustainability models based on the abovementioned elements and in relation to the supply chain's characteristics (Table 2.2).

Analysis of the supply chain features is thus a key topic of research and a preliminary element to understanding the ethical issues of the very supply chain, sustainability strategies implementation and management tool planning that best comply with the actors' characteristics and practices involved.

Extremely important for a business establishing its own supply chain is the choice of the supplier. Such choice is the result of an analysis that takes into account all preliminary conditions for a collaborative approach, namely the level of

⁵A wide selection of business cases relating to procedures and tools in terms of supply chain cooperation can be found on the Global Compact website.

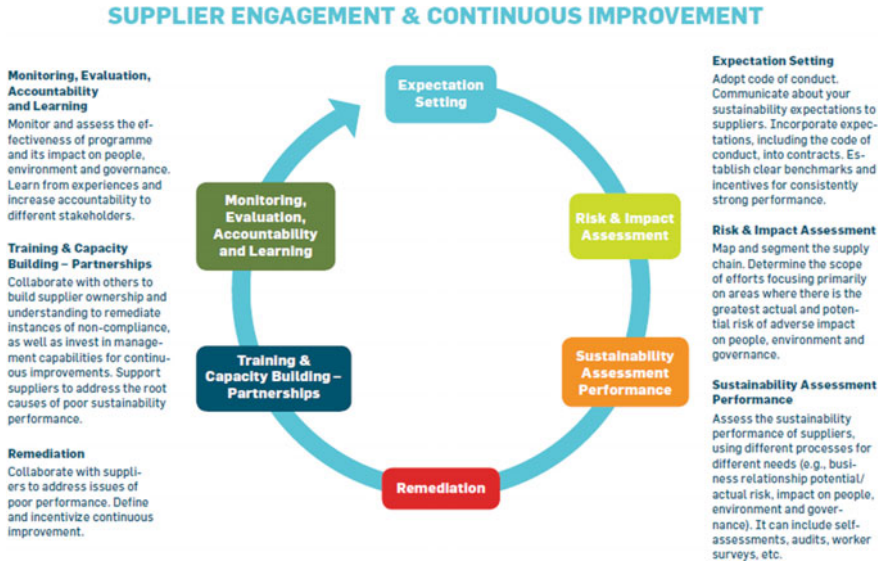


Fig. 2.6 Tools for the engagement with suppliers (United Nation Global Compact 2015)

mutual interdependence among the actors, the extent of objectives sharing and collaborative leadership.

Literature has focused on partners' features investigation, including personal attitudes, previous experience of collaboration (Wang and Fesenmaier 2007), as well as, ethics and shared values (Bowie 2000).

Cultural diversity must also be an appreciation element in managing business-to-business relationships: culture⁶ influences attitude and preference patterns (Lovelock and Yip 1996) and plays an essential role in the long-term relationship between businesses and partners throughout the supply chain (Zhao et al. 2006). In the international supply chains, the ethical and cultural conflicts affecting the multinational enterprises in their host countries, have led a few researchers to highlight the multinationals' power and their ensuing moral obligation (Hamilton and Knouse 2001) of influencing the standards of the foreign country, namely the market in which they operate (DeGeorge 1992).

A successful business-to-business relationship calls for transparent, trust-based communications among partners in order to achieve an effective and efficient level of exchange of knowledge. High control and monitoring measures not only are unnecessary, but they may turn out to be even counterproductive in business-supplier interactions (Wiemer and Plugge 2007; Russo Spena and De Chiara 2012).

⁶Culture is a set of values, norms and collective customs governing social groups' daily lives (Pasquinelli and Mellino 2010), a value system shared by a group of people (Hofstede 2001).

Table 2.2 Sustainability models for types of supply chain (adapted from Perrini and Vurro 2010)

Type	Supply chain features	Models
Negotiating	Low power of influence for peripheral businesses. Dispersed supply chains with few and infrequent connections among single actors	Difficult dissemination of CSR practices in terms of their scarce visibility and high control and monitoring costs A prevailing implementation of short-term management practices for contingent socio-environmental critical points
Dictatorial	Spread supply chains managed by central actors with a strong countervailing bargaining power in interactions	The central position of the business will use its power for the implementation of CSR practices within the supply chain to their own benefits
Acquiescent	Supply chains based on a thick network of relationships with peripheral actors. Intense interaction and flow of information between partners provide visibility to each contribution	Businesses passively accept the requests for adaptation on third parties to avoid supply chain exclusion
Active	Presence of central actors involved in a dense relationship network	Central businesses play an intermediation role between upstream and downstream businesses to foster cooperation processes, mutual understanding and common innovation Self-organisation rising from the existing connections

From an operational point of view, the most widely used communications tool applied by businesses to engage the supplier in sustainability paths is the code of conduct. It substantially defines the principles businesses adopt to relate with their own suppliers and thus, their behavioural principles. In this respect, the UN Global Compact has provided a set of codes of conduct for suppliers (Fig. 2.7).

2.4.1 Networks and Sustainable Clusters

By broadening the scope of the analysis and extending the interaction to multiple different actors, namely from other supply chains, it is possible to introduce sustainability to business networks.⁷ In this context, sustainability is intended as a

⁷In literature, the definition of network is extremely broad: it can be generally referred to as a form of flexible organisation, through which the involved businesses may exchange information, knowledge, goods and services more efficiently than the market or the enterprise as hierarchically defined. However, alliances, in facilitating the access to external knowledge, are a valid and

TOPICS AND REFERENCES TO CONSIDER IN WRITING AND ADOPTING A SUPPLIER CODE OF CONDUCT*		
SAMPLE POLICY AREAS THAT ALIGN WITH THE UN GLOBAL COMPACT TEN PRINCIPLES		POTENTIAL SOURCES TO REFERENCE:
Human Rights and Labour 1. Forced labour 2. Child labour 3. Working hours 4. Wages and benefits 5. Humane treatment 6. Nondiscrimination and equality 7. Freedom of association and collective bargaining 8. Occupational health and safety 9. Emergency preparedness 10. Occupational injury and illness 11. Fire safety 12. Building structure and integrity 13. Industrial hygiene 14. Leave entitlements 15. Freedom of speech 16. Human trafficking 17. Privacy 18. Minority rights 19. Rights of specific stakeholder groups: indigenous people, women, children, older workers, workers with disabilities, migrant workers	Environment 20. Material toxicity and chemicals 21. Raw material use 22. Recyclability and end of life of products 23. Greenhouse gas emissions 24. Energy use 25. Water use and waste water treatment 26. Air pollution 27. Biodiversity 28. Deforestation Anti-Corruption 29. Conflict of interest 30. Gifts, meals and entertainment 31. Bribery and kickbacks 32. Accounting and business records 33. Protecting information 34. Fair competition 35. Reporting misconduct	United Nations Global Compact Universal Declaration of Human Rights UN Guiding Principles on Business and Human Rights ILO Declaration on Fundamental Principles and Rights at Work ILO Tripartite declaration of principles concerning multinational enterprises and social policy (ILO MNE Declaration) ILO International Labour Standards on Occupational Safety and Health Women's Empowerment Principles Children's Rights and Business Principles OECD Guidelines for Multinational Enterprises The Rio Declaration on Environment and Development United Nations Convention Against Corruption ISO 14001 ISO 26000 SA8000 OHSAS 18001

* This list does not represent a comprehensive record of all existing issues under human rights, labour, environment and anti-corruption standards. Companies may need to consider additional areas depending on the circumstances.

Fig. 2.7 Codes of conduct indicators for suppliers (United Nation Global Compact 2015)

behavioural model common to different economic players upholding the key principles of protection for the environment and human rights, which is implemented in B2B or in network relationships in the same supply chain or other supply chains for the manufacturing of semi-processed and/or finished products. This co-sustainability model needs to be supported by the involved participants and by the exchange of knowledge and skills, which will not only motivate the network members to seek and implement better solutions, but also reduce the risk of opportunistic behaviours and the relevant transaction costs. When the sustainability project addresses a group of businesses in an industrial cluster, which are generally characterised by a high level of production interdependence and stable relations based on trust, it will foster resources and initiative sharing to improve businesses' performances and enhance competitiveness. The network approach allows for the creation of common visions and missions, the application of rules within each organisation with higher standards in terms of working conditions (Fichter and Sydow 2002), and reduced environmental impact.

(Footnote 7 continued)

strategic tool for the firm to face their own limits of power in the ever-increasing complex external scenario (Carnazza 2008).

It is now clearly recognised that the economic action is increasingly making its way through business networks and therefore, network and cluster sustainability issues are particularly relevant, although literature seems to favour a sustainability approach at the level of a single business (McGuire et al. 1988; Wheeler et al. 2003). Only in recent years, the theory has begun to focus on the existent bonds between clusters and sustainability (Knorringa and Nadvi 2016; Lund-Thomsen and Pillay 2012) placing emphasis on the role of SMEs (Battaglia et al. 2010; Hoivik and Shankar 2011; Testa et al. 2012) or complying with a sustainability approach to clusters in developing countries (Knorringa and Nadvi 2016; Lund-Thomsen et al. 2016).

A review of these scientific contributions allows the outlining of the main topics herein examined.

The first issue relates to the network creation. A few researches have classified the *top-down* type of network, for which an institutional body fosters the aggregation of multiple businesses sharing the same ethical principles for cooperation and common goals, and the *bottom-up networks*, where two or more private subjects, while sharing the same values and principles draw voluntarily together to develop and implement sustainability actions with the aim to minimise individual efforts and maximise the efficiency of individual projects (Caroli and Tantalo 2010; Zucchella 2007). However, the interest of the single enterprise in sustainable practices and responsible conduct may arise after or before the network creation. In the first case, the values and principles are the result of a positive contamination by the leading enterprises and the presence of networks sensitive to the issues. In the second case, the businesses themselves adopt socially responsible behaviours and create a network to promote their values with the collaboration of other actors for the implementation of sustainable initiatives.

In the branches of studies examining the issue on cluster sustainability in developing countries, the argument appears to suggest that responsible conduct on a social and environmental level are the result of a combination of factors (Blackman 2006; Lund-Thomsen and Nadvi 2010a; Tewari and Pillai 2005) for which command and control policies will serve little purpose (Blackman 2006). It is indeed in the *top-down* and *bottom-up* combinations that the best conditions for the development of sustainable behaviours in clusters may take place (Table 2.3).

Knorringa and Nadvi in their work (2016) indicate that the way business clusters react to social and environmental standards depends on local attitudes and values, national and international rules and the relationships within the global supply chains, namely it is inferred to the *social contract* nature⁸ the cluster is embedded in. The importance of values characterising the cluster businesses—defined as socially embedded within a particular milieu (Hess 2004)—of non-formal forms of local governance, including bonds of trust and the social networks, has also been

⁸“Such a social contract includes the formal and informal institutional arrangements, rules and norms in a society, and refers among others to historically and culturally shaped expectations concerning (minimally) acceptable social and environmental behaviour by various actors (Boucher and Kelly 2003; Donaldson and Dunfee 1994)” (Knorringa and Nadvi 2016, p. 59).

Table 2.3 Drivers and barriers to the development of clusters sustainability in developing countries (Lund-Thomsen et al. 2016)

Drivers	Barriers
Enforcement of national laws	Non-enforcement of national laws
Business associations	Cluster firms threatening or
Peer monitoring	Bribing law enforcement officials
Social networks	Cluster firms' suppression of trade unions
Informal regulation	SMEs lacking CSR awareness/capacity
Participation in global value chains	Intra-cluster subcontracting processes
	Participation in local value chains

referenced in other works (Battaglia et al. 2010; Laha 2014; Lund-Thomsen 2013) and delivers that *normative perspectives* on CSR (Khan and Lund-Thomsen 2011).

The recognition of those values and traditions typical of business clusters, namely Marshall's industrial atmosphere, is believed to be an essential factor to create sustainable and 'unique' networks due to their specific milieu.

Another issue addressed by the literature on sustainable networks/clusters refers to the reasons for adopting socially responsible behaviours within the networks, according to a joint business approach. Some researchers have distinguished two types of stimulus—internal and external—to support those reasons. The internal stimulus relate to the managers and entrepreneurs' ethical vision, whereas the external ones can be attributed to the pressures and tensions of activist stakeholders, namely those promoting sustainability behaviours (Zucchella 2007) including actors from the so-called ethical finance due to the increasing interest of financial investors in sustainable-oriented businesses and the external pressures by consumers.

The work by Gereffi and Lee (2016) addresses the governance characteristics in global supply chains and clusters in developing countries, which lead to combining the economic and social upgrading together. By economic upgrading it is meant the improvement in the value of practices, technologies, knowledge and skills (Gereffi 2005), whereas the social upgrading relates to the upholding of human rights and work conditions within the cluster (Barrientos et al. 2011).

The governance—intended as a complex structure including international and national standards, public and private institutions and social forms (Gereffi and Fernandez-Stark 2011; Mayer and Gereffi 2010)—expresses, in global value chains, the power exerted by global buyers for the implementation of international standards capable of producing the economic and social upgrading in developing countries (Gereffi et al. 2005). In clusters, governance describes the importance of socio-cultural factors, intra-cluster relationships, and local institutions influence (Lund-Thomsen and Pillay 2012; Schmitz 1995; Schmitz and Nadvi 1999). Furthermore, on an organizational profile, when it comes to clusters, researchers address greater importance to local actors, namely industrial and non-governmental fair trade organisations (Doner and Schneider 2000; Schmitz and Nadvi 1999). While governance seems to develop horizontally between business clusters and

local institutions, in global value chains, it would develop vertically involving global leaders and local suppliers all across the international production system.

However, clusters appear to be subjected to an opposing pressure by global buyers, which, while appealing to low production costs, expect local businesses to comply with high social standards (Barrientos and Smith 2007; Lund-Thomsen and Pillay 2012). Each cluster would adjust differently to those pressures according to their own characteristics, the efficiency of local institutions, the nature of their global/local connections and the different governance approaches (Khara and Lund-Thomsen 2012; Lund-Thomsen and Nadvi 2010a). Businesses may respond differently within the same cluster (Suresh 2010), which does not necessarily lead actors to reach common goals; indeed, it will mostly have a negative impact on social upgrading outcomes (Nadvi and Barrientos 2004).

The contrasting pressures by global buyers have led Gereffi and Lee (2016) to reaffirm the need to explore the governance role in global supply chains, and local clusters, to understand the repercussions on social upgrading.⁹ The authors, drawing from Puppim de Oliveira's model (2008), identify six social upgrading paths underlining the reasoning for initiating a sustainability path in clusters:

1. *Market-driven path*, to meet the market needs for improvement. Both buyers and consumers play a key role. Cluster businesses will comply by adjusting their competitiveness model based on products/processes social value
2. *CSR-driven path*, to fulfill global buyers' needs by adopting social codes of conduct. It is also defined as *the compliance paradigm path* (Locke et al. 2009)
3. *Multi-stakeholder path*, to satisfy multiple actors' expectations (global/local, public/private bodies, NGOs, etc.), by combining *compliance-monitoring* and *capability-building* together so as to allow cluster businesses to developing their own social upgrading paths
4. *Labor-centered path*, to face workers and work associations' pressures. The role of these actors, as catalyst for change, is particularly significant in countries like China (O'Rourke 2006)
5. *Cluster-driven path*, to comply with the very business clusters' needs, namely to improve the conditions of their own workers. It is a model based on collective practices inspired by the principles of trust and transparency characterising the bonds between cluster businesses
6. *Public governance path*, to reconcile public, national and/or local regulations with the aim of improving clusters' working conditions.

With reference to CSR practices for the protection of human rights, the work by Giuliani (2016), classifies clusters into three categories: *Low-road clusters*, *Window-dressing*, and *Rights-oriented clusters*. The major stimulating factors, namely the underlining reasons for their configurations are: local government ability and the role of the law, civil society and NGO's functions, global buyers'

⁹Several operational tools, namely codes of conducts (vertical private governance), require the integration of national norms (horizontal public governance) (Kolk and Van Tulder 2002).

pressure, monitoring procedures and global buyers support, the power of local institutions and industrial associations.

Literature also addresses another issue related to the conditions for cluster sustainability drawn from empirical researches. A recent survey by the United Nations Industrial Development Organization showed that out of seven clusters, the basic conditions for developing sustainability projects is the interest shown by the leading businesses, which, relying on their highly developed negotiating skills and leveraging on their already strong experience in planning, enjoy a dominant position in the cluster. Another core condition for a successful outcome is the key role of institutions, which foster the implementation of collective practices and common goals based on relationships of mutual trust amongst all actors involved (UNIDO 2008).

In 2011, in Italy, the research by Caroli and Tantalo (2011) examined four networking experiences that have implemented sustainability projects and they are as follows: Club di Modena (39 enterprises), Eticlab (8 enterprises), Sa.Rete (35 enterprises) and A.C.Ri.B (7 enterprises). The analysis shows:

- a. The importance of geographic proximity for the efficient implementation of socially responsible projects in networking. Partners, actors and organisations residing in the same province or region are more likely to outperform. Furthermore, the survey shows the significant role of public policies in project promotions and dissemination while indicating in local bodies and regional governments the most suitable premises
- b. Major activities mostly relate to human capital practices, communications and production management although other areas such as customers or supply chain management may be expanded into
- c. Financial tools are useful for sustainability practices implementation: European funding, public contributions and easier access to finance
- d. The use of operational/regulatory tools for sustainable initiatives implementation between businesses, which include: guideline definition, setting up a register of responsible businesses, acquisition of brands and certificates, best practice dissemination; on a regulatory level, streamlining bureaucratic procedures, rewarding system structures or the possibility of reaching a more advantageous position into public procurement
- e. The achieved benefits relate to the ability to exchange information and expertise, implement more efficient and reliable projects, the acquisition of more resources and skills, greater internal and external visibility, costs reduction in terms of money and time, the creation of human and relational capital, increased sensitivity on CRS issues both inside and outside the organisation. Such benefits have a clear positive impact on the territory and the community in which the businesses operate. All networks have stressed the necessity to improve information mechanisms and the community awareness raising process.

In literature, the work by Lund-Thomsen and Nadvi (2010b) raises the question of how the codes of conduct, considered the tool par excellence for fostering CSR practices in industrial cluster businesses, could be better implemented through global chains or local cluster governance. The first case relates, as explained earlier, to the power of multinational enterprises over business clusters, particularly in developing countries; the second scenario refers to government and the impact of a collective institutional approach, namely trade associations, chambers of commerce and other local bodies. The authors conclude that global chain governance may encourage the emergence of more independent forms of monitoring CSR in clusters, supported by the global brand's external control; however, local cluster governance favours the institutionalisation of monitoring initiatives on a local level.

Moreover, in the studies of cluster sustainability in developing countries great emphasis is placed on national contexts and more precisely: "the rules of the game in society or, more formally (...) the humanly devised constraints that shape human interaction" (North 1990, p. 3). Campbell literally states that "socially responsible or irresponsible behavior is mediated by several institutional conditions, including public and private regulation; the presence of non-governmental and other independent organizations that monitor corporate behavior, institutionalised norms regarding corporate behavior, associate behavior among corporations themselves, and organized dialogs among corporations and their stakeholders" (Campbell 2007, p. 946).

The importance of a broad engagement of public and private actors including NGOs and international organisations has been widely covered in several research studies (Pyke 2010; Gereffi and Lee 2016). Knorringa and Nadvi (2016) speak of *institutional context* including public and private organisations, rules, public regulations and industry practices as well as informal norms and values; and that universities and educational institutions should raise awareness of the importance of protecting human rights and environmental norms in clusters (Gereffi and Lee 2016).

Some other researchers, always referring to clusters in developing countries, have pointed out that the cluster involvement in global economy has highly influenced the implementation of CSR initiatives (Schmitz and Nadvi 1999; Lund-Thomsen and Nadvi 2010a), whereas local or international monitoring ensures their actual implementation (Coe and Hess 2013; Carswell and De Neve 2013). Likewise, *social contract* and public rules may create a fertile ground for the dissemination of standards as requested by the leaders of global supply chain (Knorringa and Nadvi 2016).

Another argument relates to the impact of cluster sustainability. Some authors have stated that little is known of the impact on local SMEs' profitability, work conditions or the level of environmental pollution in clusters, particularly in developing countries (Lund-Thomsen and Pillay 2012). Collaborative initiatives among clusters appear to have achieved the best result as proven by the greening cluster initiatives, which have contributed towards raising the environmental awareness among entrepreneurs and local communities (Accountability 2006; Blackman 2006; Crow and Batz 2006).

Sustainable-oriented networks share many similarities with the traditional ones and yet literature has identified another critical element related to the economic returns, and more specifically on the assumption that they may be achieved in the medium-long term, while being hard to assess. However, if business focuses on achieving a short-term profit rather than a value-oriented approach in the medium-long term, the dissemination of sustainability practices and their value in their reference market will be dramatically affected.

To conclude this analysis, it is fair to mention those who see a form of “cultural and economic imperialism” in the pressure exerted by the leading Western enterprises in global chains, without even understanding the existing differences at global level (Knorrinda and Nadvi 2016). However, from an opposite standpoint, but always under the pressure of global leaders, the so-called networked sustainable enterprises have started to adopt the *decoupling* approach, namely a symbolic socially responsible behaviour to uphold their good reputation while keeping their *business as usual* (Westphal and Zajac 1994, 2001; Fiss and Zajac 2006; Marquis and Qian 2014).

2.4.2 Local Systems Sustainability

The importance of a collaborative approach within networks and clusters for implementing sustainability activities is all the more appreciable in SMEs. Literature and institutions (UNIDO 2007) on several occasions have stressed the important function of networks for developing all the necessary competences to raise awareness of sustainability issues in defining business strategies (Molteni et al. 2006). One of the most significant advantages of networking activity lies in the exchange of information and dissemination of knowledge among all actors involved. The inter-organisational relationships are capable of spreading knowledge in an informal and tacit manner.

A few scholars believe that amongst the different forms of proximity between enterprises, the geographic aspect is what simplifies the dissemination of knowledge between enterprises with poor cognitive abilities and encourages the strengthening of the *absorptive capacity*, namely the capacity to assimilate and exploit knowledge from the environment (Cohen and Levinthal 1990). In so doing, complementary resource processes may take place (technological, market related, etc.) among all those businesses favouring the network fertilisation of knowledge, which would result in reducing the risk for innovation processes.

If the objective is not exclusively to pursue the economic development, but to strengthen a joint action approach between economic and social competitiveness through responsible practice, it is sensible to assume that this challenge would be unbearable if it had to rely on the efforts of a single player. The only way forward is for multiple actors to draw together and build upon their different abilities and skills. Businesses cannot make it on their own (Moon 2002) no matter how effective the practice of a single actor may be, either by reducing, beyond law requirements,

manufacturing processes in terms of environmental impact or protection for human rights. All its efforts would go to waste in the face of an entire productive chain or economic, institutional and social system, which would risk behaving in an inconsistent and non-sustainable manner. However, the level of the analysis must extend to those sustainability paths that can be designed and implemented within a local system, referred as to a “clearly defined territory characterised by infrastructures and physical capital. The contextual knowledge is what describes a specific local system, which although differing from one another, can be classified in *ideal-types*, e.g. the industrial districts. Each and every one of them is defined not necessarily by their structural and organisational features, but rather by specific contextual knowledge’s characteristics (trans.)” (Beccatini and Rullani 1993, p. 25).

Sustainable behaviours within a local system call for a broad-based participation of all stakeholders including institutions and local communities. The essential condition is achieving shared objectives and practices and implementing activities with a clear impact on sustainable development for a common good. In this respect, sustainable development and responsible conduct become real opportunities for building collaborative interactions and partnerships between public and private actors. It basically deals with what some authors have defined as a *relational state* (Mendoza 1996; Albareda et al. 2004) or, by others, from a different perspective, *collaborative governance* (Zadek 2006), or *responsible competitiveness* and *corporate responsibility cluster* (Zadek et al. 2003).

Public-private interaction advantages are apparent in the possibility to pursue a sustainable local system development, consistent with local economy’s distinctive features (Pulci and Valentini 2003; Del Baldo 2009) and major projects development through the engagement of multiple actors which, while stimulating the exchange of individual expertise and specific expectations, will legitimise those projects and provide all necessary conditions for an efficient implementation (Caroli and Tantalo 2011).

These forms of broad-based participation are widely investigated in literature and range from *multi-stakeholder processes*, which “(...) aim to bring together all major stakeholders in a new form of communication, decision-finding (and possibly decision-making) structure on a particular issue; (...) based on recognition of the importance of achieving equity and accountability in communication between stakeholders; involve equitable representation of three or more stakeholder groups and their views; based on democratic principles of transparency and participation and aim to develop partnerships and strengthened networks between and among stakeholders” (Hemmati 2002, p. 19); to *global action networks* (GAN) (Waddell 2007), defined as a “civil society initiated multi-stakeholders arrangements that aim to fulfill a leadership role in the protection of a global commons or the production of global public goods” (Glasbergen 2010, p. 130).

With reference to sustainable paths calling for a public/private broad engagement, literature has focused on exploring the actors’ features and collaboration methods.

Partners’ composition and selection essentially contribute towards the good operation of networks: many studies have considered Agenda 21’s suggestions

(United Nation 1992), and identified in public engagement the essential pre-condition for sustainable development. On this line, fundamental groups of stakeholders, the so-called *major groups* according to the *tri-sectoral approach*, identify themselves through institutions, businesses and society (Hemmati 2002).

As to the partners' features, literature suggests investigating individual attitudes, their previous collaboration experiences (Wang and Fesenmaie 2007) and shared ethical values, indicated as the essential drivers contributing to the success of an enlarged network (Bowie 2000). It also emerges that the analysis of these factors should also consider the different forms of collaboration. In fact, as already pointed out by Zucchella (2007), the adoption of CSR initiatives can be an input conditioning the network setting-up or otherwise, its output.

Besides the characteristics, participants' resources and skills need also investigating and more specifically: coordination abilities (Ritter et al. 2004), relational abilities (Espino-Rodriguez and Rodriguez-Diaz 2008) and a visionary leadership approach, for which potential advantages may be envisaged (Stam et al. 2010).

In terms of collaboration, the debate focuses on the necessity to embrace a perspective based on mutual exchange to achieving better solutions (*ethical perspective* and *social learning*) as opposed to the mere exchange intended as a means to avoid conflicts and potential stakeholders retaliations (*utilitarian approach*) (Mathur et al. 2008) and their engagement in project legitimisation (Collins et al. 2005). Cooperation should be conceived as a dialogue-based *habermasian approach* (named after the German philosopher, Habermas) (Noland and Phillips 2010), namely a strategic-free involvement, for which stakeholders are not strictly linked to social responsibility conditions and their interaction is exclusively functional to reaching a common agenda beyond their personal interests (Greenwood 2007).

From a different angle, another study on local system sustainability examines a few scientific contributions that have explored public/private actors' ability to influence the local system in adopting virtuous conduct (De Chiara 2012). While relying on the engagement of active businesses (Del Baldo 2009), capable of operating as meta-organisations, and on institutions for their key intermediation role between businesses and the local context (Antoldi et al. 2008), these actors manage to create platforms for sustainable development to improve competitiveness in the local system and promote common sustainable strategies.

The last study approach herein examined is supported by the *Collective Impact approach*, which stresses how cooperation, as insofar broad and diversified, would outweigh the implementation of sustainability paths in the face of serious environmental or social problems. It is therefore assumed that a "large-scale social change requires broad cross-sector coordination, a commitment of a group of important actors from different sectors to a common agenda for solving a specific social problem" (Kania and Kramer 2011, p. 36). The authors are not implying necessarily that all social concerns would be sorted out on the *collective impact* basis, but rather that no single enterprise has the authority or owns enough resources to enable change when dealing with *adaptive problems* (e.g. the reform of

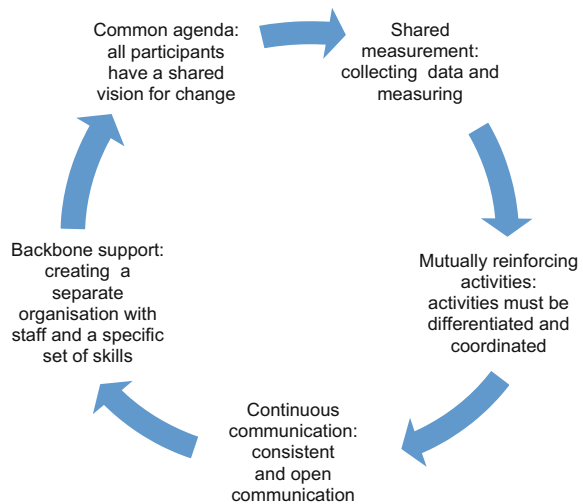
public education, restoring polluted environments or improving the health of the community).

This approach lays down the collective impact's main characteristics by identifying the different traditional forms of collaboration (funder collaborative, public-private partnerships, multi-stakeholder initiatives and social sector networks organisations), which all seem to have failed in their mission to solve social problems. It outlines forms of cooperation characterised by their centralised structure, a dedicated staff and a structured process leading to a common agenda, shared measurements, continuous communications and mutually reinforcing activities amongst all participants involved (Fig. 2.8).

The basic idea of this approach and the ensuing positive outcome, highlight the compelling need for an enlarged engagement of different stakeholders, focusing especially on changing their behavioural patterns. It is not just about establishing inter-sectorial coalitions with everyone (Hanleybrown et al. 2012), “not merely a matter of encouraging more collaboration or public-private partnerships. It requires a systemic approach to social impact that focuses on the relationships between organizations and the progress toward shared objectives. The expectation that collaboration can occur without a supporting infrastructure is one of the most frequent reasons why it fails” (Hanleybrown et al. 2012, p. 41). Hence the importance of a backbone organization and the creation of adequate infrastructures with the financial sources necessary to ensure effective collaboration (*conditions of collective success*).

Engagement, sharing, organisation and coordination are thus, the essential factors to a co-sustainability plan of action in the local system, namely that behavioural model based on the principles of responsible conduct, environmental sustainability and respect for human rights typical of a local system. This model seeks to attain a “learning alliance”, in which a number of participants (better from different

Fig. 2.8 The collective impact's main characteristics (adapted from Kania and Kramer 2013)



contexts), driven by a common goal, draw together to find solutions and explore new opportunities for sustainability actions.

To conclude this review, worthy of note is also the opinion of the European Commission, which, as already pointed out, insists on encouraging institutions and businesses to do all they can to create a shared value between owners/shareholders, stakeholders and society. This would imply starting from a real multi-stakeholders theory, a revision of the governance models, a redefinition of contents and measurements beyond the unilateral approach towards a dialogue-based approach within the supply chains and between public and private sectors. The Commission stresses the importance to bring multi-stakeholders network systems, the Chambers of Commerce, Entrepreneurial Associations, Trade Unions and all potential stakeholders to the table in order to identify approaches and managerial tools for single chains and cluster sustainability consistent with the culture of the territory.

It is with this view that, in the last decade, the European Commission has launched several supporting initiatives in this matter with the aim to foster: (1) multi-stakeholders' engagement in European platforms; (2) a structured public/private, sectorial and/or territorial partnership for a common goal; (3) a partnership between trade unions and businesses for the definition of framework agreements to promote CSR also in the sub-supply chain; (4) multimedia tools, events, seminars, thematic and sectorial workshops to disseminate CSR strategic logics and best practices; (5) training initiative programmes for businesses, institutions, third sector organisations and stakeholders; (6) awareness raising actions in technological supply chains and clusters for the development of joint projects planning.¹⁰

¹⁰A few examples are as follows: *Innovating for sustainable growth: a bio-economy for Europe* is an action plan based on an interdisciplinary and inter-sectorial approach. It aims to pave the way to a more innovative, resource efficient and competitive society, a low-emissions economy that reconciles food security, agriculture and fisheries with the sustainable use of renewable resources for industrial purposes, while ensuring environmental and biodiversity protection.

The EU 2020 flagship initiative *Innovation Union* defines a new tool for innovation: the European partnerships for innovation (EPI). The project aims to promote a competitive and sustainable agricultural and forestry sector for agricultural sustainability and achieve within 2020 a satisfactory operation level of soils in terms of productivity capacity, climate change mitigation and adaptation and eco-systems stability. The EPI concept and content have been widely discussed with a significant number of stakeholders, which have stressed the need for a European partnership for agricultural innovation aiming to bridge the gap between farming practice and the scientific world through a smart grid system. The EPI will encourage partners, at different institutional and geographic levels and in different sectors to collaborate and take advantage of synergies potential: at EU level, a specific EPI network will support the strategy implementation in Europe.

The *CSR Europe Business in the Community* is a voluntary organisation comprising businesses from different European countries, promoted and supported by the European Commission. The initiative aims at gathering and integrating all socially responsible experiences taking place in the Union.

The *European CSR Award Scheme: inspiring partnership for innovation and impact* is another example. The objective is to enhance the best projects in corporate social responsibility terms and more specifically, the initiative intends to award the successful partnerships among businesses and

Indeed, the European Parliament, in the Communication *Innovating for sustainable growth* on June 14, 2013, declared its intent to share the recourse to the PPP formula (Public/Private Partnership) and call on the Commission to allocate adequate resources for its development, considering it a key factor for the creation of new value chains enhancing the existing ones. Furthermore, it emphasises SMEs' major role and reaffirms the importance for them to obtain ad hoc financing at a local level and the need to support research and innovation within the framework of smart specialisation strategies, to promote funding instruments, but above all, networking opportunities. The Parliament also stated that regional and local economies should perform a crucial function towards the attainment of a smart, sustainable and inclusive growth. The regions have the competence and the understanding required to mobilise all actors according to their specific characteristics, and thus, they should be more closely involved in devising efficient regional strategies on research and innovation.¹¹ The integration and coordination of innovation and sustainability plans on a regional, national and European level is paramount.

Another side of the coin is that sustainability becomes an opportunity for building collaborative interactions and partnerships between public and private subjects.

The engagement, as close and broad as possible including all distinctive features, is a process that should lead to objectives and actions sharing by combining expertise, integration of functions, structures and processes, distribution of responsibility and the free flow of information. Furthermore, it should consider the context's characteristics, its social environment and its economic and productive tissue in order to stimulate resources renewal in local systems and restore that virtuous circle in which the local system plays an active role in boosting corporate competitive advantages.

2.5 Social Capital and Sustainability Strategy: A Two-Way Relationship

Social capital is an interactive concept, the fruit of cooperation between business human resources, business partners, institutions and communities.

(Footnote 10 continued)

stakeholders in the territory placing special emphasis on those programmes pursuing sustainability and cohesion through innovation.

¹¹In Italy, in 2012, the interregional project '*The creation of a network for the dissemination of corporate social responsibility*' was launched. Thirteen Italian regions, the Ministry of Work and Social Policies, the Ministry for Economic Development have joined. The project's main aim is to increase the dissemination of corporate social responsibility among businesses through a mutual exchange and learning process with all the public administrations involved.

Networks are the social capital source (Burt 2000). In networks, the social capital develops within through a networking relationship, namely the glue that holds it all together. However, a caution of building social capital is to be aware of the possibility that a cohesive relationship networking system may be hard to be modified (Kontinen and Ojala 2012). Outside the network, namely the external relations with the territory and the institutional arrangements have a clear impact on social capital (Spence et al. 2003). These relationships, otherwise defined in literature as *social capital bonding*—referring to those bonds among close or homogeneous groups—*social capital bridging*—based on ties between people from more diverse social groupings—and *social capital linking*—for those relationships created outside the examined community—explain how the network can be given access to resources that would be unavailable from the inside (Burt 1992).

Social capital is thus, a multidimensional concept characterised by: (1) a structural dimension referring to the social network structure building up within; (2) a relational dimension relating to the sum of elements influencing the actors' behaviour, namely trustworthiness, reliance, obligations and expectations, which will shape networking practices; (3) a cognitive relationship enabling all participants to set common goals by sharing functional language and codes for networking management and mutual benefits (Sorama et al. 2004).

Revolving around the concept of social capital, the notion of *relational goods* also introduces (Gui 1987), the key assets of its management, namely trust, legitimacy, reciprocity and consensus. Putnam (1993) in fact, relies on these resources to improve social efficiency as they facilitate the coordination of a joint action approach. Indeed network sociologists have stressed their important functions by asserting that strong bonds positively contribute to the flow of information and therefore improve the cooperation among structures (Granovetter 1973). Social capital acts as a physical capital (e.g. bridges, roads, etc.) and enables citizens to pursue their objectives effectively by reducing transaction costs and increasing economic wealth in a given area, which is also apparent in a democratic self-regulation framework (Putnam 1993).

The established link between networks, social capital and common good highlights that, while businesses should be concerned about the development of the society in which they operate, it would be in their own interests to find ways of improving collaboration and define a more active involvement for their growth. "Investment in social capital thus could be seen as a major contribution to the common good" (Spence and Schmidpeter 2003, p. 94).

"Economic and social responsibility, but also gratuity, solidarity, participation are the ingredients for the economic upturn and development of local areas driven by SMEs, which draw from the territory the conditions of diversity and identity (trans.)" (Del Baldo 2009, p. 91).

The territory can act as an incredible driver in sustainability paths. A number of researches have underlined the importance of quality in the socio-cultural context, which is a key point in industrial district competitiveness, as it may give rise to formidable competitiveness differentials for those irreducible or hardly reducible factors that are fundamental parts of a system-nation cultural identity and cannot

travel from one nation to another (Vaccà 1993). The place becomes a production area for specific knowledge (contextual) and social interaction mechanisms (interpersonal network relationships etc.) (Garofoli 1991), which support the business’ innovative capacity in a sustainable framework. By contrast, in case the territory loses its value, the quality of the citizens’ life diminishes and the mutual bond between economic and social competitiveness breaks. In these circumstances, a sustainable collaborative model may contribute to repair that bond. In fact, if sustainable projects are carried out through the broad engagement of different stakeholders in the local system, a cooperation process based on all envisaged shared objectives and actions will initiate the implementation of that virtuous circle that re-creates those conditions for achieving a competitive advantage, especially for SMEs (Fig. 2.9).

It is thus necessary to invest in creating a strong link between business relational capital, sustainability and production systems competitiveness and place additional emphasis on the territory’s distinctive characteristics, processes and product’s quality.

Social capital management is therefore, a crucial aspect, which strengthens the very relationships in the local system in terms of its strategic function for those businesses and network competitive models that foster sustainable development to find solutions on strategic and operational resources for a variety of stakeholders.

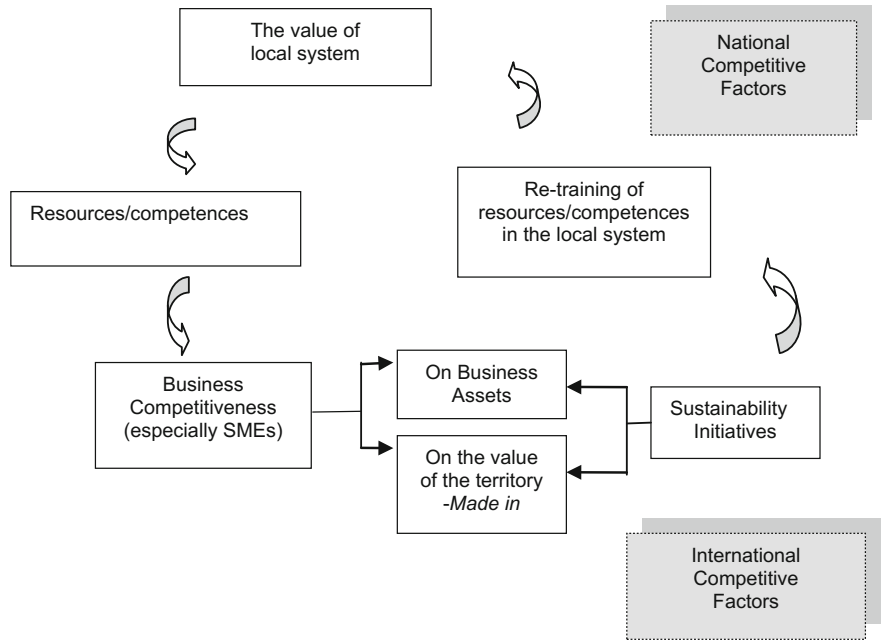


Fig. 2.9 Territory, Enterprises, Sustainability: building the economic development on social wellbeing

Sustainability, as widely pointed out, aims at legitimising the concerns of several stakeholder in not only economic terms, but on a moral satisfaction (Baldarelli 2008) and reputational level (Brennan 1994).

Social capital management, in terms of sustainability, can therefore lead to improved relationships throughout supply chains, networks and local systems by building up a virtuous circle, which strengthens and increases social capital potential.

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Clusters

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De Chiara, A.

2017, XV, 167 p. 28 illus., Hardcover

ISBN: 978-3-319-40200-0