Impresa & Management Department International Business

Ethical Business Models in Developing Countries

The Inclusive Business

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Introduction

The pursuit of an unbridled capitalism, only oriented to the realization of profit has led to devastating and unsustainable consequences: today 42% of the African population, 27% of Asia and 25% of the total world population live on less than $1.25 per day (UNICEF, 2012). For too long, the West has promoted an economic model based on the exploitation of the weaker nations of the Third World, decisively contributing to increase the social gap between North and South of the planet.

Nowadays there is definitely a greater awareness by international organizations of the need to undertake to capitalism the path of sustainable development, by connecting the economic and social sphere until reaching a full integration. It is necessary that even the business world take charge of this commitment, not only because it is fair or because is a way to improve the economic performances of the company, but mainly because the economic and financial crisis has shown the instability and unsustainability of the current system. Only a renewed and true commitment that sees participation to 360 degrees can lead to the creation of collective wellbeing and shared wealth. For many years the business world has put in place activities taught to solve the most pressing problems of societies, but none of these have led to a real change. Philanthropy, for example, being a simply supply of aid, is insufficient to enable communities in the Third World to be self-sufficient, still leaving them in a position of subjection and dependence from the West.

Moreover, it has been demonstrated that the adoption of a sustainable model, which is integrated in the business activity of for-profit organizations, is not only an ethical approach but also a convenient strategy of long-term growth. This thesis aims to define some possible virtuous corporate strategies that can be implemented by businesses in order to reach a double goal: the development of the company as well as the community's one.

The goal is to delineate a prototype of a business that is at the same type virtuous and profitable, finding a *fil rouge* among different type of organizations and highlighting some fundamental practices and characteristics that an inclusive company, independently from its legal form, size, scope of business and location, have to take care of. The objective is to define a universal guidance for the implementation of an ethical model of business able to contribute to the restoration of social and economic balances between nations and within nations.

The first chapter identifies what have been the most important and direct negative consequences of a capitalism that only focuses on the maximization of profit as a primary and solely goal, and instead shows how a vision of long-term sustainability not only should be at the basis of a fair economy, but also is the only path that nations can undertake in order to restore stability worldwide.

For a better understanding of the topic, it is however important to give an explanation of the most important concepts and theories underlying this subject through a review of the most substantial literature that has been produced in the field of ethical theories and models of business development. This analysis is presented in the second chapter, where in particular the Inclusive Business model is analyzed.

Then, I have decided to present in the second part of the work three different types of business models that can be defined as *inclusive*, because of their attitude of integrating emarginated and/or poor people in their value chain, and that can be particularly applied when a company decides to develop its business activity in an underdeveloped context.

The first case study that I am presenting in the third chapter is the one of a group, SABMiller plc, which after giving sustainable guidelines worldwide, it needs to adapt them and its business model locally according to the peculiarities of the market in which it decides to enter. Particularly, I am going to compare the Italian case, with Birra Peroni, and thus a market considered to be developed but where a great focus and attentions on sustainable company's practices are still necessary, with inclusive business models adopted in South America, mainly focusing on the Peruvian case. First I have decided to show the virtuous model of Birra Peroni, thus a company that operates its activity in a "developed" country, because I am convinced that dividing the world with a clear line that separates the rich North from the poor South seems to be reductive. In confirmation of this thesis, Istat revealed that in Italy in 2014, the absolute poverty – meaning those people who are unable to acquire the basket of goods and services considered essential to achieve a minimally acceptable standard of living – affects 5.7% of the families, 10.3% of them live in relative poverty – calculated on the basis of a conventional threshold that vary according to the dimensions of space and time, and identified considering the average annual consumption of families – and 28.3% of the residents are at risk of poverty or social exclusion.

As second case, I am going to show the example of a company born in Italy, Enel Green Power, spinoff of the Enel Group, and that today is the biggest European utility in terms of capitalization. The peculiarity of EGP's business model is that once the company decided to develop its activities abroad, entering a developing country, it had to opt for an inclusive model of business. Particularly, among the several emerging markets, I have analyzed the *Creating shared value model* that the company adopted in Latin America and the project Enabling Electricity, aimed to support the achievement of the 7th Sustainable Development Goals of United Nations consisting in granting access to energy even to those people that are not connected to the grid. The theme of energy's access is particularly important because it is an essential factor of economic growth, thus contributing to the improvement of the standards of life in developing countries.

Thirdly I will show the case of a financial institution, Banca Popolare Etica, born with the intention to conjugate the economic and social purpose from the very beginning, explaining this double objective directly in its certificate of incorporation. I have decided to show the case of a bank because too often one of the major problems with which for-profit companies with a strong social connotation have to cope is the difficulty in finding funding sources. This fact is mainly due to the consideration that the tendency towards the creation of a fair economy is a peculiar goal of the solely no-profit sector.

In reality the establishment of a sustainable social capitalism sees companies as fundamental actors of this change. It is necessary that the for-profit world would give innovative answers to the economic, social and environmental challenges of the society, promoting an inclusive growth, oriented to the employment and the development of all, and achieving an international balance between economy and environment.

1. Criticism of capitalism and new perspectives

1.1 Bottom of the Pyramid

Almost 4 billion people in the world live with less than $2 per day. This has been the consequence of an economy where ethics succumbs to the logic of profit "at any cost", where people have become the means and money the end. In the last fifty years, it had developed an economy based on excessive exploitation of natural resources, on the lack of concern of the physical environment, on the indifference to the financial health of key suppliers and on the discomfort of host communities.

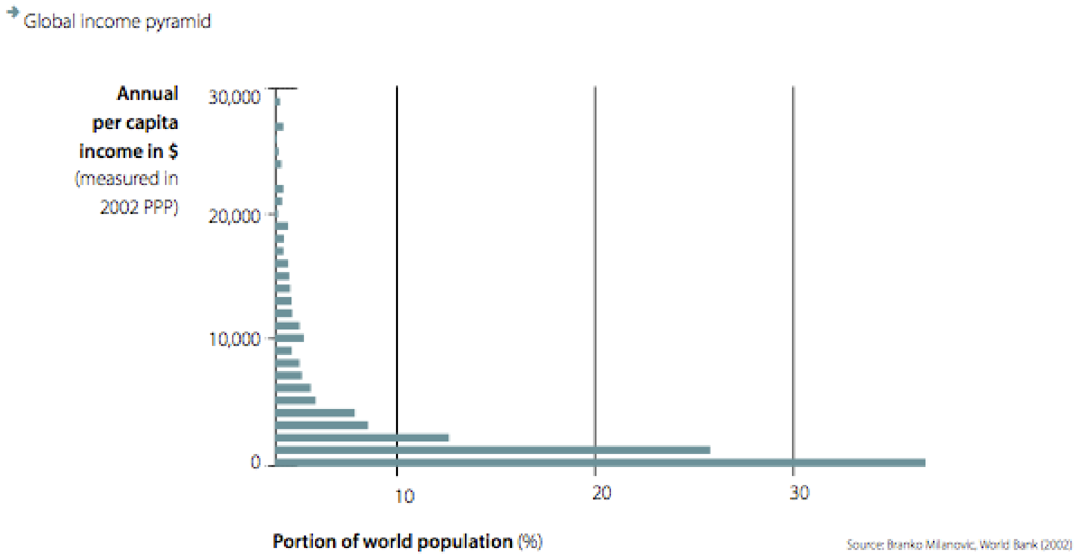
We have witnessed to a financialization of real capitalism. More and more entrepreneurs have sold their businesses to funds and entered into the logic of financial markets. Some operations allowed the development of enterprises, creating wealth for the system, but others have produced only financial returns for investors, facing debts and capital loss. New *enterprise's speculators* have pursued the logic of maximum profit in the shortest possible time, leaving out, and in some cases on purpose, true forward-looking strategies aimed at making companies more stable in the long term.

Inequalities have grown: developed countries have become richer but the vast majority of nations and people never benefit from the apparent triumph of capitalism, and the poorest countries, since the beginning of the 80s, had zero or negative economic growth for at least two decades, making life extremely precarious for the majority of the poor (World Bank, 2000).

This army of poor constitutes the Bottom of the Pyramid (BoP), to contrast with those wealthy people at the ToP. The Indian economist Amartya Sen describes poverty as the lack of valuable opportunities (Sen, 2009). People in poverty don't have the freedom to choose to live fulfilling their lives, including simple basic needs such as food, education, career choice, the opportunity to shape and participate in society, etc.

Generally, income is usually referred as an indicator for poverty. The World Bank established thresholds of $1.25 per day for extreme poverty and $2 for moderate poverty. 2.6 billion people live in moderate poverty and more than one billion people live in extreme poverty, earning under US$ 1 per day, and often struggle to meet basic needs. People at these income levels are found worldwide, largely in Asia (68%), Africa (16%) and Latin America (10%). Central and Eastern Europe and Russia count for 6%. 60% of the BOP is concentrated in India and China. The majority of BoP leaves in rural areas (68 % globally). (World Economic Forum and Boston Consulting Group, 2009)

Figure 1.1 Global Income Pyramid



Source: Branko Milanovic, World Bank's research department (2002)

One of the major experts of the BoP theory is Coimbatore Krishnarao Prahalad, among the world's ten most influential management gurus. The Indian economist has been twice ranked the most influential business thinker of the world in 2007 and 2009, by the leadership consulting firm Crainer Dearlove's Thinkers50 list of the top global management thought leaders (Thinkers50, 2007 – 2009).

C. K. Prahalad was a strong champion of entrepreneurial and inclusive approaches as a solution for economic and social problems in emerging economies. His thought can be summarized by this quote (Prahalad, 2005: 1):

If we stop thinking of the poor as victims or as a burden and start recognizing them as resilient and creative entrepreneurs and value conscious consumers, a whole new world of opportunity will open up.

Prahalad's 2005 book, *The Fortune at the Bottom of the Pyramid: Eradicating Poverty Through Profits*, in considered to be fundamental in understanding how businesses might pursue sustainable growth while playing a role in alleviating poverty.

Mr. Prahalad, through his believe of creating wealth at the bottom of the pyramid, become a fierce critic of traditional top-down thinking on aid, by governments and non-governmental organizations alike. They tend to see the poor as victims to be helped, not as people that can be part of the solution, leaving them into a state of dependency from the West. Instead, the involvement of big business is fundamental in eradicating poverty not through philanthropy or CSR, but letting BOP markets to become integral factors to the success of the firm. As a consequence, this huge market transforms itself into an economic opportunity valued globally at $13 trillion a year if the world starts to think at the very poor as "resilient entrepreneurs and value-conscious consumers" (Prahalad, 2005: 1).

The main characteristics of BoP societies are (World Economic Forum and Boston Consulting Group, 2009: 5):

- Financial constraints – BoP are smart shoppers and risk-averse investors because of their low and fluctuating income and limited access to credit or insurance;
- Life challenges – domestic constraints, difficult living conditions, often high prices for substandard products or services;
- New customers – the asymmetry of information leads BoP consumers to rely more in trusted sources or demonstrations when making buying decisions;
- Quality standards – poor people are not different from us: they are human beings that want to conduct their life with dignity and, like everyone, demand both respect and quality from service providers and employers.

Today the poor are excluded from the benefits of globalization, as they cannot access to products and services that represent global quality standards. The dominant logic of private-sector businesses lead to not consider the poor as target costumers, both because they cannot afford products or services of MNCs and because they are not thought to have use for products sold in developed countries. In this regard, it is for example perceived that only developed countries appreciate and pay for technology innovations. As a consequence the BoP market is not considered to be critical for long-term growth and vitality of the private sector and, being it at best only "an attractive distraction" (Prahalad, 2005: 8), it is useless to assign to it the best people to work on market development. Governments, public policy establishments, aid agencies, NGOs and civil society organizations also share this dominant-logic.

Then, market-based practices are not considered to be a solution for poverty reduction and economic development, two objectives historically delegated to the State and at most to the Third Sector. However, Prahalad in his book demonstrates that BoP can be a viable market if we start to go beyond the dominant logic and these intellectual barriers. We can summarize some long-held beliefs about the BoP and demonstrate their inconsistency as the follows (Prahald, 2005):

1. *Because the poor have no purchasing power, they do not represent a viable market.*

   If we consider the aggregate purchasing power, we can demonstrate that in reality developing countries offer huge growth opportunities. China for example is a $5.0 trillion economy, the second economy behind the US in PPP terms. Taking into account nine countries together – China, India, Brazil, Mexico, Indonesia, Thailand, South Africa, Russia and Turkey - representing 70% of the developing world population, we can see that in PPP terms the group's GDP is $12.5 trillion, the 90% of the developing world.
   Certainly the buying power of people living in these countries is definitely lower to the one of those living in the developed world. However, these nations are superior in terms of numbers. Moreover they suffer of poverty penalty (a cost disparity between BOP consumers and the rich ones in the

same economy) as a result of inefficiencies, such as inadequate access to distribution, monopolies or strong traditional intermediaries. For example in rural regions of Bangladesh 1 kWh of electricity costs $1.95, while in Germany it costs one-tenth of this amount. Or, in the slums of Jakarta, Manila and Nairobi, clean water costs five to ten times more than in higher-income areas. Poverty penalty can be solved if the organized private sector starts to serve the BoP.

2. *Difficulties in the distribution access to BoP markets represent great obstacles for the participation of large firms and MNCs.*

   We should first distinguish among urban and rural areas. The formers have become an intense pole of attraction for the poor, allowing extraordinary distribution opportunities. On the other side, rural areas continued to be inaccessible not only to distributors but also to radio and television signals, often designed as *media dark*. Consequently, the rural poor a part from not having access to basic products and services, they not even know what is available and how to use it. The lack of means of information and communication with the outside leaves these people out of the world, making impossible for them to overcome their state of structural backwardness. Wireless connectivity can profoundly change the situation for the better. As a demonstration of this thesis Hindustan Lever Limited (HLL, the Unilever's Indian subsidiary) promoted the Project Shakti through which HLL selects entrepreneurial women (called Shakti Amma, meaning "empowered mother") in hard-to-reach villages and trains them on basic accounting, selling skills, health & hygiene and relevant IT skills, empowering them through the sharing of knowledge because they have a unique knowledge about what the villages need and what products are demanded. These women are also equipped with smart phones provided with a mini Enterprise Resource Package, useful for running their business efficiently. Women become central to the process of development of their community. In this way, thousands of Shakti Ammas turn to be financially independent and, in 2010, the program was extended to include Shaktimaans, the husbands or brothers of the Shakti Ammas, who can cover different areas by selling products on bicycles in nearby villages. With

this project, HLL has been able to create a direct distribution network in markets where traditional distributors and dealers are absent.
A similar approach has been developed by Avon in Brazil, leveraging more than 800,000 “Avon ladies” as distributors to reach the most remote regions, including the Amazonia.

3. *The poor are not brand-conscious.*

In reality brand consciousness is universal as everyone aspire to a better quality of life, especially the poor. Therefore, aspirational brands are high demanded in BoP markets, being they value-conscious by necessity. The challenge to MNCs and large firms is to increase their efficiency in selling aspirational products at an affordable price to BoP consumers.

4. *BoP consumers are not and do not need to be connected and networked.*

On the contrary, these markets are getting much more connected than before, thanks to the huge diffusion of wireless devices among poor communities around the world, allowing the communication throughout different countries and a greater access to information. By breaking down barriers to communication, people can be able to make informed choice. Some examples are Grameen Phone in Bangladesh or Telefonica in Brazil or even the availability of PCs in kiosks at low price per hour and the spread of televisions. Then, word of mouth among BoP consumers is more and more an important instrument through which assess product quality, prices and options available, reducing the risk of poverty penalty. Access to information will reduce the inequities and the asymmetries in choice between the producer and the trader, in the ability to enforce contracts and in the social standing of the producer, the buyer and the trader.

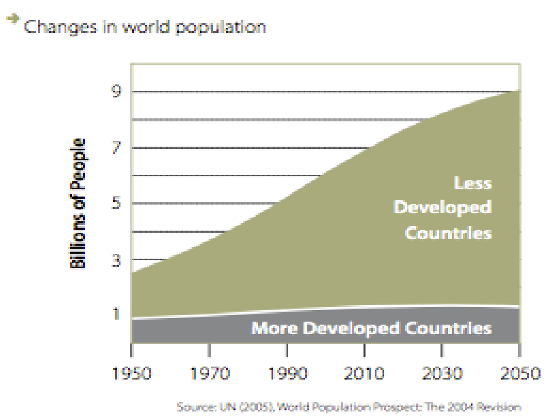
5. *BoP consumers are reluctant to accept advanced technology.*

The truth is exactly the opposite. The adoption of new technologies is much more easier for BoP consumers, as they do not have nothing to forget, than it is for developed countries, where the large use of landlines makes more difficult to switch to wireless. This is why BoP markets easily and quickly accept the most advanced technology. Also, innovations from the BoP can be leveraged across other BoP markets and even exported to advanced countries, making of the emerging markets a new engine for a global development. Innovative practices can then increase the profitability of MNCs in both BoP and mature markets.

As we have already noticed, multinational corporations usually have never considered countries and regions marked by poverty as possible markets of interest and only sell in rich national markets. However, if the private sector abandons its "zones of comfort" (Prahalad, 2005: 7) and starts to think following this new and different approach based on the concepts of large-scale and wide-spread entrepreneurship, then large firms can effectively build vast and fast growing markets at the BoP while contributing to eradicate poverty.

In fact, according to the United Nations Population Fund (UNFPA) in 2050 there will be three billion more people than today and the great majority will live in developing countries (Figure 1.2). Consequently, looking at lower income segments can be a strategic solution for companies that usually deal with largely saturated and strongly competitive markets at the top of the pyramid, mainly the Western ones. Moreover, by actively including poor people into the market, development will follow leading to social and economic transformation of disadvantaged areas.

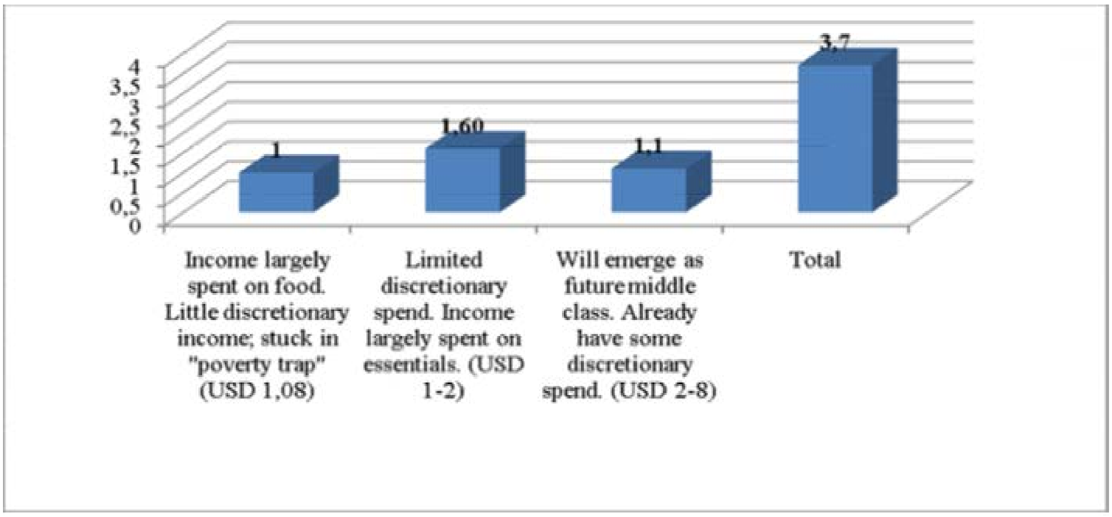
Figure 1.2 Changes in world population



Source: UN (2005), World Population Prospect: The 2004 Revision

BOP societies can be segmented according to their income. Figure 1.3 shows that 1.1 billion people are expected to emerge as the future middle class. This indicator could convince multinationals to engage more with these communities it they realize that this huge market can actually benefits companies' profits in the long-term. In turn MNCs by integrating this 1.1 billion people in their value chain and offering them new employment opportunity, they can contribute in making them independent from external help thus contributing to the development and spread of wellbeing (Golja and Požega, 2012).

Figure 1.3 Segmentation of the Base of the Pyramid based on income



Source: World Economic Forum and the Boston Consulting Group, 2009: 10

1.2 A new economic logic: Sustainable Development

United Nations in its Report on sustainable development (UN, 2008) gives an explanation of the most important terms related to this field with the objective of investigating what sustainable development is and especially how it can be measured. It defines development as an increase in wellbeing across the members of a society between two points of time. Wellbeing instead is often used as a synonym of welfare, but in reality it goes beyond. In fact, while welfare can be seen as the benefit a person derives from consuming goods and services over time, wellbeing includes benefits deriving from things other than consumption, as, for example, social relations, psychological fitness and the presence of fundamental human rights.

If thought in its broadest sense, thus including in consumption also things freely provided by nature, the concept of wellbeing could be used to measure sustainable development. Then, sustainable development means increasing in wellbeing over time, it is a dynamic concept, thus it takes into account the consumption trade-off between current and future generations.

The relationship between long and short-term wellbeing and sustainable development has been object of debates resulting in the definition of two different views providing divergent understandings of the context, the integrated and the future-oriented view.

According to the integrated view, sustainable development ensures the wellbeing of those who are currently living as well as the potential wellbeing of future generations. Present and future needs are, then, both taken into consideration, balancing two forms of distributional justice: the intergenerational, which is "about securing freedom and options to exist and develop for the next generations to come, and the intragenerational, which is about securing freedom and options to exist and evolve for today's world populations" (UN, 2008: 21; Hanhn, 2008). The challenge is to consider together the short-term goals of economic and social development with the long-term goals of preservation of the environment.

The future-oriented view, instead, is based on the idea that sustainable development must be limited only to the wellbeing of the generations to come. Ensuring short-term wellbeing is only seen as development, while sustainable development is rather a long-term goal. The main limit of this view is that it ignores the concern for the world's poorest population, a problem affecting the actual society but that is going to have repercussions for the next generations. The unequal distribution of resources, a part from having a dramatic effect on current wellbeing, is a relevant issue for determining whether a particular development path is sustainable or not.

Sustainable development has been defined by the Brundtland Commission as the one that "meets the needs of the present without compromising the ability of future generations to meet their own needs", and proceeds later "far from requiring the cessation of economic growth it recognizes that the problem of poverty cannot be solved unless we have a new era of growth in which developing countries play a large role and reap large benefits" (World Commission on Environment and Development, 1987: 12). This broad definition underlines the importance of intergenerational equity as well as intragenerational equity.

Intragenerational equity is concerned with equity between people of the same generation and includes considerations of distribution of resources and justice between nations. Intergenerational equity refers to the fact that sustainability must seek a way to balance obligations between the present and the future (UN, 2008). Conserving resources for future generation is what differentiates sustainable development policies from traditional environmental policies. The goal of sustainable development is, then, the long-term stability of both the economy and the environment.

We may distinguish among three different models – economic, ecological and political – which focus on a specific component that must be sustained. These models are not mutually exclusive, but, instead, can be complementary (Jenksin, 2009).

1. *Economic Models*

   They stress on the necessity to maintain the stock of capital. The classical definition of the economist Robert Solow explains us that sustainability must be viewed as an investment problem in which the returns deriving from the use of natural resources, must be used to create new opportunities of greater or, at least, equal value.

2. *Ecological Models*

   These models propose to sustain ecological integrity and biological diversity. From an anthropocentric point of view, natural resources should be sustained and regenerated, as they are essential for the existence of human systems. From an eco-centric point of view, ecological systems must be sustained for their intrinsic value of creatures' generators. The common idea of these perspectives is that because financial capital is not always a substitute of natural capital, then we have to adopt today some measures in order to conserve the ecological goods if we want to preserve them for future lives.

3. *Political Models*

   Focusing on sustaining the environmental conditions of fully human life, these models propose to sustain social systems that realize human dignity. The economist Amatya Sen (1999) sustains the theory according to which by creating more options for poor people today, thus meaning spending on the poor now, then we can benefit in the future because the development that will follow will determine more options for the future.

1.3 The Capital Approach Theory, definition and limitation

From a capital perspective, sustainable development "is development that ensures non-declining *per capita* national wealth by replacing or conserving the sources of wealth; that is, stocks of produced, human, social and natural capital" (United Nations et al., 2003: 4). This definition, specifying that what matters is the wealth *per capita* and not just the total wealth of the society, reflects the fact that the world population is increasing consistently over time, and that the rate of wealth's increase must be at least equal to the rate of population growth (UN, 2008: 43).

The total capital base encompasses five categories of stocks (UN et al., 1993):

- Financial capital (stocks, bonds, currency deposits…);
- Produced capital (machinery, buildings, telecommunications, infrastructures and fixed assets in general);
- Natural capital (natural resources, land and ecosystems);
- Human capital (educated and healthy workforce);
- Social capital (functioning social networks and institutions).

Development can be therefore sustainable if a country's total capital base – or total national wealth – is managed in a way that secures its maintenance over time. This would provide only the potential for sustainable development because there is no guarantee that future generations will be able to manage well the capital base they inherit. On the contrary, the declining of *per capita* capital stocks is for sure a guarantee of wellbeing deterioration (UN, 2008).

Considering the five categories of capital mentioned above, Total National Wealth (TNW) is measured in the following way (UN, 2008):

$$TNW = p_F F^* + p_R R + p_N N + p_H H + p_S S$$

where F^*, R, N, H and S are financial, produced, natural, human and social capital, respectively, and the p's are the theoretical accounting prices. Financial capital is denoted as F* because not all the financial assets of a country are included in its national wealth. In fact, for every asset there exists a liability that offsets it. So, only the difference between foreign assets and liabilities – thus the net financial position of the citizens with respect to the rest of the world – counts as national wealth. Consequently, at the global level, global wealth does not have any financial component.

Three main limitations of this theory have been advanced (UN, 2008). First, the capital approach requires the capital stocks to be measured using a common unit, money. However, in several cases it is difficult to identify some capital components that contribute to the wellbeing and if they are not identifiable, obviously they cannot be valued. This is true because wellbeing derives from more than market consumption. Moreover, even if these components can be identified, sometimes it is difficult to translate their value into dollars, particularly when the conditions of ideal markets (atomicity, homogeneity, perfect and complete information, equal access, free entry, independence of actions of producers and consumers) cannot be guaranteed.

Second, it has been generally acknowledged that substitutability among capital types is not perfect. Because some capital services are perceived to be critical, meaning non-substitutable, it is wrong to aggregate values for non-critical capital with those for critical capital into a single measure.

Third, this approach does not consider the following ethical implication: have humans the right to exploit nature in a destructive manner, even if it will increase the total national wealth, at least in the short run?

UN Report on Measuring Sustainable Development designs a set of indicators that considers each form of capital in order to help governments and international organizations by providing them a tool able to approximate as much as possible the numerical value of sustainable development in a country.

Market value is considered to be a good estimate of capital assets' accounting prices. This is true for all financial and produced capital, and also for those element of natural capital that are traded in the market, such as energy and minerals. However the limitations above explain that monetary indicators alone are not sufficient and that additional indicators should be selected to reflect the wellbeing deriving from the capital that cannot or should not be translated into a market-based monetary measure.

Referring to *Natural capital*, the value of all the ecosystem services that are out of the market cannot be captured by their price. Natural assets are generally not traded on markets and indirect methods are used for valuing them. Moreover, natural capital encompasses some critical assets, meaning that they are essential for supporting the basic life. Some of them are:

- A reasonably stable and predictable climate;
- Safe air to breath;
- High-quality water in sufficient quantities;
- Intact natural landscapes suitable for supporting a great diversity of plant and animal life.

These assets are measured in physical terms: temperature deviations from normal temperatures; ground level ozone and fine particulate concentrations; quality adjusted water availability; fragmentation of natural habitats.

Human capital has been defined as "the stock of economically productive human capabilities" (Bahrman and Taubman in World Bank, 2006: 89). Others define it as "the knowledge, skills, competencies and attributes embodied in individuals that facilitate the creation of personal, social and economic well-being" (OECD, 2001:

18). The first definition put more emphasis on the economic market value of human capabilities, while the second focuses more on the wellbeing creation.
The share of population receiving post-secondary education can be used as indicator to measure the educational achievement of a country and the health status con be measured through an indicator of health-adjusted life expectancy.

Social capital mainly refers to those positive elements of society that need to be conserved or developed. There is not accordance relatively to its definition. The most common is the one produced by OECD:

"Networks, together with shared norms, values and understandings which facilitate co-operation within or among groups" (OECD, 2001: 41).

Social capital has also been defined in the following ways:

- "...Features of social organization, such as trust, norms (or reciprocity), and networks (of civil engagement), that can improve the efficiency of society by facilitating coordinated actions" (Putnam, Leonardi and Nanetti, 1993);
- "...The institutions, relationships, and norms that shape the quality and quantity of a society's social interactions" (World Bank, 2000);
- "…The rules, norms, obligations, reciprocity and trust embedded in social relations, social structures and society's institutional arrangements which enable members to achieve their individual and community objectives" (Narayan, 1997).

Some benefits deriving from social capital are related to the institutions (e.g.: the rule of law, the administration of justice, the universal suffrage, transparency of political processes, international conventions and agreements), others are associated with culture (e.g.: language, religion, sports, fashion).
Three types of proxy indicators have been settled: membership in local associations and networks, trust and adherence to norms, collective action (Grootaert and van Bastelaer, 2002).

Finally, the indicator set used to measure the level of sustainable development should consider not just stocks, but flows of capital, as they determine changes in stocks from one period to the next. As with the stock indicators, flow indicators required both monetary and physical measurements. The flow variable we have to consider for the determination of the total economic wealth is net investment in all forms of economic assets, which is the value of new investment in an asset during a period net of its depreciation.

For financial capital, the flow variable is net investment in foreign financial assets. For produced capital, the flow variable is net investment. For human capital, the flow indicator is also net investment. Depreciation derives from obsolescence of skills, unemployment, loss of workers from the labor force, etc. Investments refer to education, training and improvements to health status. For non-critical natural capital the fundamental indicator is the aggregate value of net depletion. Each critical form requires, instead, a specific flow indicator. Regarding the social capital, only the change in membership in local associations and networks can be a flow indicator. Trust and adherence to norms and collective action cannot be expressed through indicators of flow (UN, 2008).

The next table shows the set of capital-based sustainable development indicators.

Figure 1.4 Sustainable Development Indicators

Stock Indicators	Flow Indicators
Real *per capita* economic wealth	Real *per capita* genuine economic savings
Real *per capita* net foreign financial asset holdings	Real *per capita* investment in foreign financial assets
Real *per capita* produced capital	Real *per capita* net investment in produced capital
Real *per capita* human capital	Real *per capita* net investment in human capital
Real *per capita* natural capital	Real *per capita* net depletion of natural capital
Real *per capita* social capital (place holder)	Real *per capita* net investment in social capital (place holder)
Temperature deviations from normal temperatures	Greenhouse gas emissions
Ground-level ozone and fine particulate concentrations	Smog-forming pollutant emissions
Quality-adjusted water availability	Nutrient loading to water bodies
Fragmentation of natural habitats	Conversion of natural habitats to other uses
Percentage of the population with post-secondary education	Enrolment in post-secondary educational
Health adjusted life expectancy	Changes in age-specific mortality and morbidity (place holder)
Membership in local associations and networks	Change in membership in local associations and networks
Trust and adherence to norms	Flow indicators of trust/adherence to norms and collective action (place holder)
Collective action	

Legend: Monetary Indicators; Physical Indicators

Source: UN, Report of the Joint UNECE/OECD/Eurostat Working Group on Statistics for Sustainable Development**,** 2008

We can conclude that sustainable development is difficult to measure first because it is difficult to define it with precision. For a better understanding, it can be useful to distinguish between weak and strong sustainability.

1.4 Weak versus Strong Sustainability

Because sustainability relates to the maintenance of the capital stock, then it is important to determine when certain components of the stock of capital can be substituted or when others are non-substitutable as long as they contribute to welfare in a unique way.

For this reason, R. K. Turner (1993) identified *weak sustainability*, which postulates the full substitutability of capital, and *strong sustainability*, that demonstrates the existence of critical elements, fundamental for human existence and, therefore, non-substitutable.

The former concept is based on the assumption that there is no essential difference between different forms of capital and neither between the kinds of welfare they are able to generate. Consequently, they can all be expressed in the same monetary unit as the only thing that matters is the total value of the aggregate stock of capital, not its composition (Ekins et al., 2003; Neumayer, 2003; Neumayer, 2012). Weak sustainability, thus, justify the maximization of monetary compensations to the expenses of the environment:

"It does not matter whether the current generation uses up non-renewable resources or dumps CO2 in the atmosphere as long as enough machineries, roads and ports are built in compensation" (Neumayer, 2003: 1).

Accordingly, it is the total value of the aggregate stock of capital that should be increased, or at least maintained, for the benefits of future generations, without considering its configuration (Solow, 2009).

On the contrary, the strong conception keeps natural capital separate from the other forms of capital for three main reasons (Noël and O'Connor, 1998; Ekins et al., 2003; De Groot et al., 2003; Brand, 2009):

- Firstly, while manufactured capital is reproducible and usually its destruction is rarely irreversible, that would happen only if the knowledge necessary for its creation would be lost, natural capital's consumption is usually irreversible;
- Secondly, the two forms of capital cannot be perfect substitutes because manufactured capital requires natural capital for its production, but the contrary is not true;

- Thirdly, increasing future consumption cannot be seen as an appropriate substitute for losses of natural capital (issues of intergenerational justice).

According to these statements, natural capital is a complementary, not a substitute, to manufactured, human and social capital, in producing human wellbeing. For their critical nature, it is necessary to preserve the functioning of natural systems and to maintain them above precise thresholds of degradation in order to ensure the conservation of those services necessary for human existence and wellbeing (Noël and O'Connor, 1998; Ekins et al., 2003; De Groot et al., 2003; Brand, 2009).

It is reasonable to affirm that the assumption of perfect substitutability (or high constant elasticity of substitution) between different forms of capital has little support. This is why, if we want to increase our wellbeing, it is crucial to think in terms of development and not in terms of growth. Growth, in fact, means "to increase naturally in size by the addition of material through assimilation or accretion" (The American heritage Dictionary of the English Language). It is destructive of natural capital and, at some point, growth would become anti-economic, impoverishing rather than enriching, because it will happen when the natural capital sacrificed for the production of man-made capital will be worth more than the extra capital produced.
On the contrary, development, meaning "to expand or realize the potentialities of; bring gradually to a fuller, greater, or better state" (Daly, 1990: 1), is a qualitative improvement which is pursue in a sustainable way, meaning not at the expense of natural capital. The key principle of sustainable development is then the integration of economic, environmental and social concerns into all aspects of decision making, and across territories, sectors and generations.

1.4 UN Vision of a better world

The World Business Council for Sustainable Development (WBCSD) in its *Vision 2050* report calls for a new agenda for companies, governments and civil society highlighting the obligation to adopt long business horizons and develop a different view of the future where:

"…Economic growth has been decoupled from ecosystem destruction and material consumption and re-coupled with sustainable economic development and societal well-being" (WBSCD, 2010)

This ambitious report, compiled by 29 leading companies from 14 industries, maps out the fundamental changes able to allow the 9 billion people of the planet to be living well and sustainably in 2050. Living well means that all people have access to education, healthcare, mobility, and basics of food, mater, energy, shelter and consumer goods. In order to reach this goal, business has to focus its attention and directs its actions towards the realization of the following objectives (WBSCD, 2010):

- Developing solutions able to address the development of marginalized people mainly by fostering education and economic empowerment;
- Incorporating the cost of externalities into the structure of the marketplace;
- Doubling agricultural output through innovative techniques able to not increase the amount of land or water used;
- Halting deforestation and increasing yields from planted forests;
- Halving carbon emissions globally (comparing to 2005 levels), shifting to low-carbon energy systems, and providing universal access to low-carbon mobility;
- Improving demand-side energy efficiency and the use of resources and materials.

Figure 1.5 UN Vision 2050

Source: Vision 2050: The new agenda for business, WBCSD, 2010

With the objective to reach the goals set by the *Vision 2050* report, the WBCSD launched in 2013 a stepping stone initiative, *Action 2020*, identifying what targets have to be met by the end of this decade. *Action 2020* sets an agenda for businesses to take action on sustainable development, identifying as Priority Areas the most important natural and social capital issues that must be addressed to achieve a sustainable future, and as Business Solutions the tools that businesses and policymakers can implement to reach the Societal Must-Haves targets. Priority Areas are the planetary and social challenges that we have to address if we want to reach Vision 2050. They are (WBCSD, 2013):

- *Climate change*

  The release of CO_2 and greenhouse gasses since the industrial era have caused the raise of the global temperature higher that at any time in human history causing devastating consequences such as extreme weather, receding ice sheets and higher sea levels. The goal is to limit global temperature rise to 2°C above pre-industrial levels.
- *Release of nutrient elements*

  Over time, human beings have exposed the environment to several risks and dangers, including through the release of nutrient elements nitrogen and phosphorus. These elements, if in excess, damage freshwater and marine ecosystem, biodiversity and air quality. Pollution from excess nutrients must be brought to sustainable and not detrimental levels.
- *Ecosystems*

  People, especially through the economic activity, are more and more devaluing the existent natural capital. Because, as we have seen, natural capital is not substitutable and it is necessary to ensure life on earth, we have the duty, mainly with regard to future generations, to reduce the loss of natural ecosystems and restore the degraded ones.
- *Exposure to harmful substances*

  Growth without controls can determine very important dangers: expanded global economies and advances in medicine, agriculture and technology have determined a greater use and development of potentially harmful substances. It is important then to apply responsible management and practices of control for all products and activities throughout their value chain.
- *Water*

  In the world, billions of people lack access to safe water. Managing water sustainability for all users is a fundamental must have because water is a *conditio sine qua non* for life. Water of adequate quality and quantity must be shared among all users and taking into consideration the limits of renewable water resources and the ecosystem requirements.
- *Basic needs & rights*

  One-third of the world’s population still lives with less than US$2 per day and many lack access to the basic needs and rights. By 2020 everyone has to achieve those basic needs, human rights and freedoms that are indispensable for conducting a dignified life.

- *Skills & employment*
  Promote a global progress based on the creation of good, decent and qualified jobs for all, including women and young people, in order to maintain social cohesion, promote prosperity and enable business development and innovation.
- *Sustainable lifestyles*
  By 2020 everyone has to enjoy a better quality of life, only possible if consumers would adopt more sustainable consumption choices and business would provide more sustainable products and services.
- *Food, feed, fibre & biofuels*
  Everyday we assist to a great paradox: even if hunger and malnutrition is still a global challenge, high quantities of food are frequently wasted. Moreover, worldwide obesity has more than doubled since 1980 and in 2914 13% of adults aged 18 years and over were obese (World Health Organization, 2015). By 2020, access to sufficient, safe and nutritious food and sustainable bio-based product must be ensured to everyone.

Because this Societal Must-Haves will not be achieved without the involvement of the private sector, the report has also identified the following Business Solutions:

- *Rural livelihoods initiatives* – solutions that make it more attractive to live, work and invest in rural areas;
- *Resilience in the power sector* – the power sector has to adapt itself to long-term climate change’s impacts and be able to respond to more frequent extreme weather events;
- *Energy efficiency in buildings;*
- *Sustainable mobility* – future mobility must ensure safe transportation, affordable to all and with low environmental impact;
- *Genuine progress partners* – necessary in order to offer products/services that help society to live within the boundaries of the planet;

- *Sustainable cities* – meaning smart cities where technologies and innovations ensure low-carbon transportations for everyone, smart grids, zero-impact buildings, urban green, etc.;
- *WaSH (Water, Sanitation and Hygiene)* – business solutions for safe drinking water and sanitation services for billions of people;
- *Water efficiency in agriculture;*
- *Improved industrial wastewater discharge* – smart reuse of wastewater in order to meet the future water supply gap;
- *Restore productivity to degraded land "go zones"* – degraded lands can be cultivated for crops or restored to their natural state;
- *Implement sustainable land-use criteria in supply chains;*
- *Forest & forest products as carbon sinks;*
- *Carbon capture and storage* – a viable mitigation strategy for current and future fossil fuel emissions;
- *Zero Emissions Cities* – will be critical to reducing future fossil energy demand and greenhouse gas emissions;
- *Low carbon electrification of remote location* – low carbon solutions can lead to the universal access to electricity;
- *Resilience to climate change in globally interdependent business* – businesses will be stronger and more resilient by adapting to climate change risks;
- *Investing in natural infrastructure;*
- *Reducing shared water risk* – effective risk assessment and management between all stakeholders is necessary;
- *Inclusive business models* – business can play a role in reducing poverty while improving the bottom line;
- *Operationalize the UN guiding principles on business and human rights*;
- *Responsible employment strategies* – they can close the labor supply and demand gap;
- *Growth platforms for smallholder farmers* – small-scale agricultures improve livelihoods and access to food;
- *Halving food waste from field to fork* – improving efficiency along the food value chain will help in reducing hunger and environmental impacts;

- *Tropical forest alliance 2020* – a public-private partnership to reduce tropical deforestation and enhance economic growth and food security.

Vision 2050 and *Action 2020* are part of an action program for people, planet, prosperity, peace and partnership, signed in September 2015 by the governments of the 193 UN member countries and called *Agenda 2030*. The Agenda presents 17 Sustainable Development Goals (SDGs), with 169 under-objectives, that aim to eradicate poverty, promote welfare and wellbeing worldwide, and to protect the environment.

SDGs and *Agenda 2030* base them on the success of the Millennium Development Goals, 8 objectives set in 2000 that represent the global commitment to solve the most pressing problems of societies, such as poverty, hunger, access to basic services, gender diversity, etc., and to be reached by 2015. They are presented in Figure 1.6.

Figure 1.6 Millennium Development Goals (MDGs)

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- **Target 1.A:**
Halve, between 1990 and 2015, the proportion of people whose income is less than $1.25 a day
- **Target 1.B:**
Achieve full and productive employment and decent work for all, including women and young people
- **Target 1.C:**
Halve, between 1990 and 2015, the proportion of people who suffer from hunger

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- **Target 2.A:**
Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling

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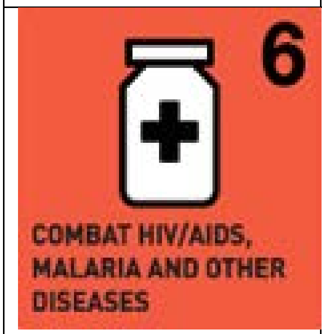
	• **Target 3.A:** Eliminate gender disparity in primary and secondary education, preferably by 2005, and in all levels of education no later than 2015
	• **Target 4.A:** Reduce by two thirds, between 1990 and 2015, the under-five mortality rate
	• **Target 5.A:** Reduce by three quarters, between 1990 and 2015, the maternal mortality ratio • **Target 5.B:** Achieve, by 2015, universal access to reproductive health
	• **Target 6.A:** Have halted by 2015 and begun to reverse the spread of HIV/AIDS • **Target 6.B:** Achieve, by 2010, universal access to treatment for HIV/AIDS for all those who need it • **Target 6.C:** Have halted by 2015 and begun to reverse the incidence of malaria and other major diseases
	• **Target 7.A:** Integrate the principles of sustainable development into country policies and programmes and reverse the loss of environmental resources • **Target 7.B:** Reduce biodiversity loss, achieving, by 2010, a

	significant reduction in the rate of loss • **Target 7.C:** Halve, by 2015, the proportion of the population without sustainable access to safe drinking water and basic sanitation • **Target 7.D:** Achieve, by 2020, a significant improvement in the lives of at least 100 million slum dwellers
	• **Target 8.A:** Develop further an open, rule-based, predictable, non-discriminatory trading and financial system • **Target 8.B:** Address the special needs of least developed countries • **Target 8.C:** Address the special needs of landlocked developing countries and small island developing States • **Target 8.D:** Deal comprehensively with the debt problems of developing countries • **Target 8.E:** In cooperation with pharmaceutical companies, provide access to affordable essential drugs in developing countries • **Target 8.F:** In cooperation with the private sector, make available benefits of new technologies, especially information and communications

Source: United Nations

These targets to date have not been completely achieved yet, but significant progresses have been made since 2000. This is why the United Nations, with the support of 196 states, have decided to define other objectives even more challenging.

Governments, local authorities, international organizations, business and financial sector, civil society, individuals, academia, scientific community, they all have to cooperate contribute in sustaining these goals by finding and adopting interrelated and integrated solutions able to ensure the success of the Agenda. Shared principles require share commitments, also because the main questions affecting our world (poverty, inequality, environmental issues, necessity to develop an inclusive and sustainable economic growth) are interdependent and link to each other.

The attention and the pursuit of a new approach of economic model oriented towards sustainable development is increasingly becoming the subject of international debates and meetings. During the Davos World Economic Forum, held at the end of January 2005, some prominent speakers – Jacques Chirac, Tony Blair, Bill Gates – focused on global poverty. For the first time in the history, during the WEF 2005, poverty was voted the first global priority issue to be addressed.

In 2006, the United Nations Millennium Development Goal call for the reduction of poverty worldwide. The goal set was to cut the number of people living on less than US$1 per day by half from 1990 to 2015, with a specific task to the private sector in contributing for the achievement of this goal, raising the standards of life in emerging economies.

The sustainable development perspective has to be adopted on a global scale. The profit-making objective if pursued aggressively would only lead to charges of exploitation of poor people. Looking at the poorest segment only as customers for making profit is not attractive and will not conduce to the fulfillment of the objective of reducing poverty. Helping these people first means raising their real income. By being directly engaged in the productive sectors of the economy they can hold steady jobs with fair wages enabling them not only to fulfill their daily needs, but also, thinking long-term, to take care of their education and healthcare for themselves and their families. MNCs, thus, cannot continue to pursue an exploitative strategy of both poor people and the environment. This is not sustainable in the long run and will not produce beneficial effects for the overall development of the economy.

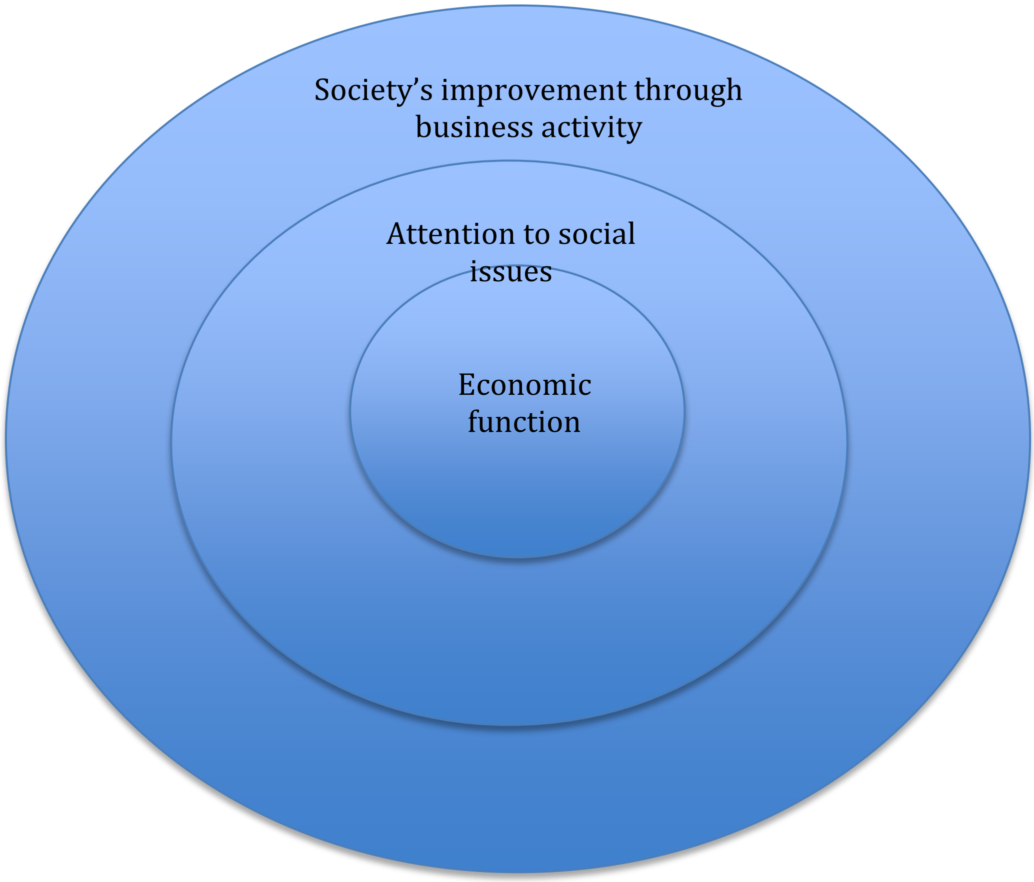
2. Ethical theories of business development

2.1 The New Perspective of the Management

During the Seventies we assist to the development of two strands of thought: on the one hand, the neo-classical theory, supported by Milton Friedman, who considers the firm as a profit-oriented “black box” and an unnecessary cost everything that could jeopardize its efficiency; on the other, thesis that consider the company as a bearer of duties to multiple parties take shapes. This period is characterized by the emergence of numerous social movements that began to question the approach of the business world on issues such as the environment, consumer and worker protection and safety at work.

In 1971, the Committee for Economic Development (CED) developed the “three concentric circles” approach (Figure 2.1), in which the inner circle includes the company’s responsibility to perform its traditional economic functions; the intermediate circle regards the responsibility to exercise the economic function showing particular attention to the values and social priorities; the outer circle refers to the possibility for the company to consider an active and voluntary involvement in activities that are outside of its core business and that allow more and better development of the company while improving the society (Carroll 1979; Davis and Blomstrom 1975).

Figure 2.1 Three concentric circles



Source: Thesis' author

Scholars at Harvard Business School theorize the possibility of developing internal procedures able to incorporate social issues in government and corporate policies. Businesses, while remaining essentially an economic institution, must develop a philosophy and an attitude inspired by social values and that can guide the decision making of managers.

The integration of social responsibility in the business strategy and the exceeding of the neoclassical approach represent an important starting point for the definition of innovative development's doctrines, among which the most important of them gave rise to the Stakeholder Management theory and CSR theory.

Over the years, several initiatives from the bottom are born. They constitute real opportunities for discussion and exchange between different worlds, giving rise to innovative business models with precise corporate strategies and structures, such as *stakeholder management*, *CSR*, *social innovation* or *inclusive business.*

2.2 Stakeholder Management

The theory proposed by Robert Edward Freeman (1984) refers to the inter-company conditions characterizing the environment where the business operates. It is based on the idea that enterprises should create value for the entire set of people involved, directly or indirectly, in the operations of the firm.

The stakeholder approach differentiates from the traditional view of the firm, the shareholder view, according to which the firm has the financial obligation to put the needs of the company's owners and to increase value for them as its primary goals.

According to the *narrow definition* of stakeholders proposed by Freeman and Reed (1983), stakeholders are those groups who are vital to the survival and success of the corporation.

The *wide-definition* includes "any group or individual who can affect or is affected by the achievement of the organization's objectives" (Freeman, 1984:46). According to this broader view, stakeholders are those groups who have a stake in the firm, such as suppliers, employees, consumers, stockholders, management, local community, competitors and government. As a consequence, corporations must be governed in the interest and for the benefits of all their stakeholders, who in turn have the right to make claims.

Owners, holding stocks or bonds, have a financial stake in the corporation and then, they expect some financial returns.

Raw materials determine the quality and the price of the final product. Suppliers and their relationship with the company are then vital to the success of the firm. Employees have their jobs and livelihood at stake. In return of their labor they expect wages, security, benefits and meaningful work.

Managers have a double stake in the corporation: one is similar to the one of employees, based on the existence of an explicit or implicit employment contract; the other refers to the fact that, especially top management, must look for the health of the corporation, safeguarding its welfare balancing all the multiple claims of conflicting

stakeholders. In fact, if the relationships among different groups become imbalanced, the survival of the firm is at risk.
Customers pay for the product or service of the firm in order to receive the deriving benefits. The payments are revenues for the firm and, because revenues are often reinvested in large corporations, costumers indirectly pay for the development of new products and services and of the firm itself.
The local community "grants the firm the right to build facilities, and benefits in turn from taxes and the economic and social contributions provided by the corporations" (Evan, Freeman, 1988: 43). The firm cannot expose the community to negative unreasonable hazards, as pollution or toxic waste, and has the duty to collaborate with the community in order to overcome any problem. If the firm badly handles its relationship with the community, violating the implicit social contract upon which it is based, it will be banished and excluded even with punitive measures.
Government entities and industry regulators make decisions that can have a significant impact over a company's operations. In order to regulate the business activity, they may set various technical and legal standards and be in charge of issuing licenses to operate. Moreover, government charges taxes from the business and, with the eventual support of regulators, monitors the company's working.
Competitors are considered to be stakeholders because every company can affect their performance through its operations. For example, if two or more firms target the same type of costumer, competitors will have a strong interest in the business of each other, or they can become business partners and with mergers and acquisitions, competitors will also take a direct financial interest in the business. Generally speaking we can affirm that the way in which a company conduct its business has an indirect impact over all the other companies of the same or of related industries (Evan, Freeman, 1988).

We can then conclude that stakeholder is any person, group or organization having a legitimate interest in a company (Donaldson, Preston, 1995). They can be classified as internal or external. Internal, or primary, stakeholders are individual and groups that are part of the organization, participating in the management of the company. Without them, the company will not be able to survive in the long run, thus highly influencing the enterprise's success or failure. External, or secondary, stakeholders are parties or groups that are not part of the organization but gets indirectly affected by its activities.

They do not participate in the day-to-day activities of the entity but the way in which the company acts has an influence over them. Moreover, they can also affect the organization, but they are not "*engaged in transactions with the corporation and are not essential for its survival*" (Clarkson, 1995: 107), as the company does not depend on them. The formers are employees, managers, owners, investors; the latters are suppliers, customers, intermediaries, creditors, competitors, government and society. The company has, thus, to deal with both the categories of stakeholders, fulfilling the responsibilities it has toward them and taking their interests appropriately into account in its decision-making and operations.

According to this theory, the company must identify its generic and specific stakeholders, the power of each interest group, the opportunities and challenges they represent, the responsibilities the business has towards them and the strategies that should be taken to manage them better with the purpose of coordinating the interests of stakeholders and to obtain their approval, creating a relationship of reciprocity and exchange (Golembiewski, 2000).

2.3 Corporate Social Responsibility and Creation of Shared Value

The European Commission defined CSR as "a concept whereby companies decide voluntarily to contribute to a better society and a cleaner environment" (2001: 5) and as "a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis" (2001: 8).

The World Business Council for Sustainable Development (WBCSD) explained the notion as "the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large" (1988: 3).

Moreover different societies across the world gave evidence of different perceptions of what CSR means.

In the US, for example, corporate social responsibility is seen as an application of a philanthropic model where companies make profits and donate some shares to charitable causes. On the contrary, in Europe the focus is put on the management of the core business in a responsible way (Baker, 2016).

Generally, CSR includes corporation's activities to take responsibility for its effects on social and environmental wellbeing. The main driver of CSR is the willingness to develop a desirable image of a good corporate citizen (UNDP/BC/CII/PwC, 2002). Over the last years, societies developed expectations relatively to the role of business and its readiness to go beyond the strict compliance with the law (Schwartz and Carroll, 2003).

What differentiates corporate social responsibility from other forms of actions aimed to sustainable development is that usually CSR actions deviate from the purely financial goals of the firm. They vary too far from the core competencies and objectives of the business implementing them, and profit making still remains the unique goal.

The social involvement of the firm has been considered to be insufficient from many and the nature of CSR perceived as ambiguous. Each CSR activity, in fact, requires organizational resources, forcing the business to a tradeoff between investing in profits and social action. Very often, these kinds of activities transform themselves into budget-draining social programs dependent upon outside funding. Corporate Social Responsibility assumes to deal with social concerns trying to solve them (or at least alleviate) with the mandate, at the same time, to maximize shareholders' profit (Tran, 2015).

Corporate social responsibility minimizes the negative effects of a company's activity and this certainly helps, but it turns to be more a tactic of defence than an opportunity for transformation. Too often, we assist to an instrumental use of CSR levers by commercial enterprises, as these activities have the effect of providing self-insurance against reputation risk, reducing, thus, social responsibility to a mere tool for profit maximization. This instrumental view of CSR to promote the interest of the company creates new opportunities for businesses to behave opportunistically and to promote its own interests (D'Amato, Henderson, Florence, 2009). As long as companies have an economic incentive to behave ethically, ranging from improved reputation and profit to reduced risk and transaction costs, moral feelings are replaced by rational and economic calculations. "If the economic rational argument is the source of ethical commitment, ethics will be completely instrumentalised and genuine moral feelings and commitment will be crowded out" (Bouckaert, 2002). This is the ethical paradox that we can find at the basis of CSR initiatives: instead of solving the problem of opportunism, ethics will create new opportunities for a disguised opportunism.

In order to overcome the structural failures of CSR, Porter and Kramer (2011) sustained the necessity of integrating CSR with a business strategy aimed at the Creation of Shared Value, as the only possible solution for "reinventing capitalism". CSR in fact, because it varies too much from the core competencies and goals of the business implementing them, cannot be the only answer through which eradicate poverty.

The year 2008 come to be recognized as the turning point. The founder of the World Economic Forum, Klaus Schwab, in January 2009, proclaimed "The financial crisis is a wake-up call to reformulate the world's institutions and corporations for the twenty-first century". Jeff Immelt (2009), CEO of General Electric, declared that, as the world would never return to where it had been before, we should start to think in terms of "reset" instead of "recovery". The NY Times columnist and Pulitzer Prize winning author Thomas Friedman (2009) wrote that the world has reached its "inflection point", meaning that the growth model we created in the last fifty years is unsustainable economically and ecologically and that in 2008 it just imploded.

According to the economists Porter and Kramer (2011), the responsibility for this situation of crisis weighs on the shoulders of the same companies that are trapped in an "obsolete approach of value creation".

The model of CSV can be understood as a renewed capitalism that elevates the achievement of the business goals to a strategic level, orienting the strategy towards the resolution of social problems through the business itself. In particular, the CSV approach allows companies to perceive the social needs that exist in a certain place,

area or state, as a business opportunity. This implies, therefore, that it is the duty of those who govern and manage a company to acquire certain sensitivity in the perception of social problems, in order to correctly interpret the needs, and determine a business model suited to their solution.
CSV's theory recognizes that the needs of society, not the conventional economic needs, should define the markets. It acknowledges that damages or social problems that a company creates outside, then will inexorably overturn within it: the deterioration of the physical or social environment out of the company, makes it less able to create value and compete; on the contrary, to achieve the goals of the enterprise in line with the outside, ensures better and more sustainable results. The competitiveness of a company and the welfare of the surrounding community are therefore closely interlinked (Porter, Kramer, 2011).

According to this approach, the enterprise "socially-focused" is the one that gives a concrete response to social needs, for the benefit of both the company and the community, according to a *win-win* strategy, thus "creating societal value" (Porter, Kramer, 2011: 52). Consequently, the business is the only institution that can create wealth and prosperity, which has the responsibility to solve the major social problems that affect globally our society.

2.4 Social Innovation

According to the European project TEPSIE (The Theoretical Empirical and Policy foundations for building Social Innovation in Europe), Social Innovations (SI) are (2012: 18):

"New solutions (products, services, models, process, etc.) that simultaneously meet a social need, more effectively than existing solutions and lead to new or improved capabilities and relationships and better use of assets or resources. In other words, social innovations are both good for society and enhance society's capacity to act".

Because of the importance of relations at the base of SI, the European Commission prefers to use the adjective *societal* instead of social, as it better explains the forms and structures of the societies' dynamic functioning on a collective scale and not individual (TEPSIE, 2012).

The definition above refers to those initiatives thought to satisfy collective or social (or better, societal) needs through the generation of more efficient products, services or business models than those that already exist, through the establishments of new relationships and competencies and favoring a better use of structures and available resources.

It is possible to recognize two dimensions of social innovation. The spatial innovation refers to the fact that its impact varies according to the geographical area in which it is realized: "social innovation does not necessarily need to be new *in se*, but rather, new to the territory, sector, field of action" (TEPSIE, 2012: 9).

The second dimension is dynamicity. SI is a process during which its manifestations, the actors' modalities of participation and interaction, the outputs and the benefits generated, evolve. It is "an initiative, product or process or program that profoundly changes the basic routines, resources, and authority flows or beliefs of any social system in which the innovation occurs. Such successful social innovations have durability and broad impact" (Westley, 2008: 2).

TEPSIE set six phases of this process (TEPSIE, 2012: 33):

1) Prompt – Identification of the social need;
2) Proposals – Elaboration of the solution and the proposal;
3) Prototyping – Realization of the prototype and experimentation;
4) Sustaining – Implementation in a new product/service/operation;
5) Scaling – Diffusion of the new product/service/operation;
6) Systemic change – Modification of the whole socio-economic system involved and system's change.

CERIIS Report on Social Innovation identifies six interdependent characteristics that are fundamental constituents of the process of social innovation (Caroli, 2015: 44):

- A better satisfaction of societal needs;
- Innovation of the relationships among economic and social actors and of their roles;
- Technologies;
- A better use of goods/resources that are available (waste reduction and/or valorization of underused or unused goods/resources);
- Structural impact, which has to be deep, spread and of long term in order to generate a real change;
- Economic force, meaning that the value of the output generated must be recognized from the market, has to improve the capability of the people involved to create economic value in their market or has to attract the necessary financial resources thanks to its intrinsic and perceived relevance. And only if the social innovation can reach its own economic force, it can have a structural effect.

Despite some ideas about SI are more and more consolidating, it is difficult to define one single perspective into the scientific debate and to establish with certainty what are the experiences that fall within the scope of social innovation (Aderhold, 2005, Moulaert et al., 2005; Roth, 2009).

CERIIS Report underlines the fundamental prerogatives that a company has to adopt in order to direct its business towards the implementation of a social innovative approach. First, it is necessary to operate a preventive comprehension of the necessities of those people toward which the business wants to refer. It is, then, important to understand the specificities of the context – such as the nature, the characteristics of the local community, the people’s expectations and behaviors – since they determine the prior needs of the society. This is why SI must be differentiated according to the geographical diversity. Identifying real needs of a specific community is the starting point for the creation of new better solutions. “Social innovations are not just new solutions, they are new solutions that work better than existing practices and therefore bring about measurable improvements for the population they serve” (TEPSIE, 2012: 10).

Another central characteristic highlighted by the Report, is the active involvement of those who the SI intends to benefit. Oppositely from the traditional philanthropic initiatives, where disadvantaged people are passive individuals without the possibility of intervening in the determinations of the modalities of the services' content and distribution, social innovation assumes the effective participation of the beneficiaries.

Relationships are another distinctive element of innovative enterprises. The organization, in fact, acquires relevance not as a separate entity, but as a component of a greater system, made up of different actors that together and through the establishment of innovative relationships, can realize an objective having general interest and coherence with the specific desires of everyone. Differently from "traditional" relationships, "innovative" ones are characterized from partners that share common vision and values, not only an operative objective. Moreover, the roles of the actors involved are not separated but shared or highly integrated with each other. Consequently, activities are performed in an interactive and circular way, not sequentially, engaging each individual/entity in roles and positions that co-exist. Finally, innovative relationships can be based on digital technologies and social systems, thus generating a significant strategic and organizational impact, widespread in the whole system. Technology can leverage new ways of interaction between people and/or organizations; new manners of exchange or sharing resources; innovative modalities of realizing operational activities by collaborating and maturing common visions and orientations. Social changes may, then, require the developing of digital technologies enabling a greater intensity of their impact on the improvements of collective problems, or the development of innovative solutions for social problems and for the satisfaction of relevant needs. Being technology a possible source of competitive advantage, innovations in technology may lead to an outstanding expansion of the organization on a large scale.

Innovation of relationships is also a fundamental element in the orientation toward a general innovation within the organization, from the culture to the strategy, from values to people, from the mission to the business model. It will lead to the establishment of a shared vision relatively to issues of general interest, to the definition of priorities and to the development of new relationships in order to satisfy the prior issues in a the most efficient way (Caroli, 2015: 49).

As noticed already, the ways in which SI manifests itself are very heterogeneous. Below, some examples are shown (Caroli, 2015: 67).

a. *Constellation of different actors*

   Actors of divergent nature realize a structural alliance for the realization of a project able to solve a social problem. Those that are going to beneficiate from the project are also included into the “constellation”. Normally, there is someone who acts as cornerstone. It can be a non-profit organization – that usually knows better than others the social problem, the conditions for its satisfaction and has adequate credibility with beneficiaries – but also a for-profit organization or a public entity. The cornerstone draws the social value chain, the necessary activities for the achievement of a certain social objective and the connections between them; it therefore aggregates the most suitable actors for the performance of such activities and outlines their interaction. It never exerts some form of hierarchical power on others. It may, however, have an authority to act as leader of the constellation, thus able to effectively direct the behavior of the others involved.

b. *Physical and/or virtual spaces for the development of micro-entrepreneurship or social business initiatives*

   A private or a public body creates and manages a physical and/or virtual space, where conditions for creating and developing businesses of social relevance are offered. It is an eco-system where the tools for the design of the initiative and conditions for skills and relational capital’s development (seminars, workshops, social events, the Community Development) are made available to social entrepreneurs. Incubators and accelerators of “start –up” are a good example. Here, different people with different projects meet each other and collaborate for the identification of solutions of collective problems. After starting the productive activity, they can develop business relationships with traditional enterprises, favoring the creation of hybrids. Moreover, new interactions among entrepreneurs, potential investors and markets may attract the financial resources necessary for rendering the initiative sustainable in the long term.

c. *Virtual platforms for the management of public or widespread issues*

There can be three types of virtual platforms:

- Virtual meeting space for people mostly belonging to the same physical community, normally of relatively little dimensions (districts, the territory of small closed municipalities);
- A space that promotes the assembly of people united by the same interest/problem, providing them specific services and products, information, external connections, and offering them the opportunity to share experiences and opinions and to highlight to third parties the relevance of certain aspects;
- A place of asset exchange between people sharing a common general interest. The asset's exchange is the necessary condition for the satisfaction of the interest, increasing then the benefit of those involved (e.g.: pooling and sharing economy).

By participating in the platform, each individual has a different role. He may represent the demand or the supply, can promote an initiative, offer the financial resources for a project, etc. These platforms create a direct link between who has a precise need and who is in the position to meet the need.

d. *"Bottom-up" mobilization of the Community for the solution of problems of collective interest*

These initiatives are implemented voluntarily by groups of people who are brought together to personally intervening in the solution of collective issues that should be responsibility of public bodies. It is not the public entity that intervenes to remove a particular problem and create value for the community; it is the community which is mobilized to remove an obstacle and meet its own needs shared by most of its members; the public subject merely facilitates this intervention. These people, from informal group that aggregates spontaneously, start to organize themselves in structures for managing activities and sometimes economically sustaining new activities that derive from the initiative.

e. *Innovative solutions to individual needs also creating collective benefits*

The products and services produced are not only limited to the satisfaction of particular needs, but they also improve the sustainability of the consumers' behaviors, pushing them to have or reinforce sustainable behaviors. The enterprise pushes the consumer to consume better, not to consume more. Some examples are: the introduction of new procedures for the use of a product that allows the elimination or simplification of the package; the creation of physical products that can last a longer time, including through the provision of the adaptation or renovation of components; the sustainable tourism, that while creating an attractive offer for the tourist, it pushes him to be a positive player in the sustainable development of the host territory and the revitalization of areas in decline.

f. *Creation of products and services for marginal consumers*

Marginal consumers are socially or economically weak people or those that in any case do not have access to the offer existing on the market because of the presence of logistical constraints, for spending capacity reasons, for difficult usage conditions, etc. The goal is the introduction of products/services for the benefit of "weak" groups of users, favoring their personal, social and economical evolution, thus contributing to the increase of their ability to purchase in the long run. In this way, the business can set the conditions for having a future competitive advantage and the competencies acquired for the creation of a proper offer for marginal segments can be used to innovate the supply in consolidated markets. The production focuses on the creation of a greater access to relevant products/services for marginal consumers in order to increase their wellness and inclusion. Then, the enterprise will create economic value in the middle/long term thanks to the economic development of low-income consumes and to the establishments of new competencies that may have a distinctive nature in mature and advanced markets, thus contributing to the achievement of a competitive advantage. Moreover, the market is valued with a different approach: not only its actual or potential capacity is taken into consideration, but also the way in which it can evolve through social improvements that are realized also by the business itself.

2.5 Corporate Social Entrepreneurship

Entrepreneurship is becoming a crucial factor in the development and wellbeing of societies. It offers new competition, and promotes improved productivity and healthy economic competitiveness (UNCTAD, 2004). Corporate Social Entrepreneurship (CSE) derives from a combination of the *corporate entrepreneurship* and the *social entrepreneurship* (Austin, Reficco, 2009).

Covin and Miles (1999) defined corporate entrepreneurship as “the presence of innovation with the objective of rejuvenating or redefining organizations, markets, or industries in order to create or sustain competitive superiority.” The emphasis on profitability is, thus, the main difference between CSE and Social Innovation. SI, in fact, “does not necessarily involve a commercial interest, though it does not preclude such interest. More definitively, social innovation is oriented towards making a change at the systemic level” (Westley, 2010: 3).

Business literature differentiates entrepreneurs from business people by including statements such as: entrepreneurs *create needs*, while business people *satisfy needs* (2010 Global Report: Global Entrepreneurship Monitor, 2011); “An entrepreneur is an innovator who implements entrepreneurial change within markets” (Schumpter, 1934).

While corporate entrepreneurship, by investing on innovation, leads to the improvement of organizational profitability through the enhancement of competitive position or the renewal of an existing business, the social entrepreneur has both social and financial purposes. “Social entrepreneurship is the field in which entrepreneurs tailor their activities to be directly tied with the ultimate goal of creating social value. In doing so, they often act with little or no intention to gain personal profit” (Abu-Saifan, 2012: 22). A social entrepreneur “combines the passion of a social mission with an image of business-like discipline, innovation, and determination commonly associated with, for instance, the high-tech pioneers of Silicon Valley” (Dees, 1998). The goal is to address a social problem or provide for a need while achieving self-sustaining profitability. The interest in social entrepreneurs stems from their role in addressing critical social problems and the dedication they show in improving the wellbeing of society (Zahra et al., 2008). Social entrepreneurs design their revenue-generating strategies to directly serve their mission to deliver social value.

Differently from CSR initiatives, this type of entrepreneurship builds its competencies and objectives around the social need on which it focuses, resulting able to solve poverty-based issues while achieving sustainable revenues. Social entrepreneurs realize where there is an opportunity to satisfy some unmet needs, not yet satisfied from the welfare state system. Then, they gather together the traditional resources managing them in an innovative manner in order to practically implementing a vision able to make social change (Thompson et al., 2000)

Corporate Social Entrepreneurship integrates the two concepts of *corporate* and *social* entrepreneurship and has been defined by Austin, Leonard, Reficco, and Wei-Skillern (2006) as:

"…The process of extending the firm's domain of competence and corresponding opportunity set through innovative leveraging of resources, both within and outside its direct control, aimed at the simultaneous creation of economic and social value."

Key elements of the CSE process are (Austin, Reficco; 2009): creating an enabling environment, fostering corporate social *intrapreneurs*, amplifying corporate purpose and values, generating double value, building strategic alliances.

An *enabling environment* means that companies engaging in CSE in the same way in which they define a new vision and strategy, they also have to operate changes in their structure and processes in order that organizational values could be integrated across all units of the company and be and its internal process. Some performance measurement indicators for the economic and social values generated must be set, and the incentive and reward system must be aligned with these indicators (Austin, Reficco; 2009).

CSIntrapreneurs is the second central element of CSE. Here, "the role of the entrepreneur and the role of managers have to coexist permanently" (Austin, Reficco;

2009: 4), thus going beyond the traditional managerial approach. Several economist and theorists (Austin, Leonard et al.; 2005) have classified the main characteristics of CSIntrapreneurs. According to them, these particular entrepreneurs are internal champions that strongly direct their efforts in promoting the integration of social and business values; they are able to communicate the rationale and the importance of the transformation, being at the same time active listeners of stakeholders. They create new solutions also disrupting the *status quo* if they realize that the existing state is not sustainable. "They are catalysts for change, coordinators able to reach goals across internal and external boundaries, mobilizing, and aligning interests and incentives, and useful contributors who support the success of others also enabling other groups. They are not dreamer but keen calculators of the realities of the corporate environment; they are cost-conscious and mindful of the bottom line" (Austin, Reficco; 2009).

CSIntrapreneurs create *values-based organizations* where social values are seen as a structural component and as a cornerstone of the organizational identity. According to Austin and Reficco "the goal is not just to comply with the law, or to be responsive to key stakeholders: value-based organizations seek to lead through example, to exceed expectations, and to set new standards" (2009: 4).

Then, the goal of this type of organizations is to maximize the returns of all its stakeholders, thus bypassing the shareholder theory that sees at its basis the maximizations of value of the only shareholders. This is why the company is able to produce economic, social and environmental value, according to a triple bottom line perspective. Differently from a CSR approach, the "organizations' social value creation is not treated as something separate or peripheral. On the contrary, it is imbedded in a larger and transparent accountability system that reports performance to the internal and external stakeholders" (Austin, Reficco; 2009: 5).

Finally, to collaborate with other organizations – businesses, civil society, government, etc. – in order to create strategic alliances and partnerships is a fundamental action in order to co-generate value. By combining complementary core competencies, different actors can create "new resource constellations that enable innovative solutions to long-standing social and economic problems… Partnerships are considered assets through which companies can overcome their organizational constraints. By engaging decisively their external stakeholders, firms are able to multiply the impact of their efforts” (Austin, Reficco; 2009: 6).

As CSE can be viewed as an evolution of CSR activities, companies need to rethink their current approach creating disruptive change in the pursuit of new opportunities. Corporate Social Entrepreneurship expands the core purpose of corporations and their organizational values combining the “willingness and desire to create joint economic and social value with the entrepreneurial redesign, systems development, and action necessary to carry it out” (Austin, Reficco; 2009: 6).

2.6 Social Business

Social business and *Inclusive business* are the ideal models to meet the criteria of CSE, entering in an emerging market and contributing to the creation of shared value. Social business must cover all costs and make profit, and at the same time it has to achieve the social objective. Owners can recoup the money invested but they cannot receive any other dividends. The objective is to deliver the intended social value while remaining financially self-sufficient, but, even if it does not exclude economic benefits, social business gives priority to the social ones (Michelini, Fiorentino; 2011).

If social business can be considered to be an evolution of the philanthropic approach, the inclusive business, paling on the same level both social and economic benefits, derives from the traditional business as it provides for the revenues’ sharing among shareholders, (Michelini, Fiorentino; 2011).

The Nobel Peace Prize Muhammad Yunus is considered to be the pioneer of the social business with the creation of Grameen Bank (literally Bank of the Village) and the constitution of the Yunus Social Business Global Initiatives (YSB), a social business accelerator that incubates and finances local entrepreneurs to help build solutions from the ground up.

During the 2009 World Economic Forum, Yunus affirmed the necessity to orient the objective toward the overcoming of poverty and other social issues, which threaten people and society, and not toward the maximization of profits.
Then, he presented (Yunus, 2009) the following seven principles that help to explain the social business idea:

1. Business objective will be to overcome poverty, or one or more problems (such as education, health, technology access, and environment) which threaten people and society; not profit maximization;
2. Financial and economic sustainability;
3. Investors get back their investment amount only. No dividend is given beyond investment money;
4. When investment amount is paid back, company profit stays with the company for expansion and improvement;
5. Environmentally conscious;
6. Workforce gets market wage with better working conditions;
7. … do it with joy!

The Grameen Bank, considered to be the “mother” of all social businesses, is based on these seven pillars. The aim is to provide micro-credit to the LIS (Low Income Sector), at fair conditions and without the requirements of guarantees or collaterals, letting them able to build an independent business and giving them a chance to come out of poverty (Yunus, 2009). Today Grameen serves in Bangladesh (the Yunus’ country of origin) 8.29 million of borrowers. 97% of them are women and over 97% of the loans are paid back, a recovery rate higher than any other banking system. This same method has been replicated in 58 countries, including Western ones, such as US, Canada, France, Netherlands and Norway.

Yunus has also established a separation between two types of social business. Type I is a business that deals with social objectives only, meaning that the product or services are offered for the benefit of the poor or targeted to solve a precise social problem. This business model focuses on the pursuing of social objectives and it cannot grant dividends for its shareholders. The generated profits have to guarantee

the organization's economic sustainability, and any eventual surplus will be reinvested in the business or used to return the principal amount to investors.
Type II instead, can adopt any profit maximizing business as long as poor people own it. They can gain through receiving direct dividends or indirect benefits, thus reducing their disadvantage (Zanfei, 2010).

Grameen Bank is both Type I and Type II social business, as it is owned by the poor and provides a financial service which was previously unavailable to the most disadvantaged people.

Anyway, both the two Types of social business have to identify what are the basic human needs of the community in order to satisfy them through the implementation of an appropriate business venture. The community's economic progress determines the need that should be met and, consequently, the type of business action to be implemented. In an underdeveloped community, for example, the business may focus on the provision of low-cost water filters in order to satisfy basic needs, while in a more developed community it may offer services with a greater level of sophistication, such as professional skill training (King, 1998). The former kind of needs have been defined by King as "material and social requirements of human functioning, such as minimum levels of nutrition, shelter, and education" (King, 1998: 385). First, it is important to satisfy the basic unmet needs, such as basic nutrition or shelter.

Then, the venture should focus on economic growth and self-sufficiency, and not dependency, differently from it is with NGOs. After that the community progresses, it will require more advanced services, like education, enabling it to a broader economic opportunity. As the community develops, coming out of misery, the social business will be committed to more advanced forms of social engagement, which would at the same time strengthen the economic growth of the business. In fact, more education will attract capital investments, which in turn will allow the development of the local economy and the increase in wealth of the population. Consequently, also technology will become more affordable, which is, as we have seen, a necessary condition for the self-managed development of the Third World. Without technological development, in fact, we would condemn underdeveloped countries to a new type of colonialism, not necessary political but economical and cultural.

Finally, working in less developed environments leads the business to rely upon networking with governments and corporate figures in order to overcome the risk of shortages or insufficiency in the accessibility of resources, labor skills or traditional business networks. Thus, partnerships can be useful in providing access to resources and knowledge, sharing critical knowledge between the members of the network and enhancing the willingness of the actors to invest in the network (Tolstoy, 2010). Also, networks have more chances to attract local investments by convincing potential investors, employees and stakeholders in general about the benefits of the social business action (Johnstone, Lionais, 2004).

Unfortunately, the limit of this model lies in the difficulty of finding partners willing to invest in an initiative that has only a social impact without offering financial returns.

2.7 BoP Model and Inclusive Business

Among the CSE, inclusive business is another model that enable to enter in emerging markets and to contribute to the creation of shared value. This entrepreneurial initiative is, at the same time, economically profitable and environmentally and socially responsible.

For a better understanding of what inclusive business is, I have interviewed Lucia Dal Negro, founder of De-Lab, a laboratory where an international team of professionals with different technical competencies engaging in the development of research, consultancy and design of projects relating to Inclusive Business, Social Innovation, Enterprises' Ethical Communication sectors. Being her responsible of the Inclusive Business area, she explained me that while CSR is often disconnected from the company's core business, with activities that have no direct connection to what the company does for being in the world, inclusive business is instead a strategic approach to business development, so it is closely tied to the core business.

The term *Inclusive Business* was coined from the World Business Council for Sustainable Development (WBCSD) in 2005. WBCSD is a CEO-led global association of 200 international companies dealing with business and sustainable development. The word *inclusive* refers to the main characteristic of this model of business: the build of bridges between the firm and the poor for the benefit of both. Inclusive Business (IB) models circumvent market or public authorities' failures and inefficiencies – such as the poor's limited access to services and input markets, their lack of information about the demand situation, the deficient infrastructure, high transaction costs – to integrate the disadvantaged people on the demand side as clients or on the supply side as distributors, suppliers of services and/or raw materials, or employees (Prahalad, 2007). They seeks "to contribute to poverty alleviation by including lower-income communities within its value chain while not losing sight of the ultimate goal of business, which is to generate profits" (WBCSD and SNV, 2006: 2).

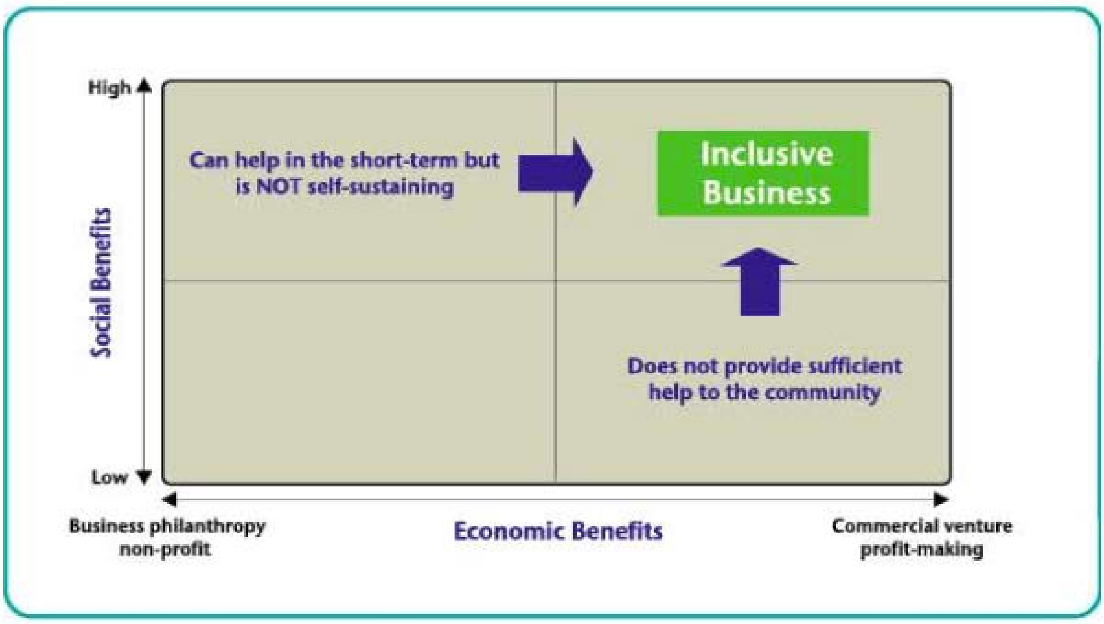
Integrating the poor on the demand side means providing them consumer products, healthcare, sanitation, water, energy, education or financial services. Their integration on the supply side can occur in the agricultural sector, where local crops are sourced from small-scale farmers, in the textiles or tourism sectors. Or, they can be integrated as distributors or sales agents (Rösler et al., 2013).

The usual business services the private sector can provide in lower income communities include: health care (hospitals, supply of pharmaceutical products), telecommunication, electrical power, clean water, education (schools, universities), financial services (micro credits, loans) etc.

IB models have the potential to provide or expand access to goods, services, and livelihood opportunities for those at the base of the pyramid in commercially viable, scalable ways. They increase the purchasing power of poor people (e.g. by offering relevant goods/services at lower prices or by establishing affordable payment schemes), to create employment and income. Also, they provide benefits to the pro-poor private sector development (PSD) that has the objective to strengthen the private sector in partner countries contributing to create employment, increase incomes and raise government revenues through tax payments. By adapting products and processes with regards to BoP societies, inclusive business helps low-income people to overcome poverty by turning undeserved populations into dynamic consumer markets and different new sources of supply, and ensures long-term business profitability if effectively implemented (Rösler et al., 2013). Summarizing, inclusive business leads to (WBCSD and SNV, 2006: 2):

1) Greater profitability for the company as result of lower supply costs, market expansion, greater sustainability of the business activity;
2) Improving living conditions for poor population as result of increased income and/or greater access to goods, services or infrastructure.

Figure 2.2 Economic and Social benefits of Inclusive Business



Source: WBCSD and SNV, 2006: 2

In order to grow, a company may be able to tap into new markets. Because the majority of developed markets have already been saturated, it would be profitable for companies to focus their attentions on developing countries, broadening their reach and increasing their potential to sell products and services to more customers and users. The implementation of business development strategies in accessing new markets involves a great deal of research and planning and the following actions are needed (Prahalad, 2005: 16):

To create the capacity to consume

Prahalad is convinced that to develop new markets, it is necessary to convert the poor into consumers.

Philanthropy is based on the provision of product and services free of charge. This approach may help to survive for one day, but it does not solve the problem on the long term. What is necessary it is to encourage consumption and choice at the BoP by approaching differently the various target consumers.

One successful option is to make small and affordable unit packages as BoP consumers tend to buy only when they have cash available buying what is needed for that day. Moreover, single-serve packaging is well suited for a great variety of products, from shampoo to biscuits, from drinks to aspirins, as it is demonstrated by the Indian market and shown in Figure n 2.3:

Figure 2.3 Creating the capacity to consume: Single-Serve Revolution

Single-Serve Value at Retail

Rs.	$	Typical Products
0.50	0.01	Shampoo, confectionary, matches, tea
1.00	0.02	Shampoo, salt, biscuits, ketchup, fruit drink concentrate
2.00	0.04	Detergent, soap, mouth fresheners, biscuits, jams, spreads, coffee, spices
5.00	0.10	Biscuits, toothpaste, color cosmetics, fragrance, bread, cooking oil, skin cream

Note: Shampoo and biscuits are shown under different price ranges because these items are available in multiple single-serve and low unit pack quantities.

Source: The Fortune at the Bottom of the Pyramid, Prahalad, 2005: 17

Taking the shampoo industry, the penetration of shampoo in India is about 90%, making the Indian shampoo market as large as the one in the US.

The returns derive from the sale of high volume of these small unit packages, as they can offer only a low margin per unit; differently from the large unit packs strategy adopted in the West and able to provide high margin per unit.

Another option is to create innovative purchase schemes as Casas Bahia did in Brazil by providing credits even for consumers having low or occasional income, making them available to buy appliances, even of high quality, in their stores.

The "Three As" is a useful principle for describing how to create the capacity to consume (Prahalad, 2005: 18):

1. *Affordability* without reducing quality or efficacy;
2. *Access,* meaning that distribution patterns must be adapted to the areas that must be reached and to the work habits of the poor. For example, because their shopping usually starts after their working day, at about 7:00 pm, stores cannot close before and must be easy to reach;
3. *Availability,* as the buying decisions of BOP consumers vary day by day according to the cash they have on hand and, consequently, cannot be predicted with precision.

To recognize the poor as effective consumers, restoring their dignity

By gaining more access to products and services, the poor feel themselves as being perceived as human beings with precise needs and necessities that must be satisfied by the private sector. They are considered to be profitable consumers, letting them to acquire the dignity of attention and choices as well as it happens in developed countries. In this way, they are not seen anymore as victims in search of help, but as individuals with defined preferences and desires. Moreover, the default rate among the poor is usually very low, as, because for the first time they see themselves equalized to rich costumers, they deeply feel the duty and the responsibility to respect an agreement and to keep their word. Finally they see their identity to be recognized, as their name and personal details become important for the private sector. This fact is of extreme importance, as without identity people cannot access to some basic services, such as credit: the status of "nonperson" in legal terms may confine people to a cycle of poverty.

To develop trust

"Private-sector business must create mutual trust between their companies and the BoP consumers" (Prahalad, 2005: 21) so that the latters can be actively involved in solving their problems. This point is necessary if we want to break the cycle of dependency, which has been established through the provisions of subsidies and government handouts, NGO interventions and other external helps.

Innovations for the BoP

To satisfy the specific needs of the poor, MNCs must approach BoP markets by developing new products and services and country models that differ from those adopted in the Western countries, as we have seen for the so-called *Single-Serve Revolution* or for the distribution channels that need to consider the infrastructures available in BoP markets, different in quantity and quality from those of the developed countries.

Innovation is, then, a prerequisite for the development of BOP markets that managers need to take into consideration and, as pinpointed by Prahalad (2005), it is referred to the following aspects:

- Price-performance improvement, that can be reached only if markets are very large and global allowing expectations of a large-volume, low-risk and high return on capital employed;
- The development of hybrids, given by the combination of the existing infrastructure of the BoP markets with the most advanced technologies;
- Making commercially scalable operations, considering that the basis for returns on investment (ROI) is volume. MNCs especially are suited for this goal as they have the necessary financial resources to pursuing it. Moreover they can easily benefit from partnerships with NGOs and local community-based organizations to co-create new products, services and businesses;
- The elaboration of sustainable and eco-friendly solutions. For example, considering that in the United States each person produces 4.62 pounds of waste per day, if also the Chinese population would generate the same wasting amount, there would be more than 5.5 billion pounds of waste per day: too much for our planet. Packaging and the use of scarce resources are aspects that have to be taken into high consideration by firms that

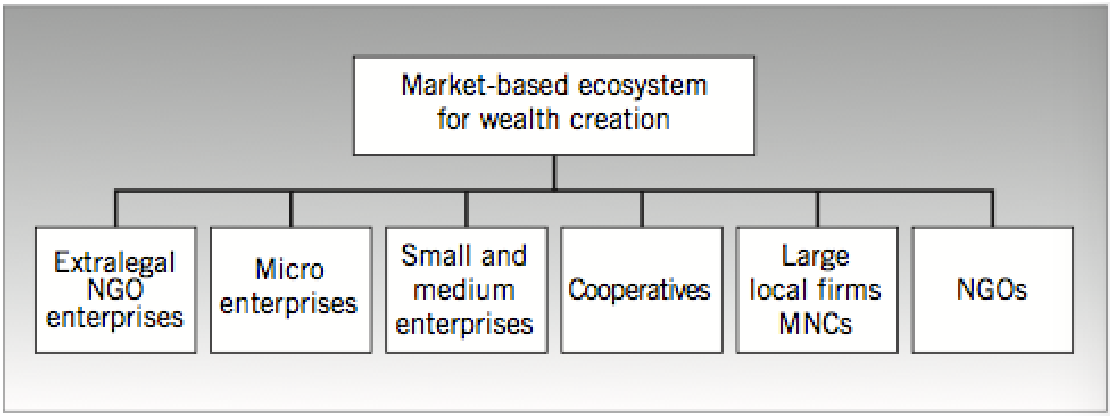
want to enter the BoP markets making of these markets an important source of experimentation in sustainable development;

- Product innovation, through the identification of specific needs and of the functionality required in products and services in the BoP market which may differ from the one in the developed markets;
- Process innovation, because *how* to deliver is as much fundamental as *what* to deliver. One option could be to maintain the local infrastructure but enriching it with the most advanced technology;
- Distribution innovation;
- Deskilling the work, due to the lack of skilled workforce in BoP markets;
- Educational process innovation, through which educate consumers at the BoP about the use and the functionalities of products and services. In this regard, collaborations with NGOs, public authorities and organizations, can be very effective;
- Designing products and services well suited for the hostile infrastructure of these markets;
- Designing an interface allowing for a fast and easy understanding of the product. Iconic, color-coded, voice-activated, fingerprint and iris recognition interfaces can operate very efficiently in this sense.

Particularly, price-cost improvement can be reached only if the firm deeply focuses on all the elements of costs, trying to keep them as low as possible thus increasing the efficiency of the use of capital. One option could be to reduce capital intensity in plants and equipment by outsourcing some activities and operations to dedicated suppliers and distributors, contributing in this way to the creation of small and medium enterprises. Consequently, the firm expands his boundaries beyond its traditional limits, engaging and empowering instead the so-called “informal sector”. Another option is to pay great attention to the management of revenues trying to collect them in real time and reducing in this way the amount of receivables (Prahalad, 2005: 55).

The implementation of partnerships is also perceived having a fundamental role for wealth creation. Private sector and social actors should act together for the creation of a market-based ecosystem where each constituent, even if moved by different motivations, plays a part in the fight against poverty.

Figure 2.4 Components of the Market-Oriented Ecosystem

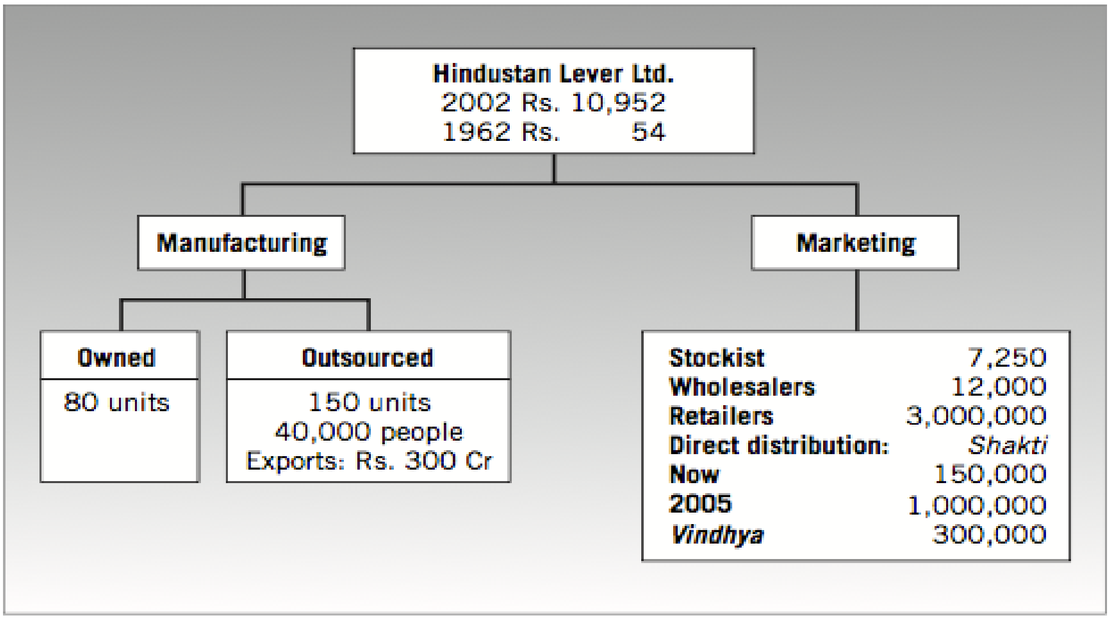


Source: The Fortune at the Bottom of the Pyramid, Prahalad, 2005

The portfolio shown in Figure 2.4 must be in equilibrium, otherwise, if it is skewed toward extralegal entities, the economy cannot develops; while if it is skewed toward large firms and MNCs, then the economy would probably be well-developed but it would not aim to poverty reduction and the creation of wealth at the BoP (Prahalad, 2005: 66).

Prahalad shows how HLL – the Indian subsidiary of Unilever – represents an example of efficient ecosystem (Figure 2.5). Being it a nodal firm, it provides the framework, the direction and the processes implemented, it establishes technical standards of the individuals involved in order to ensure a given level of quality, but the Shakti Ammas are independent in their work, thus building the capacity for self-governance. As a result, the system is at the same time consistent with global standards and local needs.

Figure 2.5 HLL's ecosystem for wealth creation



Source: The Fortune at the Bottom of the Pyramid, Prahalad, 2005

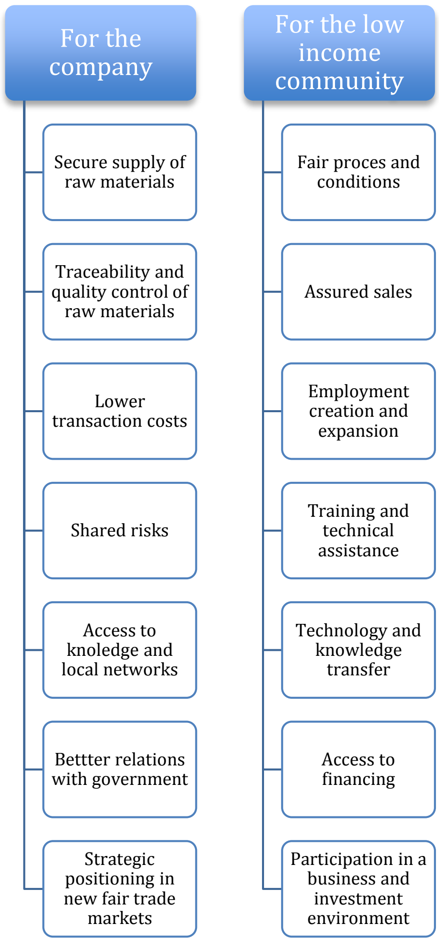
After being educated to be a responsible entrepreneurs, the Shakti Ammas become wealth creators in their villages because learning about products and features, prices, distributions and returns, allow them to be financially successful and independent form the local system of moneylenders and slum lords.

Is it clear, then, how the access to modern technology and to high quality products, thought to answer the specific need of the BOP consumers, will definitely enable them to improve their standards of life.

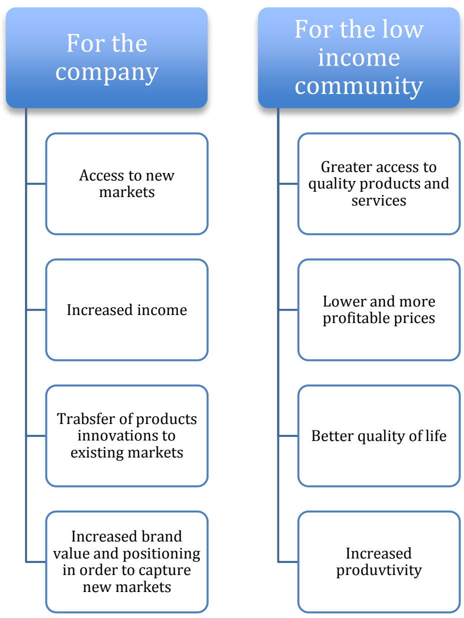
Therefore, the profitability deriving from the implementation of this entrepreneurial initiative is not usually immediate. Most of the time it is a long-term growth and competitiveness is reached by fostering innovation. Benefits for the firm are the possibility to capture market shares not only in a growing economy allowing to increase brand recognition and loyalty with a growing customer base, but also in developed markets where products, services and business models that result from the implementation of an inclusive business can be successfully transferred, attracting new consumers there (UNDP, 2008: 17-18).

Figure 2.6 Benefits of inclusive business

- With partners, suppliers and distributors:



- With consumers:



Source: SNV and WBCSD, 2008: 13

Effective strategy implementation

Companies that want to become inclusive have to transform their business strategies. In order to create a product/service that fits needs of people at the BoP, they should first get acquainted with main characteristics of BoP societies and conduct researches about this market. Then, they should follow the principles of success that are shaped along the four parts of a typical business model: product innovation, supply chain, marketing and partnership. These principles are: (World Economic Forum and the Boston Consulting Group, 2009: 24)

1) Create life-enhancing offerings – to adapt the product or the service to the society's specific needs;
2) Reconfigure the products supply chain – source from local producers, use local distribution channels, find ways to overcome infrastructure deficits;
3) Educate through marketing and communication – educate people about the product benefits and aim for trust and identity in branding, also by stressing on the power of the word-of-mouth;
4) Collaborate to form non-traditional partnerships – partner with communities, civil society, local entrepreneurs and competitors; share products, assets, capabilities and knowledge. Partners provide local market knowledge, potential distribution channels and local legitimacy;
5) Remove constraints from the organization – senior level commitment, to create accountability, lean and agile structures, to provide access to capabilities and knowledge.

Following these principles, the UNDP (2008: 46) proposes the following strategies to overcome the typical constraints of BoP markets (e.g.: lack of market information and regulatory environment and lack or underdevelopment of physical infrastructures, knowledge, skills and access to financial service):

- Adapt products/services and processes;

- Invest in removing market constraints;
- Leverage the strength of the poor;
- Combine resources and capabilities with others;
- Engage in policy dialogue with government.

In implementing these strategies businesses should develop operations that are economically, ecologically and socially sustainable. This also means that they have to take into consideration the societies they will start to work with and the community where they will operate. In this regard, the *Stakeholder Circle* is a methodology that helps to understand and manage the relationship with the stakeholder community with the goal of increasing the chances of success. This method is based on five steps (Bourne, 2009: 43 – 44):

1) Identification of all stakeholders;
2) Prioritization to determine who is important;
3) Visualization to understand the overall stakeholder community;
4) Engagement through effective communication;
5) Monitoring the effect of the engagement.

WBCSD has also identified six key-tools that support the initiation, development and scaling of inclusive business models: (WBCSD, 2010: 1)

I) **Identifying** appropriate business models and reducing risk by learning from others;
II) **Reducing** search, initiation, development and transaction costs;
III) **Facilitating** partnership initiation, development, management and evaluation;
IV) **Enhancing** access to finance;
V) **Measuring** and evaluating commercial and developmental benefits;
VI) **Maximizing** the commercial and social value of business models through effective advocacy and communications.

The necessary resources for supporting these activities can be split into two categories: (WBCSD, 2010: 2–5)

- Resources for action – for the development of an initial inclusive business concept, its implementation in real-world markets and the evaluation and measuring of the deriving commercial and social performance as a key platform for enhancing performance and for an eventual business model replication and/or scaling;
- Supporting resources.

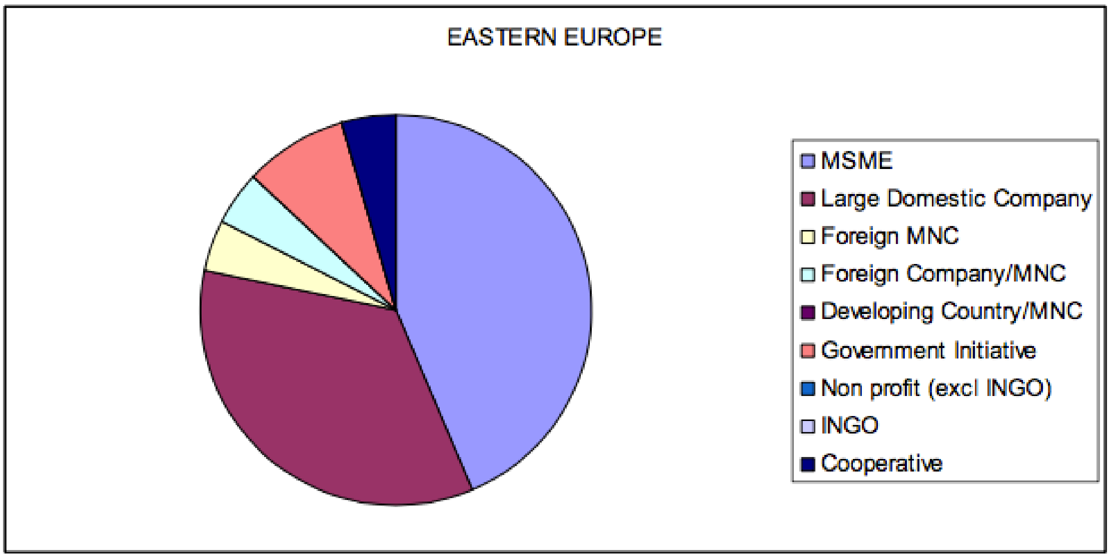
Inclusive companies around the world

Different types of organization can adopt inclusive business models (GIM – Growing Inclusive Markets – Initiative): Micro, Small and Medium Enterprises (MSME); Large domestic companies – they conduct their affairs in the home country; Foreign MNC – it is incorporated under the laws of a different state or nation; Foreign Company/MNC – a company which is doing business in a state other than the one in which it is incorporated; Developing Country/MNC – it operates in a poor country where citizens are mostly agricultural workers but that wants to become more advanced socially and economically; MNC – a corporation that has its facilities and other assets in at least one country other than its home country; Government initiative – a government ownership of lands, streets, public buildings, utilities and other business enterprises; Non-profit organization – an incorporated organization having educational or charitable goals and whose shareholders or trustees do not receive financial benefits; INGO – International Non-Governmental Organization not founded by an international treaty; Cooperative – a jointly owned commercial enterprise that produces and distributes goods and services and run for the benefit of its owners (Golja, Požega; 2012).

In 2010 the UNDP carried out a research seeking to understand and enable the development of inclusive business models all over the world. This initiative, called Growing Inclusive Markets (GIM) Initiative, contributed to the development of the Millennium Development Goals. The regions taken into considerations are: Eastern

Europe, Sub-Saharan Africa, Middle East and North Africa, East and South-East Asia, South Asia, Latin America and Caribbean.

Figure 2.7 Distribution of Inclusive Business in Eastern Europe:

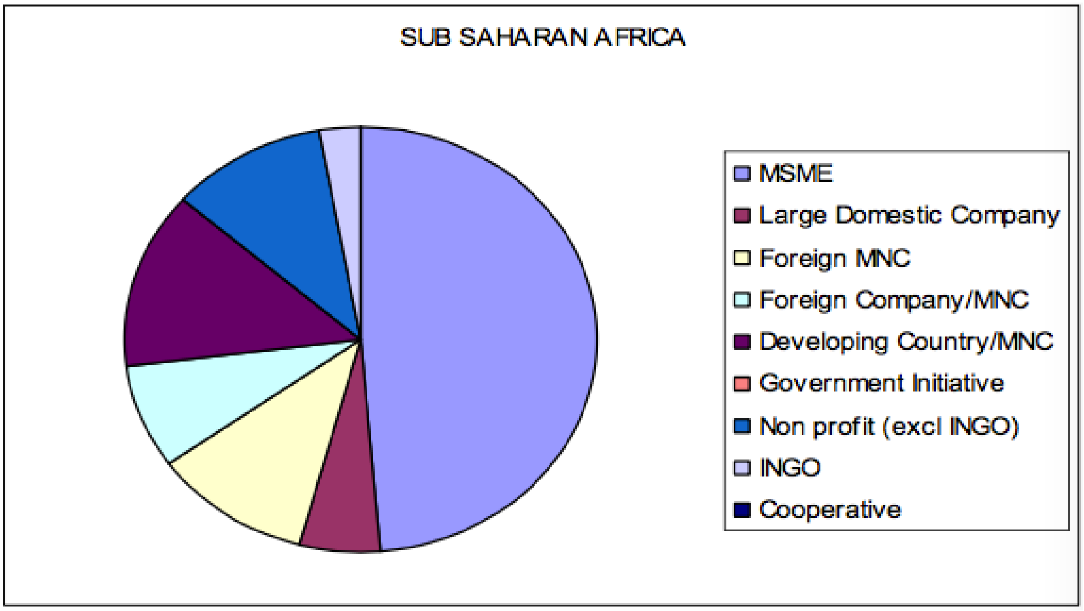


Source: International Review of Management and Marketing, Vol. 2, No.1, 2012: 31

The most common are MSMEs (43,47%) followed by Large Domestic Companies (34,7%).

Sub Saharan Africa is the area where the inclusive business organizations are more present (in 2012 there were 37 companies, while in Eastern Europe we find 23 inclusive business organizations).

Figure 2.8 Distribution of Inclusive Business in Sub Saharan Africa

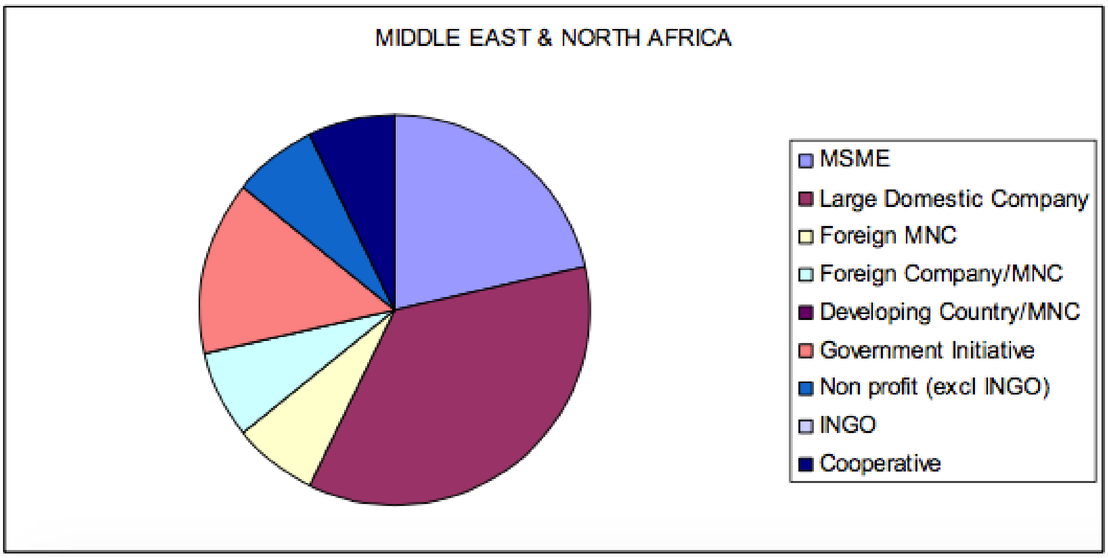


Source: International Review of Management and Marketing, Vol. 2, No.1, 2012: 34

The majority are again MSMEs (48,64%), then Developing Country/MNC (13,51%), and they are mostly engaged in food and beverage, health care and ICT sectors.

Middle East and North Africa are composed of four key countries – Egypt, Iran, Morocco and Sudan – and their business sector focuses mostly on solar power, energy, housing and construction.

Figure 2.9 Distribution of Inclusive Business in Middle East and North Africa

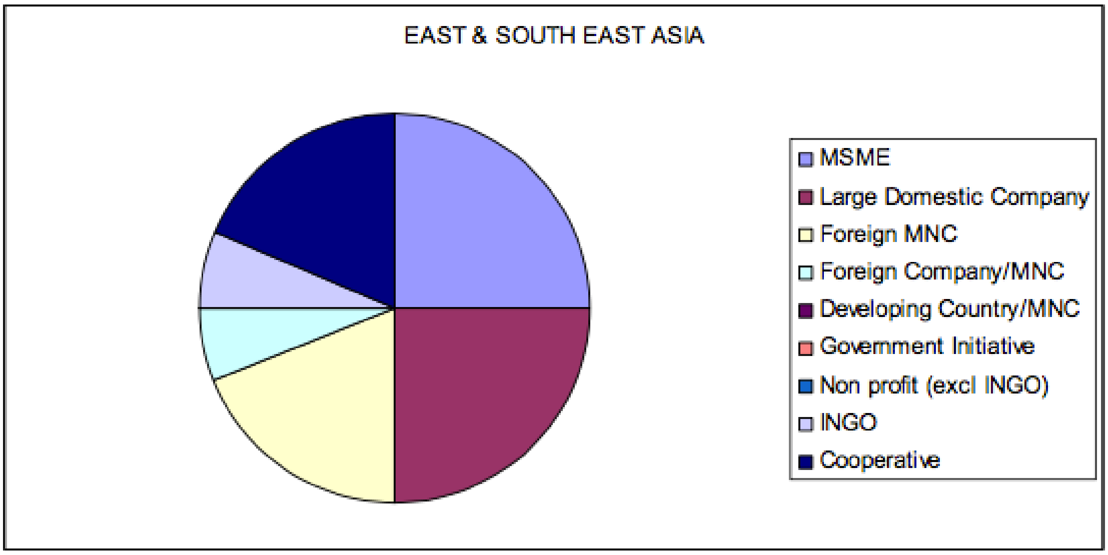


Source: International Review of Management and Marketing, Vol. 2, No.1, 2012: 35

The majority are Large Domestic Companies (35,71%), followed by MSMEs (21,42%).

In East and South East Asia (including China, Indonesia and Vietnam) companies engage in very different business sectors: from biofuels/biomass to artisanal goods, from transportation to agriculture, from ICT to hydropower, etc.

Figure 2.10 Distribution of Inclusive Business in East and South East Asia

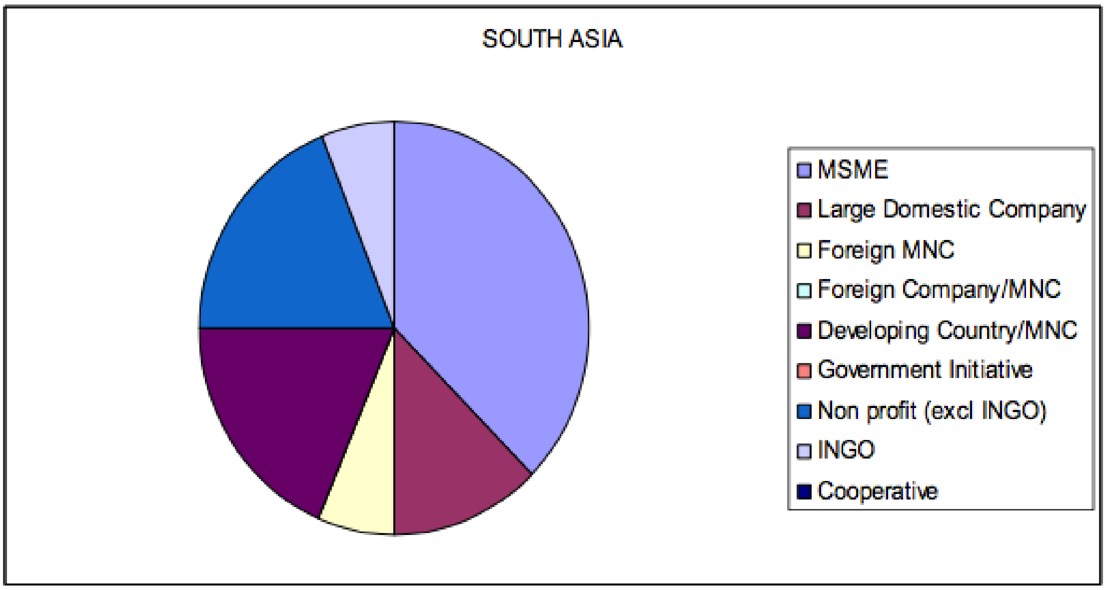


Source: International Review of Management and Marketing, Vol. 2, No.1, 2012: 37

From Figure 2.10 we see that the majority are MSMEs (25%) and Large Domestic Companies (25%), followed by Foreign MNCs (18,75%) and Cooperatives (18,75%).

In South Asia, India is ahead of other countries in the development of inclusive business models. The sectors where the model dominates are ICT and health care.

Figure 2.11 Distribution of Inclusive Business in South Asia

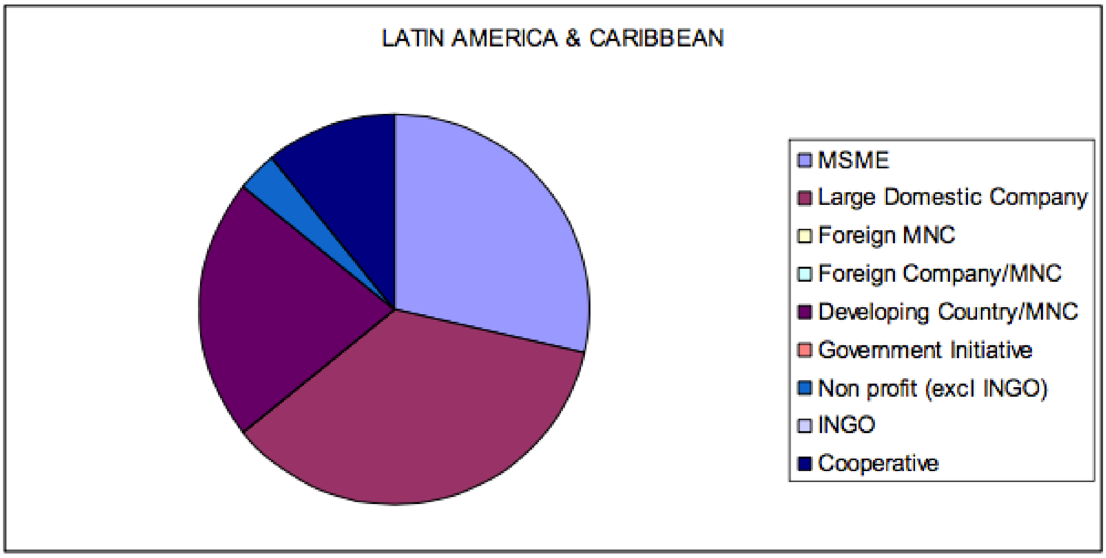


Source: International Review of Management and Marketing, Vol. 2, No.1, 2012: 38

The common type is still MSMEs (37,5%), then the Developing Country/MNC and Non-profit organizations – excluding the INGO – that are both 18,75%.

In Latin America and the Caribbean it is largely in Colombia where many businesses operate, particularly in the agricultural sector.

Figure 2.12 The distribution of Inclusive Business in Latin America and Caribbean

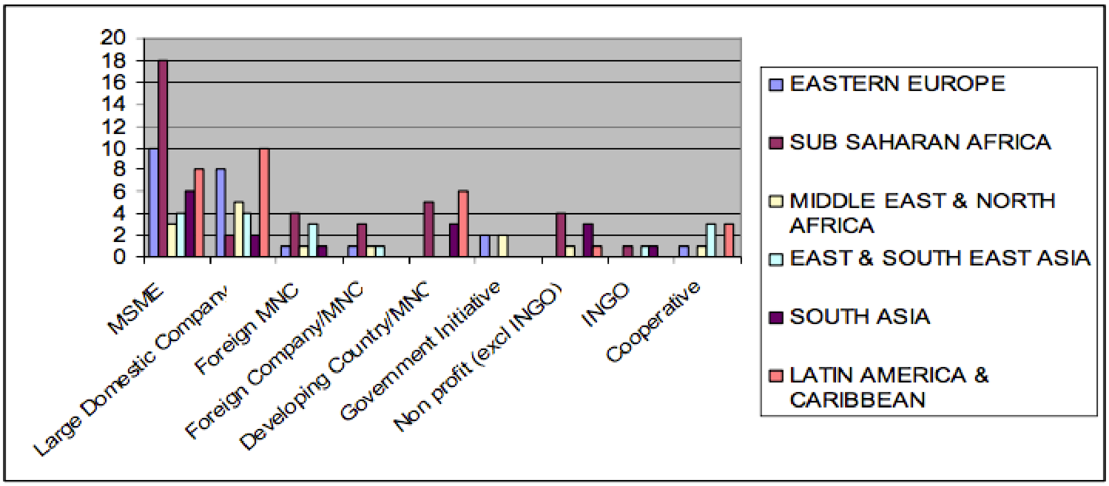


Source: International Review of Management and Marketing, Vol. 2, No.1, 2012: 38

Large Domestic Companies are the majority (35,71%), followed by MSMEs (28,57%) and Developing Country (21,42%).

Finally, the global distribution of different types of inclusive business organizations is shown in Figure 2.13:

Figure 2.13 Inclusive Business around the World



Source: International Review of Management and Marketing, Vol. 2, No.1, 2012: 40

The most common form of inclusive business organization is MSME and they are spread all over the world. The majority is in Sub Saharan Africa (18 out of 49) and in Eastern Europe (10 out of 49). They are followed by Large Domestic Companies (30 worldwide, mainly in Latin America and the Caribbean and in Eastern Europe). Developing Country/MNC can mostly be found in Latin America and in Sub-Saharan Africa. Non-profit, Foreign MNC and Foreign Company MNC are mainly in Sub Saharan Africa. Government Initiatives are more present in Eastern Europe, Middle East and North Africa. Most of the cooperatives are located in Latin America and in East & South East Asia. INGO are slightly distributes worldwide (Golja, Požega; 2012: 40).

Talking about Italy, Mrs. Dal Negro told me that unfortunately inclusive business never emerges in the journalistic or scientific debate and that it is the sharing economy that is driving the debate on new development models. However there are examples of companies that are not purely inclusive but who have developed some

distinctive traits of it. For example, she is following the business activity of a company that offers legal services designed and manufactured for low-income people with highly professional consultants and absolutely accessible costs for consumers, in a perspective of rethinking the way in which lawyers interact with users. Here the lawyer's office and the classic reception are replaced by the digital interface of an online service. This is an example of inclusive business because it makes a high quality offer at low price by rethinking and redesigning the legal service and lowering the fixed costs by eliminating the physical office.
Another case she presented me is the one of an Italian company operating in the Dominican Republic where it recovers and purify the waste oil, making it available again in the market at a price 30% lower than the traditional diesel. Here we find a two-fold objective. First, waste oil recovery that would otherwise end in the surrounding territory contaminating groundwater and polluting, making it available at a significantly lower price, thus favoring categories that would alternatively have heard this premium price more strongly. Second, the social objective consisting in giving the manufacturing waste to local communities for the production of candles for lighting.

As we have noticed already, the business of these companies covers various sectors, but the most common is agricultural, followed by the ICT, food and beverages, artisanal goods, health care, consumer products, energy, bio-fuels, housing and construction, micro-credit. Their main goals are the advancement of poor counties and populations, the alleviation of poverty, the improvement of the living condition and the global collaboration, thus contributing in the promotion and realization of the Millennium Development Goals (Golja, Požega; 2012).

Integration in the value chain of the firm

It is not only the end product or service, but the process through which they will be created and delivered that company must participate in (IFC, 2014):

a. *Engaging BOP suppliers*

There can be different reasons for companies to procure products or services from BoP suppliers or producers. Some of them are (IFC, 2014: 6):

- Supplement supply – the necessity to expand beyond the existing supply to meet volume requirements;
- Diversify the supply base and reduce risk by incorporating a broader range of suppliers;
- Market preferences – to reach certain markets satisfying precise preferences, companies must include low-income suppliers;
- Local requirements – in some countries, companies may be required to purchase locally sometimes also for being eligible for tax incentives.

BoP suppliers are mainly important in the agricultural industry where large number of small farmers dominates production of many commodities. By including them in the corporate value chain both companies and farmers will benefit from it, because the former will help the latter in improving their production practices, thus increasing productivity and quality. As farmers' incomes rise, their family become more food secure and can afford better healthcare, education and other services, improving their standards of living.

Sourcing from small farmers entails some challenges that companies have to face. For example, high transaction costs (it is logistically difficult and expensive the collection of small volumes of commodities from a big number of suppliers in areas characterized by poor transportation infrastructures); low quality (when farmers lack access to production techniques and business skills); unreliable production volume (farmers' crops are more vulnerable to diseases and unfavorable weather conditions due to limited training and lack of access to appropriate inputs; moreover limited access to financing determines farmers inability to invest in modern equipment, to pay workers or to transport their production safely to the market).

Large and small companies can implement different solutions to overcome these barriers (IFC, 2014). Working together allows farmers to reduce costs and simplify logistics. **Aggregating suppliers**, for example by building relationships with groups of farmers (e.g.: cooperatives), reduces the difficulty for companies to negotiate and sourcing from individual producers. Collection centers in or near farm areas may be a solution. Through these centers companies can provide farmers with information, inputs, services and also serve as hubs for hub-and-spoke models – a model in which several investments (the spokes) together contribute to one central investment vehicle (the hub) – where travelling agents can collect products from farmers located far away. They can also provide training and learning opportunities to farmers, helping them to build effective capabilities, and facilitate access to finance allowing farmers to cover operating costs and make investments. **Capacity building** can be provided through (2014: 10):

- Extensions agents: specialists that provide agronomic advice, business or financial management skills coaching to farmers. They can establish a network of sub-agents or volunteer farmers who can in turn trains others, establishing a training-of-trainers approach;
- Farmer training centers: group training sessions, held in community facilities or at participant's farm, about a wide range of topics, from agronomy, to farm management to financial skills;
- Demonstration plots: locations where companies grow crops using inputs and techniques they are teaching to farmers allowing them to see the results before they can invest time and resources for the implementation.

Finally, as farmers need cash advances or loans to pay inputs, labor or transportation and to enhance productivity and quality, companies can **facilitate access to finance** in different ways. Providing credit directly or through a subsidiary can be a solution, as the company, having a direct relationship with its small-scale suppliers, can evaluate the credit risk better than any other financial institution could do. Repayment can be then deducted from the amount the farmer is paid at harvest. Another possibility is to refer farmers to other lenders (microfinance or other non-bank financial institutions, leasing companies, local banks) that in turn may ask the company to provide information or recommendations that would help them to assess the farmer's credit risk, or even to guarantee a percentage of losses, if any.

In order to choose the right mix of solutions to optimize their supply chains, companies must understand differences across their supplier bases. They may use surveys, focus groups and other methods to gather insights, improve operations, tailor supplier services, identify new service areas and test delivery approaches.

b. Engaging BoP customers

More than half the global population lives at the BoP in developing countries and emerging markets. By targeting these people, companies will expand their customer base, gain market share and reach a competitive advantage through product, service and business model innovation. In order to successfully reach BoP customers, companies must focus on at least one of the following areas: product and service development, distribution and retail, marketing and sales.

If companies decide to develop products or services for BoP customers they will face various challenges, such as a limited individual purchasing power, the risk aversion of consumers (they tend to be highly value-conscious and resistant to new products) and their inconsistent and unpredictable cash flows. Some solutions are (2014: 18):

1) **Costs' reduction** – making products and providing services that are affordable while maintaining a strong value proposition and without compromising quality. This can be done by standardizing the product, thus reducing the time and the skills needed to build a product or deliver a service, or by focusing on the product's design (using innovative materials able to deliver high performance at a lower cost, eliminating useless functionalities, choosing features that reduce the cost of ownership and maintenance for customers, leveraging synergies through course offerings or e-platform applications);
2) **Offering value for money –** which means that companies must deliver quality products and services that are effective, durable, safe, with value-added features (as biometric readers or voice technology for illiterate users or community spaces or Internet access in housing developments), letting people to perceive the relevance and the lower risk of the offering;

3) **Matching customers’ cash flows** – can be done by offering products and services in smaller amounts/quantities, making the purchase available for those that have trouble saving or lack the necessary storage space, or by offering higher-priced products/services in parts that can be purchased in increments as time and cash flows permit. For example pursuing a degree, one certificate course at a time, or purchasing a home one room at a time.

Typically, the value orientation of the *have-nots* (Shultz, 2001) is more focused on price and consequently the quality-price relationship is shaped differently in their mind in contrast to the one of the more affluent buyers. This is why the international product line managers have to follow a strategy and present an offer that focuses on the usefulness and the affordability of the essential products and services.

Distribution and retail is another key component of business model innovation. Companies must be sure to maximize products/services’ access without adding any prohibitively costs during the distribution phase. The challenges that they usually face are linked to logistics (BoP customers are located in dispersed villages or in segregated urban slums that are difficult to reach, less developed within the economy, lack proper infrastructure like roads, bridges or communications and where crime may be an obstacle as many transactions are made in cash; transportation infrastructures are often inadequate or in poor conditions; the limited access to energy can impede the offering of some services, as ICT services) and to customer’s habits and routines related to buy decisions that are difficult to change. To overcome these threats, companies can **leverage local retailers** that already exist in the market and have the advantage of proximity and of benefit from existing relationships with end costumers. Because usually these retailers are small, do not have big spaces for storing the inventory and have little business training and access to finance, companies should make frequent deliveries of small amount of product (micro-distribution) and contract a broad number of independent local distributors able to provide an easier and safer access to particular communities by using means of transports (small vans, motorcycles, pushcarts) that well-suit these territories. As Mrs. Dal Negro outlined, door-to-door distribution of new products provided by local people in rural areas where there are not unique centers of exchange and where the territory is characterized by very disconnected villages could be a successful distribution strategy. Companies should also provide business skills training on marketing, sales, inventory and financial management, industry or product-specific knowledge, and facilitate their access to financing. Moreover companies can **use technology** in order to develop a more efficient physical distribution (reducing labor and logistic costs, increasing speed and minimizing losses through the use of tablets, smartphones applications, mapping/geo-referencing programs, e-platforms, real-time and mobile phone-based ordering and payment from small retailers) and also a virtual distribution, which would allow them to reach a greater number of remote customers at a very low cost while reducing transaction costs for consumers (as they do not need anymore to save time and money to travel to the company's physical allocation). Firms thanks to technology can also monitor their customers' performances in real-time, provide feedbacks and service adjustments.

Marketing and sales is the last area in which companies have to engage if they want to reach BoP consumers. The problem here is related to the perception of a new and unfamiliar product or service from consumers. They are usually reluctant to try unknown products, unless they perceive them to be worthwhileness, and they usually need financial help to make purchases. Companies have, then, to be efficient in **communicating the value** of their offering, how it works, and to reduce any perceived risk with which it is associated. The appropriate product design of the product/service development phase must be then accompanied by a real consumer education on how to use the product sparingly and efficiently, how to extend the durability and even how to perform-it-yourself such functions as maintenance and assistance. Companies may use promotional campaigns through different channels (radio, television, celebrity endorsements, signage at retailers and other frequent locations such as train stations); interactive sessions into communities where answer questions, appease concerns, help potential customers sign up for the service, providing a direct engagement by establishing information exchange centers or training sites; customer education partnerships through workshops and expositions with other related businesses, service providers, government agencies or NGOs in order to conduct educational campaigns.

Another way for creating value and convenience for the poor is to offer small or unit packages, like shampoo in sachets. Often the poor do not have the possibility to buy the standard product, but they can instead buy it in small quantities at a time. The goal here is to alleviate the burden of a one-time expense and establish a *pay as you consume* system where companies will benefit from frequent and long-term repeated sales. Smaller packaging can be applied to items like food and beverage products, toiletries, cosmetics, medications, etc.

Setting **alternative pricing options** can help companies to reach lower-income customers and this solution can be fulfilled by distributing the responsibility for payment among more parties or by charging different prices to different customer segments according to their economic disposals.

They can also **facilitate access to financing,** by providing direct credit or referring BoP customers to third-party financing institutions, and **facilitate the payments**. As possible tactics they may use mobile payment platforms or allow customers to pay their bills at local shops or using social connections, for example via group lending or hiring community members to manage billing and collection in order to provide customers with a social incentive to pay. Further, it could be adopted a collective billing arrangement allowing the community to make a joint investment and decide how to split the costs among the members. Payments can also be encouraged through incentives, such as a discount on the next bill for payment in due time. A leasing option appears to be suitable for costumers with poor or no credit history; promoting and organizing users' cooperatives and equipment-rental centers – such as for agricultural machines – can be another successful strategy.

c. Engaging BoP employees

By providing new jobs the company creates greater income opportunities for the poor. A general barrier is the lack of knowledge and skills among the poor but it can be easily overcome by the **education and training** of the workforce. Moreover, it is essential to ensure sufficient job security providing the poor with steady jobs and reasonable wages. Provide fair remuneration on the basis of recognized job evaluation system is a way through which enhance the productivity and commitment of workers. It is also in the interest of the employer to keep workers satisfied, to improve their living conditions and enhance their qualifications as ways to reduce absenteeism and increase productivity thanks to a greater loyalty and commitment of the employees. What can be required to the company is to provide basic infrastructures in order to help and facilitate the transportation to and from work, fair housing standards, access to electricity, clean water, primary health care, basic education. From these actions not only the employees but the community at large will benefit. For example, education could be thought also for the local youth in order to develop their computer and other skills. In addition, some industries, such as food, fashion and tourism, by taking advantage from the peculiar cultural skills of these communities, can produce developing products with unique value proposition for higher-income consumers, both in home markets and abroad (Jenkins et al. 2008).

Further, engaging the poor as employees could lead to their integration in the design and development (**co-creation**) of the products and services, thus helping to adapt them more directly to people's needs, thereby increasing demand levels and the willingness to pay. Co-creation means the participatory design, planning and construction of a product among more individuals with the goal of including them since the beginning and in some cases even in its realization and monitoring.
Co-creation is articulated into a series of interventions that aim to (Hart, Graduate, 2010):

- Identify all the people that will be part of the decision process;
- Reduce the asymmetric information existing among the different individuals that participate into the process in order to favor the definition of informed decisions;
- Facilitate the exchange of ideas in an informal and constructive way allowing the sharing of knowledge, competencies and sensibilities among all the participants;
- Transform the conflict between people into competition among ideas, trying the reach the best solution achievable;
- Share the ultimate goal of an intervention;

- To project the intervention collectively and support the individuals involved for the participatory implementation of the decision or for the supervision and monitoring of its correct fulfillment.

What determines the quality of this method is the deep motivation that leads the process, both of those who activate it and those who are involved. The assembly form is overcome, while instead it is organized a discussion among work-groups. Each group has specific duties to execute being facilitated and accompanied for the definition of visions, the override of the roles and the recognition of the other.
The participatory process, for being effective, necessitates of a series of conditions before, during and after its realization. It is possible to divide the process into four main phases (Hart, Graduate, 2010):

1) Planning – where the goal is to understand the relationship between those that activate the process and those that make the decision happen (they not always coincide), the manner in which it is fulfilled, the people to whom it is oriented and the ways of carrying out the decision;
2) Invitation – this is the moment when the theme and the questions that will lead the process are formulated. It is important that the theme is perceived to be important from all the stakeholders, and consequently, it can be useful to set a preliminary phase of listening and collecting information from them;
3) Construction of the decision;
4) Implementation of the decision.

This process has to result in one or more decisions that must be implemented, but it does not mean that the participation's value ends up in the realization of a shared process. A part from the implementation, participation can also generates the exploring of the other, the activation of positive resources that are dispersed in the community, the additional value of the collective intelligence and the creation of networks. It is important, not only to realize the collective decision, but also to maintain a perpetual direct line of communication with the participants, updating them time after time on the advances and outcomes of the process, in order to capitalize and consolidate the trust between activators and participants, and among the participants themselves that can be also involved in the different forms of implementation and in the assessment of what has been realized.

Inclusive models suggest that by integrating the poor in the global value chain as small producers, suppliers, workers/employees or distributors, large companies can access to BoP markets, where the demand for goods and services continues to increase. This strategy can lead to increase the profitability of a company that only focuses its activity in developed markets that are more and more saturated, and, at the same time, it can contribute to poverty alleviation, thus combining business motive with the corporate social responsibility's one.

3. Case Studies

Methodology note

To redefine or structure the company's value chain and business model in order to include the poorest bracket of the population is not yet a common practice in many for-profit organizations, independently form their size and region of activity. However, in this chapter I am going to propose three case studies of virtuous businesses that have been able to integrate the economic and social perspectives in their vision (and even the environmental one) allowing the development of local communities as well as the achievement of positive results for the company itself. In this way these three realities contribute to the growth of the entire economic system in terms of sustainability and sharing. I have decided to present the example of a foreign multinational, SABMiller plc, trying to underline the differences of the strategies adopted according to the locations in which they are developed, particularly comparing a developed country with a developing market; then the case of an Italian multinational, Enel Green Power, that in South America, a market with huge growing and expanding opportunities but where some basic needs still need to be satisfied, had to promote a strategy mainly focuses on developing local communities; finally the case of the only one Italian bank, Banca Popolare Prossima, that devotes its financial activity to the supporting of the Third Sector, to non-bankable people, and to all those businesses that elevate their social objectives to the strategy, thus considering together the economic, social and environmental dimensions for the development of a unique business strategy.

Data and information mostly derive from Annual Reports, Sustainability Reports and websites of the analyzed companies. Moreover, in order to have a deeper insight of their activity, I have interviewed Mrs. Cristina Hanabergh, Sustainable Development manager of Birra Peroni, and Mr. Riccardo Milano, one of the founder of Banca Popolare Etica.

3.1 SABMiller

3.1.1 A general overview

The global beer market sees four largest brewers as top leaders (in order, ABInBev, SABMiller, Heineken and Carlsberg), accounting for around 50% of the whole volumes.

SABMiller plc is a multinational brewing and beverage company. It has been founded in South Africa in 1895, under the name of South African Breweries (SAB), and today it is the second biggest producer of beer in the world, with 69,000 employees working in more than 80 countries, producing over 200 beers, listed in the London Stock Exchange, a secondary listing on the Johannesburg Stock Exchange. Moreover, it is a constituent of the FTSE 100 Index, with a market capitalization of approximately £42 billion as of 24 October 2015. It also has a growing soft drinks business through its own brands and as one of the world's largest bottlers of Coca-Cola drinks.

Since its origins, the company expanded rapidly by acquiring local brands and production facilities in Europe, Asia and Americas.

The first investment was made in Europe in 1990 through the acquisition of "Compañia Cervecera de Canarias SA". Then, in 1999 the group acquired American "Miller Brewing Company", changing its name in SABMiller. In 2003 it purchased Colombia's Bavaria S.A., the second biggest beer producer in South America, and the 29,6% of Harbin Brewery, the oldest Chinese brewery, in order to benefit from the rapid growth of the beer sector in developing markets. Always in 2003, SABMiller made its first significant investment in Western Europe acquiring a majority interest in Italian brewer Birra Peroni S.p.A. In 2005 Birra Peroni was fully acquired. Then, the most important events have been: the acquisition on Koninklijke Grolsch N.V (2007); the group's combination in 2008 between Miller Brewing Company with the US business of Molson Coors, for the creation of the MillerCoors joint venture; the acquisition of Foster's Group in Australia (2011).

In 2015 the world's biggest brewing takeover was launched when Anheuser-Busch InBev formally offered £71bn for SABMiller, in a deal to create a company that would pocket almost half the industry's profits. In order to satisfy what requested from the antitrust authority, SABMiller had to sell Birra Peroni, the Netherland Grolsch and the artisanal Britain beer Meantime and the Japanese Asahi Group Holdings seems to be in exclusive talks offering in turn $ 2,9 billion.

Sustainability in SABMiller

SABMiller wanted to reposition sustainability from being a good thing to do, to something that was integral to the company's success, deciding to align and integrate the sustainability strategy to the company's core business.

"When our business does well, so do the local communities, economies and environment around us. When they prosper, so do we". The company realized that their profitability depends on three main issues: healthy communities, growing economies and the responsible use of scarce resources. Thus, they translated these issues into five imperatives shared throughout the whole company under the name of *Prosper*, giving a global focus and alignment.

The beer giant is considered to be a pioneer in the field of sustainability. Their efforts, seen as "a part of a new wave of sustainability plans" (Jane Nelson, director of the CSR Initiative at the Harvard Kennedy School, are guided from five broad targets which apply to suppliers, sellers and costumers, as well as to SABMiller itself.

SABMiller developed an approach that serves as a global focus and alignment while giving the necessary flexibility to each company of the Group to respond to the local needs. This new program, branded *Prosper,* is a key element of SABMiller's business strategy, setting the ambitious targets to be reached by 2020. Through this project, the Group is using its value chain from farmers to retailers to drive inclusive growth, sustainable resource use and alcohol responsibility.

More and more communities, businesses and governments are pressing issues related to poverty, water scarcity, climate change, food security and alcohol consumption. In this regard, Alan Clark, SABMiller's Chief Executive Officer affirmed, "only those companies that are prepared to be part of the solution will be successful in the long term, and that's why this approach is integral to our business strategy".

Thanks to this new vision, that makes sustainable development a central part of the business strategy, SABMiller will create shared value and opportunities not only for shareholders, but also for people, communities and other partners through its value chain, thus driving a long-term growth.

The five-shared imperatives are:

1) Accelerate growth and social development in our value chains
2) Make beer the natural choice for the moderate and responsible drinker
3) Secure shared water resources for our business and local communities
4) Create value through reducing waste and carbon emissions
5) Support responsible, sustainable use of land for brewing crops

Each of them contributes to the achievement of the UN Global Goals
The first imperative aims to the development of a *Thriving World*, where "incomes and quality of life are growing". 72% of the Group EBITDA comes from developing markets, countries that too often face huge problems of unemployment and lack access to markets and to basic services. Businesses can then play an important role by creating new jobs and promoting entrepreneurship through global programs along the value chain, thus ensuring market development and economic growth.

The targets here are:

- Directly support more than half a million small enterprises to enhance their business growth and family livelihoods (today they have direct buying or selling relationships with more than 1.5 million of SMEs, the majority of which are family-owned and run by women);
- Work with partners to measure overall number of enterprises supported, income, job quality, and employability, with a specific focus on women;

- Increase women's representation within SABMiller at the executive level (at the end of 2015 the 30% of managers and executives were women).

According to the ILO (International Labour Organization), small and medium enterprises account for two-thirds of all jobs worldwide (International Finance Corporation, IFC Jobs Study, 2013). Particularly, while they contribute to the 60% of both employment and GDP in high-income countries, in low-income countries they ensure 90% of employment but ensuring less than 20% of GDP (International Labour Organization, International Labour Conference, 2015). SMEs with whom SABMiller works include farmers, distributors, retailers and wholesalers, entrepreneurs that, especially in developing countries, are subject to significant challenges, such as a limited access to training, markets and financial services, or weak infrastructures, policies and regulations. The Group is then committed to help these realities because if they prosper, so the company does as well. To achieve this goal, SABMiller will align it to its commercial strategy; enable small businesses' access to training, fostering skills development through programs around the world, advice, financial services, technology and new markets, also collaborating with others in order to deliver a greater support (e.g.: partnerships with the Inter-American Development Bank in Latin America, with The Global Fund to Fight Aids, Tuberculosis and Malaria in South Africa, with Oxfam America in Zambia and El Salvador, or with CARE International for the development of metrics able to measure the impact of the actions implemented).

In order to understand the monetary value of social and environmental outcomes deriving from CSI (Corporate Social Investment) projects, the company has calculated the Social Return On Investment (SROI) in different markets, such as Peru, Uganda, El Salvador, Poland, Romania and Czech Republic. In the year ended 31 March 2015, SABMiller invested US$31.8 million in its CSI programs, distributed how it is described in the following table.

Corporate Social Investment (US$ million):

Cash	19.9
Gifts in kind	5.5

Time (in US$)	0.4
Management costs	6.3
TOTAL	31.8

Moreover, SABMiller is member of SEDEX (Supplier Ethical Data Exchange) and AIM-PROGRESS, a forum of consumer goods manufacturers and suppliers assembled to enable and promote responsible sourcing practices and sustainable production systems worldwide. It applies to all its suppliers a particular Code of Conduct and Sustainable Development Standards, ensuring their provision of human rights, labour and environmental standards, transparency and business ethics. The result has been that 131 suppliers have improved their on-site working conditions thus meeting the SABMiller's standards. The code of conduct requires the suppliers, for example, to respect the land rights of people and communities; to set an anti-bribery policy in order of eliminating bribery and corruption from their value chain; to report on carbon emissions, commitment's to reduce emissions and the activities implemented to achieve the 2020 goal of reducing packaging carbon emissions by 25% from a 2010 baseline.

Through its second imperative SABMiller wants to contribute in the development of a *Sociable World* where people, staying together, enjoy and drink beer in a responsible and moderate way.

The targets in this case are:

- Reach all the SABMiller's beer consumers with effective communication campaigns and partnerships to encourage moderate and responsible beer consumption (in Europe, for example, in collaboration with the EU Alcohol and Health Forum, they started to list ingredients and nutrition values in each local websites)
- Support responsible retail practices through industry leading levels of retailer training and engagement, targeting 340,000 small retailers in the value chain worldwide

- Encourage and support the establishment and enforcement of clear standards for beer retail in the on and off trade
- Support programs to increase road safety awareness and enforcement, including drinking and driving, and reduce underage drinking (the last year the company developed more than 100 programs around the world aimed to fight alcohol-related harm)
- Build sustainable development messages in to brand activations of three brands in each market where the company has at least 15% of market share. This target derives from the idea that brands can play an effective role in creating willingness and engaging consumers on important issues.

Also, 66% of the employees have received training on alcohol responsibility and the great majority (90%) of the local businesses trained their marketing agencies in responsible marketing practices. They launched the first Latin American non-alcoholic beer in Colombia, which is the South-American country with the greatest problem of drunkenness in young people.

This is the SABMiller's response to the World Health Organization (WHO) target to reduce the harmful consumption of alcohol by 10% by 2025. To contribute in reaching this goal, SAB collaborates with local partners, as governments, NGOs, civil society groups and public bodies. These partnerships are aimed to the establishment of education programs to reduce the underage consumption of alcohol, improve education and information for pregnant women, support and augment responsible retailing.

The company has also instituted a Policy on Commercial Communication (POCC) enabling a global governance of all the brands and ensuring leading standards on both the digital and traditional marketing practices. Compliance with the POCC is verified from the sales and marketing compliance committee (SMCC) of each company.

The third imperative is a guidance in the creation of a *Resilient World* where "business, local communities and ecosystems share uninterrupted access to safe, clean water".

With this objective in mind, SABMiller's target is to:

- Secure the water supplies they share with local communities through partnerships to tackle shared water risks;
- Further reduce water use to 3.0 litres of water per litre of beer (now they are using 3.3 litres of water, yet reducing by 28% water usage since 2008) and 1.8 litres of water per litre of soft drink;
- Have programs in place to mitigate shared water risks for the key crop origins at risk, through the development of more efficient agricultural methods, also involving partners (e.g. The Nature Conservancy – TNC – in Latin America; Water Resources Groups – WRG – in South Africa, Tanzania and India; WWF; Beverage Industry Environmental Roundtable – BIER – etc.).

To date, 63.8% of SAB's beer is produced from 46 breweries that engage in intensive water risk assessments. Water and energy efficient initiatives are also convenient as they allowed the company to save US$117m annually. Moreover, water issue must be dealt in relation to energy and food issues. Today in a world of 7 billion people, 1.1 billion live without clean drinking water, 1.3 billion without electricity and 1.02 billion are hungry. In addition, as the population continues to increase, by 2030 we will need 30% more water, 40% more energy, 50% more food and it is mandatory to find a solution which consider all these fundamental three resources together as the availability of each affects the availability of the others: water is necessary to grow food and to generate energy; energy is needed to grow food and to treat and move water; and land and crops serve for energy production.

A *Clean World* is what SABMiller wants to contribute to create through its fourth imperative. The objective is to create value by reducing waste and carbon emissions working with all the actors with whom the company interacts along its value chain.

SAB's targets by 2020 are to:

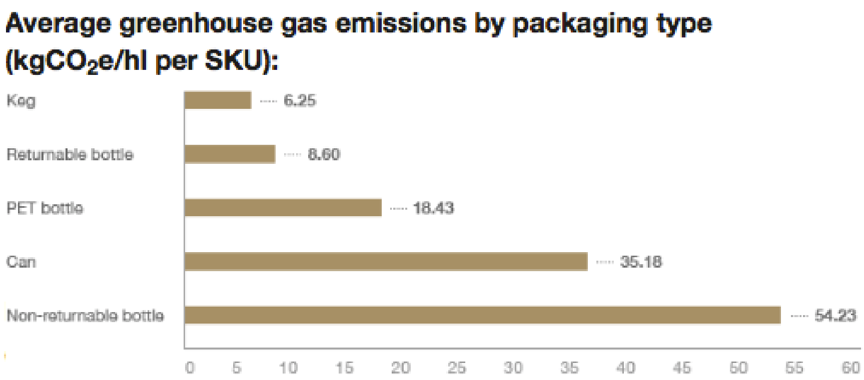
- Reduce the carbon footprint per litre of beer across our value chain by 25% (compared to 2010 performance), including:
  - 50% reduction within our breweries;

- 25% reduction in packaging carbon footprint;
- 25% reduction in refrigeration carbon footprint and no new HFC powered fridges;

- Focus on reducing emissions across our agriculture value chain and distribution network, giving to all suppliers guidelines on carbon reporting, showing them the company's expectations around their commitments to reduce carbon emissions, progress towards these commitments and the activities implemented;
- Continue to divert a very high proportion of brewery waste from landfill and create new value waste.

Since 2008 the company has already reduced its global carbon emissions from on-site energy use by 35%, 90% of the brewery waste is reused or recycled (including 99% of the spent grain); 53% of the beer is sold in returnable bottles or kegs (Colombia is a virtuous example where the bottles used by Bavaria are refilled an average of 44 times, Pilsner Urquell is transported to European pubs in returnable tanks), a solution which reduces the environmental impact; 7/8 of the breweries in the US are landfill-free. Moreover, because refrigeration can have negative consequences on the environment, 75% of fridges bought in Europe are hydro fluorocarbon (HFC, a greenhouse gas with a global warming potential 1,400 times greater than carbon dioxide) free with the goal of sourcing by 2020 100% HFC-free fridges in Europe and in other regions. SAB has also introduced the obligation to equip all new fridges with Energy management devices (EMDs) and LED lighting, as they can substantially reduce the environmental impact and use of energy.

Figure 3.1

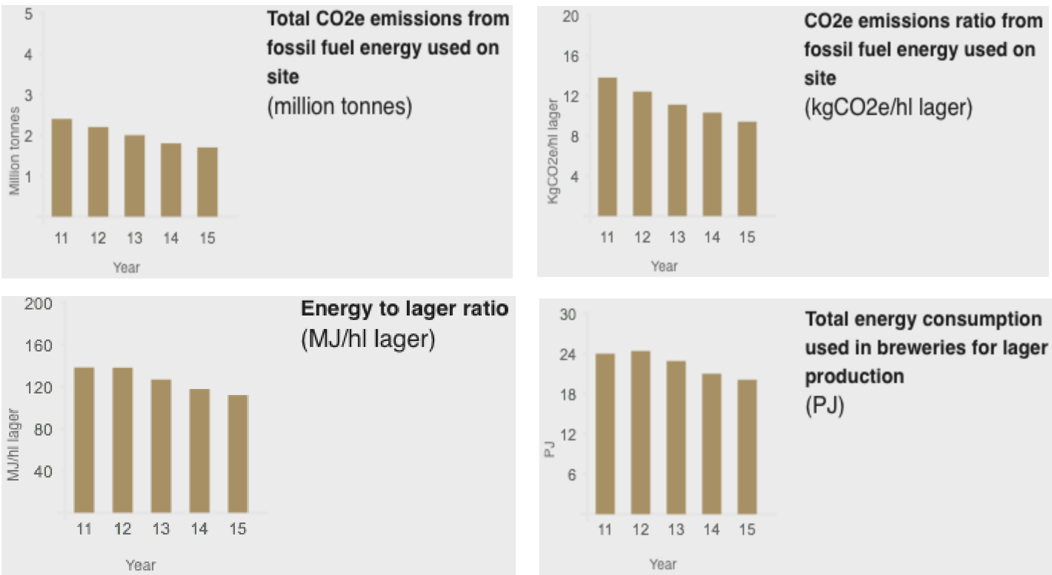


Source: sabmiller.com

The high attention that SABMiller has towards the environment and its achievements in this field led the company to be listed as an *A* performer in the Carbon Disclosure Project's Carbon Performance Leaders Index.

In the following tables (Figure 3.2) we can see that the virtuous model developed by SAB has linked to reach notable results in terms of caring of the environment.

Figure 3.2 CO2 Emissions and Energy consumption



Source: sabmiller.com

Through partnerships, the company is able to share best practices and mentor efficiency champions across its breweries. Since 2010, collaborations allowed to save 45 million hl of water and 84,000 tons of CO2.

Finally, with its fifth imperative SABMiller wants to play a role in realizing a *Productive World,* where "land is used responsibly, food supply is secure, biodiversity is protected and our crops can be accessed at reasonable prices", creating sustainable value chains for both malting barley and local brewing crops (e.g.: sorghum, cassava) also influencing farmers to be more efficient in their use of land, water and energy.

By 2020, SAB aims to:

- Improve the barley grown per hectare, while reducing inputs such as water (especially in water-stressed areas), energy and fertilizer, in key growing areas and locally in order to reduce costs, create jobs and increase incomes;
- Improve productivity of other key brewing crops (cassava, maize, rice and sorghum) in specific markets with the goal of producing affordable beers and creating new markets in order to increase the opportunities for local farmers;
- Improve food security for small-scale farmers who supply us in emerging markets by helping them increase their incomes and food production by directly working with smallholder farmers in supporting new cash markets for subsistence crops (for example, with the Indian Path to Progress program the company supports more than 9,500 smallholder farmers to grow malting barley and thus access a new market. Other similar projects have been realized in Peru, Zambia, Uganda and South Africa);
- Achieve local sustainable sugarcane standards for all of our sugarcane (the first one to achieve sustainable sugarcane certification has been Azunosa, the company's sugarcane farming operations in Honduras).

In order to measure the progress achieved in these challenges, SAB is developing KPIs that are also used to engage farmers to improve quality, productivity and profit while limiting their impact on the environment.

The interview with Cristina Hanabergh, Sustainable Development manager of Birra Peroni, has confirmed that the strategic model of SABMiller is oriented to impact the entire value chain: from farm to table for the definition of a company, which is sustainable to 360 degrees, impacting the entire supply chain in a sustainable way. With a view to launch and embed *Prosper* in the whole business, town hall meetings, webinars and Yammer events have been used.

Moreover, a *Prosper* Forum has been introduced with the goal of ensuring that all the resources and capabilities necessary to the development of *Prosper* strategy are delivered, approving policies, leading coordinated activities, mediating and managing eventual compromises. It meets four times a year, it is chaired by SABMiller's

General Counsel and Corporate Affairs Director and attended by regional corporate affairs directors and senior leaders from each function, such as human resources, supply chain, marketing and sales.

Dr. Hanabergh said that SABMiller, because of its great impact in developing countries (Africa, South America, India, China), even before Prosper, has always developed a strategy aimed to the growth and gave support for the economic development to the communities where it operates, focusing on the value chain because it is there where the company is stronger and has more impact.

Especially, the first part of the value chain demands a great attention from the company, as the agriculture sector in almost all countries of the world needs to be pushed. In order to create economic development SAB wants to work with farmers helping them not only to manage their business as entrepreneurs, but in addition, as we are talking about sustainability, they want to promote within their partners in the supply chain what they are trying to promote within the company. So, as Mrs. Hanabergh confirms, SABMiller also has to work on farmers (producers), distributors, and consumers, in order to produce sustainable attitudes, each in its field.

The five pillars on which Prosper is built are born from a constant and deep dialogue with stakeholders, which resulted in a materiality analysis of SABMiller with its stakeholders. Then, the materiality analysis is done with local stakeholders referring to these five pillars in order to set an order of priorities of the imperatives.

3.1.3 Birra Peroni

SABMiller has thus identified these imperatives that must be developed at global level. They are global guidelines, and then each company decides locally how to implement them and how to develop their own programs according to the specific context and criticalities. This mechanism allows every company to focus on the specific features of their country enjoying of great flexibility at the local level, but under a general cap on critical issues for the Group. Each theme is then operated differently from country to country, for example in Africa, the issue of water must be treated differently from Italy because of its scarcity, or many countries in South

America have serious problems related to the abuse of alcohol by minors so it is important to invest more on *A sociable world* imperative. Each division works harder on the most critical imperative from a local point of view, the one that has a greater impact on its business context, by investing more on it. It is a model that tries to make the best in terms of sustainability in every country.

SABMiller has also created a bespoke measurement system (SAM Sustainable Assessment Matrix, for which the Group has been awarded in the UK 6 years ago), where each country must enter quantitative and qualitative data that refer to the five imperatives. The Group leaves flexibility on operations but the monitoring is highly centralized. The local development of each imperative is evaluated on a scale from 1 to 5 (5 max, 1 min) and none can stay below the threshold of 1. Each number relates to a piece of the process to be implemented until the establishment of a perfect and complete process (value 5) is reached.

Figure 3.3 Five levels of performance

Our 5 levels of performance

5	**Leading edge**	Performance that represents genuine global leadership on an issue
4	**Best practice**	Achieving what is currently considered to be global best practice in a particular field.
3	**Developing leadership**	Applying a comprehensive approach including innovative tools and widespread engagement.
2	**Progressing**	Ensuring consistent performance is achieved in a particular field.
1	**Core standard**	All operations must achieve level 1, or have a plan in place to do so, as it represents management of our key sustainable development risks.

Source: sabmiller.com

For each imperative, SAM measures performance indicators based on measurable outputs – such as water efficiency, carbon emissions or employee diversity – to assess the performance towards the Group's 2020 targets.

Birra Peroni was founded in 1846 in Vigevano and soon reached a leading position throughout the national territory. Today it has four plants in Rome (the largest brewery in Europe), Napoli, Bari and Padova. Since the ‘70s and ‘80s, it expanded into foreign markets by diversifying its product portfolio and collaborating with international companies, until it assumed in 2003 the traits of an international company becoming part of the SABMiller plc Group. Nastro Azzurro, symbol of Italian excellence and made in Italy, is the best-selling Italian beer abroad, with a widespread distribution in over 55 countries.

Mrs. Hanabergh explained me that Birra Peroni adopts the 5 imperatives by developing them into four phases.

The first phase involves suppliers. In Italy with regard to the productive world imperative, Birra Peroni has established a training program with farmers. Supporting the entrepreneurship is definitely important in developing countries but also in Italy, made up of many small and medium-sized enterprises, the ideal context to help these suppliers and distributors to grow.

During this phase the company particularly works with Malthouse Saplo in Pomezia, which has direct relationships with farmers because it is where the barley is transformed into malt. The Malthouse Saplo, a subsidiary of Birra Peroni, works since 1964 through cultivation contracts with farmers in central and southern Italy, for an annual requirement of about 50,000 tons of barley. An amount that, according to recent estimates, is equivalent to about 16,880 hectares of cultivated area.

The link with agriculture constitutes a fundamental element of the production process and the value chain of Birra Peroni. The quality food supply chain is a strategic asset for Birra Peroni, which uses Italian raw materials and collaborates with the actors throughout its value chain. The company constantly evaluates and check the quality of raw materials and it directly works with farmers and cooperates with the entire value chain. This is why, in 2013, professional training courses with farmers started with the goal of favouring the supply chain’s entrepreneurship and sustainability of the sector. Since 2013, 90 farmers have been trained in order to develop their entrepreneurial capabilities, in a global, comprehensive approach, from the management of the territory to the understanding of the accountability and the relationships with banks.

Birra Peroni produces 4.93 million hectolitres of beer; 1.39 million of which are exported. Barley is used only in Italian fields thanks to more than 1,500 farmers that are dedicated to the cultivation of two-row malting barley, for a total of 16,500 hectares and nearly 49,000 tons of harvested products in 2014. Marche, Abruzzo, Molise, Umbria, Tuscany and Lazio are the most cultivated regions, especially Lazio which represents one of the major production centers (35% of all crops), about 5,000 hectares of crops, 500 farmers and the product, about 13,000 tons, is stored at the Malthouse Saplo of Pomezia. Corn farmers are mainly located in the North, which is a much smaller area cultivated than the Center-South because it is aimed only at the production of *Nostrano* corn, the result of a specific research project with the Cereal Institute of Bergamo and exclusively used exclusively in the recipe of Nastro Azzurro.

Birra Peroni works with farmers of barley and maize by providing training annually to them, including through partnerships with Confagrigoltura and ENAPRA (Ente Nazionale per la Ricerca e la Formazione in Agricoltura di Confagricoltura) that, besides being a technical partner of the initiative, it covers for this last edition of the project also the task of implementing agency. The project is realized also through funding of For.Agri, Fondo Paritetico Interprofessionale Nazionale for a continuing education in agriculture. Making partnership with those who are more experienced in these topics has a great importance. During the last edition (2015), fifty farmers have been trained, 39 of whom were under 45 years old, not only on sustainability practices, giving them the appropriate know-how, instruments and technologies, but also on how to improve their business, referring to the management of the fields, use of water, fertilizers, on the methods to access to funding and financing, or providing support for the TFR.

The farmers have brought the techniques learned in nine regions of Italy: Umbria, Lazio, Abruzzo, Puglia, Veneto, Lombardia, Toscana, Marche and Molise, with a total area of 5,657 hectares of land. The objective is to train more than 1000 Italian farmers by 2020 through this formation program in order to transmit to the agricultural value chain the necessary instruments and competencies for raising productivity and profitability by adopting fair and good practices of cultivation.

Mario Guidi, president of Confagricoltura, sustains that the future, in the agricultural field, is certainly in the hands of young people that especially need to be educated for being able to produce having in mind specific objectives in line with the needs of the industry. Farmers are still the weakest part with insufficient bargaining power and recognition. Initiatives like the one between Birra Peroni and Confagricoltura represent a first essential step to settle a supply chain able to suitably combine production, processing and sales. Mr Guidi is convinced that the beer industry has great opportunities for the development and growth of the agricultural sector in Italy, and that, being it an important flagship of the Made in Italy, it has to be protected. For this reason, Birra Peroni and Confagricoltura have decided to promote, among the associated agricultural enterprises, the protocol "EcoCloud" based on environmentally sustainable farming techniques. The goal is to create a stronger and more consolidated network of eco-friendly companies.

Together with Horta – a spinoff of Cattolica University in Milan that provides national and international services in the field of plant-related production in order to increase the competitiveness of agricultural and agro-food and that has previously worked with Barilla for the development of granoduro.net platform – Birra Peroni launched an online platform giving farmers a real guide on how to manage day by day their barley harvest. It is a pilot project for the inclusion of 20-25 farmers, entirely funded by Birra Peroni, to give them on-going support for a customized management of their business (before starting, farmers enter their data). Peroni can thus monitor whether, as a result of these inputs, farmers improve their performance from a sustainability and productivity point of view.

Moreover, because a sustainable company has always have to think about its consumers by adapting the product to specific requirements and needs, Birra Peroni has worked with farmers for the production of a gluten-free beer for specific communities, such as celiac people.

The second phase is the one that refers to the environment and thus includes the plants and specific targets on the reduction of emissions or on water savings.
A resilient world imperative means that it is mandatory to safeguard water resources. Water in fact is necessary to the production of beer and at the same time is must be shared with the communities where the business operates. This is why Birra Peroni develops a strategy which aims to improve the production processes with the goal of limiting waste and the quantity of water used; recover and reuse internally the water as much as possible, in all those processes that are not in direct contact with the product and that imply a greater consumption, for example for the washing of pipes and machinery reservoirs, for pushing worth and beer in the piping systems, in the process of beer pasteurization and in the one of bottling, for the production and supply of utilities.

As it is possible to see from the sustainability report of Birra Peroni, prepared by using the GRI4 guidelines and available on the site, with respect to 2013, in 2014 Birra Peroni has reduced the water consumption by 10.6% per hectoliter of beer, passing from 3.59 hl/hl to 3.21 hl/hl, and in 2015 5% of water was saved compared to 2014 (3.12 hl/hl). Today the company uses 1,770 million liters of water less compared to ten years ago, thus saving 45% of the water used to produce the beer. This target on the reduction of water consumption is particularly important considering that water is the primary resource required for all life on earth and is becoming a significant issue for many regions.

Through *a clean world* imperative, Peroni is engaged in reducing the use of energy and its emissions, in waste recycling during the production cycle also by promoting a sustainable packaging. The projects implemented allow the company to produce one hectoliter of beer with half of the energy used in 2001 (from 180.6 MJ/hl to 88 MJ/hl in 2015). The refrigerating system, thanks to the use of R134a and R600 - coolant and at the same time environmentally friendly - and to high efficiency motors, provides energy savings equal to 1/5 of the energy consumption of traditional appliances. 92% of the machines to draw beer, designed and produced according to precise indications of Birra Peroni, are totally recyclable, easy to repair, lean, with low noise and able to save 1/3 of the energy consumption of conventional machines. Moreover, in 2015, 98,9% of waste have been recycled or reused.

Finally, the company have launched in 2015 a pilot project for the returnable of bottles of beer, trying to spread this culture thanks to the new law on returnable, not only for the Horeca (Hotellerie-Restaurant-Café) but also on large-scale retail.

In fact, the last December 22nd the drawing law n. 2093-B has been definitively approved, which refers to the “Environmental dispositions to promote the green economy measures against the excessive use and containment of natural resources” of the 2014 Stability Law. Objective of the measure is to prevent the production of waste by promoting the reuse of used packages. The containers, also, as they are not considered to be waste anymore, are not subjected to differentiation, but only to sterilization, which is a procedure which requires 60% less energy than the one required for the creation of a new container.

The third phase is linked to the distribution process. In the interests of responsible consumption growth, Birra Peroni has activated training programs with the sales force in order sustain its business partners helping them to increase their revenues and at the same time avoiding that the point of sale may contribute to the growing of alcohol abuse. The project “Route to Market” is linked to the development of entrepreneurship of the final sale point (bars, pizzerias, restaurants), thus giving to commercial operators the instructions for a better and more efficient management of their business through a portal (ClubPortalePeroni), where, after entering some data, they can print practical tools for their business, such as customized beer cards with the name of the store and the prices, a combo menu to better promote the sale or loyalty cards for the clients. In addition to the portal, as second tool, Birra Peroni is distributing two business management guides, realized together with FIBE (Italian Federation of Emerging Business), one dedicated to the world of restaurants and the other one to bars, where specific techniques and practical examples for a more efficient management of the business are explained, e.g. the benefits of establish social networks. The third phase refers to a specific formation face to face. As Dr. Hanabergh confirms, this is the most difficult activity to implement because it requires a lot of effort and time also from the shopkeepers. Today the company has activated a pilot project, involving the sales team of Birra Peroni, in Bari with a distributor (Cippone di Bitteto) who also has a training school started several years ago. Being him a local distributor, he enjoys of much more trust by other restaurant owners because they are all part of the same world.

Through its commercial staff and marketing and trade marketing department, the company supports the main selling points offering tools and ad hoc activities (events, material to increase the visibility and service, promotions) useful to make the offer more attractive to final consumers. In 2014 the projects with distributors involved 26,000 sale points in the *on premise* channel (hotels, bars, restaurants, small shops) and 1,650 clients in the *off premise* channel (GDO and small supermarkets). The Company has also strengthened its logistical support to distributors, ensuring the availability of its products *just in time*.

With the aim of training new entrepreneurs in the food and beverage industry, Birra Peroni has been partner of LIUC University in organizing the master on “Restaurant Management and Marketing: New Enterprises in the Food and Beverage Industry”, thus contributing to create new professional profiles that are technical and managerial at the same time and able to deal with all the areas of the food industry. The company has also collaborated with other universities (IULM, MUMM, LUISS, LUMSA, La Sapienza, Tor Vergata) with the goal of supporting the research and contribute to the development of specialized training in the agricultural sector and in the brewery field.

The last phase focuses on *the Table*, on consumers. From several years Birra Peroni is working with the Comunità di Sant'Egidio supporting the *Trattoria degli Amici* in Rome, a restaurant run by a cooperative and where people with disabilities work together with professionals and friends who help voluntarily. Birra Peroni has not only helped the cooperative by financing the property renovation but also by training disabled people working in restaurants, favoring their working inclusion in the food service industry. From 2014 the company has also sustained the opening of the *Testecalde* restaurant (Rutigliano, Bari), always with the purpose of giving job opportunities to disabled people who do not usually have them.

This fourth phase mainly refers to the promotion of *a sociable world.* In this field, there are many initiatives that the company has promoted during the last years in order to sensitize people to a moderate and aware consumption of alcohol.

The main activities linked to responsible consumption are:

- The website alcolparliamone.it, which provides information on the risks and effects due to the consumption of alcohol; links to several other sites or sources on the topic; the latest news on alcohol and a wide range of information from authoritative sources, experts in epidemiology, toxicology and medicine; information on beer, its ingredients and its alcohol content. There is also a kind of interactive journey into the human body in relation to its reaction to alcohol;
- The website Beviresponsabile.it with its campaigns “If you are pregnant, alcohol can wait”, “You have to drive your life”, “Drink or drive”, realized with the Association Assobirra (Industrial Association of Beer and Malt);
- Birra Peroni has undertaken to respect what reported from the Code of Commercial Communication and the decisions of the Institute of Self-Regulated Advertising.

  In fact SABMiller, as well as being compliant with local laws and regulations, adhere to the self-discipline Code of Beer’s Commercial Communication by establishing common standards for the development of an appropriate communication and responsible marketing of its products worldwide. In addition, partners, agents and everyone acting on behalf of the Group, are required to observe the Code. The Code sets for example that communication cannot be directed toward people under the minimum age allowed for the consumption of alcohol; the actors or the commercial campaigns models must be at least 25 years old and cannot be pregnant; in case of promotional activities, all team members cannot have less than 21 years old; commercial communications may not use cartoons, characters, animals, icons, music or other elements who wished to draw the attention of people below the minimum legal age for consumption of alcohol, neither images or violent and antisocial behavior or portray naked people; commercial communications can be transmitted only through those media where at least 70% of recipients presumably have the minimum age for alcohol consumption; all websites controlled by each SABMiller Group's company must include an age detection system; commercial communications may not represent or promote situations where alcohol is consumed quickly and in large quantities, involuntarily or as parts of a game or a challenge, it cannot recommend consumption of alcohol before or during activities requiring a high degree of attention for safety reasons, neither to encourage the choice of a brand for its higher alcohol content or suggest the idea that alcohol increases abilities or physical strength or that has healing properties, etc. In addition, all commercial communication should report at least one responsible message.

The project "Drink or drive" (which will also be a social campaign launched with the hashtag #obevioguidi) has also seen the agreement between Birra Peroni and the car-sharing company Twist, under the patronage of the Municipality of Milan and in collaboration with the National Union of Consumers. The agreement will last one year, involving 500 Twist cars where, if started up, a phrase will appear on a browser screen, saying: "drink or drive" and asking to the driver how much he drunk. This is an initiative which intends to raise awareness in a city (Milan) where many young people use the Twist car sharing service as a means of transportation to go out and have fun.

Moreover, some brands are starting to develop independent sustainable initiatives on their own. For example Nastro Azzurro promoted a talent program to support young Italian talents and entrepreneurship among young people. The objective is to search the four best Italian talents in Fashion, Food, Tech and Design. Each participant exposed his project on Nastro Azzurro's website where they have been voted on the site by users. Then, a specialized jury selected among the top rated the winning project for each of the categories which is the one that will participate in a television program, "Una Nastro con", broadcast on Sky. After four episodes, the winner will win a three-week course at the start-up school "Mind The Bridge" in San Francisco, where he would have the possibility to develop his idea.

Nastro Azzurro, being it a premium brand, very popular abroad, where it is appreciated and recognized to be an Italian excellence, decided to exploit its advantageous positioning and to promote initiatives related to sustainability that can have a substantial and strong impact even at the international level thanks to its notoriety all over the world.

Birra Peroni’s sustainable strategy is shown in its Sustainability Report, which this year is more direct than the years before, friendly, accessible, simple on paper, interactive on the web, with a language easy to understand, and in which each imperative is associated with an history of a common consumer, real people that explain how they promote a sustainable consumption use in their daily life.

I asked to Mrs Hanabergh if there have been difficulties in involving people inside the company, also considering that these five imperatives were dropped from above, and in making this strategy that points towards a sustainable direction, shared from everyone. She answered that “certainly the entire company is not yet able to perceive well and to be perfectly aware of the benefits deriving from the implementation of a strategy that considers sustainability as a core activity of the company. This year a big progress has been made with the involvement of the sale and commercial department, because they are those that directly establish a contact with the sales points and that will see real benefits of this CSR project. Even marketing is personally experiencing the benefits of the project on talents. But it is still a slow process and today the commitment is not yet spread throughout the company. SABMiller from his point of view, being a big group, must necessarily set the guidelines that can direct the various companies of the Group. This is necessary also because it is SABMiller who has a general overview of the risks and opportunities related to sustainability (such as, the risk of water or food scarcity, risks deriving from pollution, the risk arising from a not sustainable management and use of the product, etc.) and thus can better identify the most convenient and suitable way to manage them. Anyway, it is fundamental to pursue this route not only because it is the best one for society but also because it is profitable for the business, because by developing a safe business it is possible to avoid risks which otherwise would have negative consequences for the company. If we want to spread the development of this attitude a change of perspective is necessary, starting to think more on long-term horizons”. Moreover, even if Birra Peroni is going to be acquired from the Japanese group Asahi, the intention is to continue on this path because, as Mrs. Hanabergh sustains, working on the value chain and being present locally is what brings the greatest value, independently from the ownership. Birra Peroni has always been tied to Italy and its territory, even before working under SABMiller. “I do not think things will change a lot”, says Mrs. Hanabergh; “I know that Asahi has a long term and wide perspective, it has a deepened sustainable section divided in three parts: food and health, environment, people and society. The topics are similar to those developed from SABMiller, also because we all have to consider the global directives of the Millennium Goals, thus allowing everyone to go together towards the same direction”.

In any case, there are still some must do’s on which the company has to stress more. The targets for the future highlighted from Mrs. Hanabergh are:

- Continuing the process of stakeholder engagement in the definition of the strategy;
- Sharpen the projects on alcohol and information (5^{th} pillar);
- Improving the activities around the packaging;
- Referring to the agriculture, Birra Peroni may develop a measuring system and start to calculate the SROI (Social Return On Investment), both on the sales force project and on the one with farmers. To quantify the value deriving from social activities is important because a number is able to convey in a more direct way, also easy to understand from everyone, the economic value generated by sustainable investments, persuading that sustainability is not only fair but it is also convenient to the business. The SROI actually would allow to understand if the company’s inputs really permit to produce and sell more.

SABMiller in South America – Focus on Peru

In South America, the Net Producer Revenue (NPR, meaning the revenues less excise duties and similar taxes and the Group’s share of associates and joint ventures on a similar basis) of the Group grew on a 7% currency basis. Thanks to effective campaigns, targeted consumer activations and deep investments on innovation for new sources of growth, the volume consumed of soft drinks grew strongly together with the Lager price and growth in SABMiller’s premium and mainstream categories.

In Peru for example, the group NPR grew by 5% and the total volume increased by 4%, with 2% of Lager volume's increase with the above mainstream brand Pilsen Callao. Moreover, the international premium brands are continuing to expand with a double-digit volume growth. Soft drink volumes increased by 13%, with growth driven by Guarana, San Mateo and Maltin Power, the malt brand without alcohol.

Regarding sustainability, the two top *Prosper* priorities in Latin America, differently from developed countries, are water security and the acceleration of the value chain's growth and social development. The company's strategy and inclusive business models have thus to be fitted according to the particular characteristics of the environment. The objective here is to consider in an integrated way the need to preserve scarce resources and to enable economic and social development. SABMiller has thus created a nexus within the flows water-food-energy integrating it into its corporate strategy. This is why for example the Group established a partnership with the charitable environmental organization The Nature Conservancy (TNC) in three Latin American countries, in order to build AquaFunds, a model for long-term conservation that after collecting investments from water users, it directs the funds toward conserving ecosystems that filter and regulate water supply.

The aim is to ensure clean and safe drinking water for lower level downstream water users. In turn major water users save money by pre-empting the need for more expensive water treatment in the future. The SABMiller's Bavaria business has for example funded 8 projects of this type in and around the Cauca River Valley in western Colombia, thus achieving the following results:

- 7,801 hectares (ha) set aside for conservation and protection;
- 719 ha under sustainable agricultural production;
- 1,280 ha native forest being allowed to grow in intensive cattle ranching areas;
- 1,255 ha intensive cattle ranching area converted to environmentally friendly practices;
- Participating families have increased their incomes between 30-65%;

- 34 septic systems established;
- 554 springs isolated and protected;
- 178,000 native trees planted.

Because of the significance of these results, the Group is also exploring opportunities to export and apply the model in Africa. The so-called "nexus thinking" refers to the recognition that any solution for one problem must equally consider the other two in the nexus. Jeff Erikson, senior vice president at environmental consultancy SustainAbility, explains: "Water is required all the way through the lifecycle of electricity and power generation, from fuel extraction to production; electricity is required to move and process water, while agriculture accounts for 70% of the freshwater consumption worldwide. One is dependent on the other, and the demand for all three is going to continue to grow. Then you put climate change on top of that, which is going to have a significant impact on both agriculture and water availability, and you can see how things will continue to get squeezed over the next number of decades" (2013). SABMiller is thus convinced that if the nexus logic is not applied, unsustainable resource consumption can only get worse and as a consequence even business growth will be impacted negatively.

SABMiller, especially in developing countries, decided to focus its efforts toward the following main areas of sustainable development, which are also three Millennium Development Goals: inclusive growth, health and water. Through its program *Farming Better Futures*, the group seeks to impact all of the three areas in a comprehensive approach centered on locally sourcing the agricultural raw materials from smallholder and commercial farmers. With the establishment of value chain partnerships, the program also includes sustainability and water management initiatives as well as HIV/AIDS testing and treatment for farmers, according to their local needs. *Farming Better Futures* contribute to developing countries' inclusive growth by creating and boost the incomes of smallholder farmers and farm workers; by helping them in building their capabilities and by replicating a virtuous and commercially viable smallholder farmer business model across different territories and geographies in order to create impacts at scale.

As part of this project, Water Futures partnerships, which aims to tackle water scarcity by developing new approaches to water management, started in 2009 in Peru, South Africa, Ukraine and Tanzania, and have been recently expanded in four new markets: the US, Colombia, India and Honduras. In Peru, SABMiller produced several studies to examine the availability of water resources in the basins exploited from each company's breweries. One of them was the Rìmac river basin in Lima, the most important source of potable water for the Lima and Callao Metropolitan Area. Some projects that are being implemented are:

- Enhancing the infrastructure of canals and river beds;
- Reusing treated water for the irrigation of public green areas;
- Instituting the Rimac River Water Observatory, a technical panel for monitoring and assessing the aquifer.

In order to spread a better knowledge among farmers of an appropriate use of water, SABMiller works with partners in order to build their skills and capabilities, typically through agro-economic and business training, financial and technical assistance, provision of fertilizers and seeds, and crop insurance. So, regarding the first part of the value chain and the agriculture, in Peru SABMiller developed an inclusive business model. *A productive world* objective is pursued by bringing together more than 400 small-scale farmers and by forming two associations that interact directly with Backus, the Peruvian SABMiller brand. In order to help farmers in improving their production, the company educated them to agricultural best practices. The result have been a yields increase by 10% higher than for imported maize, a greater pricing competition and an augmentation of farmers' net income of 45% per hectare (data from 2014 Sustainability Report). Thanks to the transfer of technology and knowledge of agricultural best practices, Peruvian farmers have been able to improve the productivity of their land whilst managing the environmental impact through methods such as use of fertilizer and pesticides and improved irrigation techniques. Similar project have also been exported in other markets, such as South-Sudan, where SABMiller partners with FARM-Africa, and Mozambique, where it collaborates with IFDC (International Fertilizer Development Center).

Moreover, in August 2013, with the aim of answering the second objective, SABMiller, in partnership with Inter-American Development Bank and with the no-profit international organization FUNDES, developed the 4e Path to Progress program, providing 40,000 *tenderos* (small-scale shopkeepers) with business and life skills, leadership training, mentoring and networking, across six Latin American countries by 2018 and 190,000 *tenderos* by 2020, creating a model that can be replicated all over the world. *Tenderos* are usually "survival" or "necessity entrepreneurs" because their income is only sufficient to meet their families daily needs. The majority of *tiendas* measures 40 square feet, most of them are owned by women and sell food, beverages, basic household goods and credit for mobile phones. They are the most common distributors in low-income regions, accounting, together with SMEs, for 80% of employment but less than 20% of GDP. The program was built on previous experiences and best practices, such as the SABMiller's pilot projects *Progresando Juntos* in Peru and El Salvador aimed to improve business skills, and *Oportunidades Bavaria* in Colombia providing microcredit for small retailers and business training. To create *4e Camino al Progreso*, the Group collaborated with MindCode, a research firm that conducted a study on the aspirations and desires of *tenderos*. The output was that micro-entrepreneurs wished to have more successful and growing businesses, to improve their quality lives and self-esteem, to secure better opportunities (e.g.: children's education, home purchasing) and to help their whole community. In fact, *tenderos* usually lack of basic financial knowledge, inventory management skills, understanding of pricing rules and knowledge on techniques to win the competition, such as how to differentiate stores from those of competitors. Thanks to these answers, SABMiller has been able to define an initiative that was able to meet the expectations of the target, dividing it in four stages:

1. Responsible *Tenderos*: development of basic business skills (displaying products, sales, customer service, etc.);
2. Sustainable *Tenderos*: teaching how to sustain a long-term profitable and resistant business (focus on cost and expenses structures, inventory rotation, how to make a life plan, etc.);
3. Excellence *Tenderos*: to understand how to do something for the community and setting classes on recycling, responsible beverage sales and products and services' diversification;

4. Leader *Tenderos*: explaining how to develop the small shopkeepers as community leaders and how to convert the shop into a meeting place for the development of the neighborhood.

The program gave rise to extremely positive results: sales growth, retailer loyalty, less costs and risks, profit increase, higher income and better living conditions for retailers. *Tenderos*' total sales grew by 13% (and is expected to grow to 30%) and four fifths of participants affirmed that the program developed their capabilities, increased their self-esteem and created a greater interest in their communities. Moreover, through its sales force database the company can guarantee continuous communication, by constantly tracking the project and trainees.

3.2 Enel Green Power

Enel Green Power is an Italian multinational, born in 2008 as a spinoff of Enel Group. After its delisting from the MTA (Mercato Telematico Azionario), the company has been reintegrated into the Group, becoming the greatest integrated utility in Europe in terms of capitalization and is worth €39,4 billion. From a strategic point of view, the incorporation of EGP is part of the simplification process that Enel is developing and allows the company to become leaner and greener. In fact, Enel Green Power aims to develop and manage the activities of energy production from renewable sources and it operates internationally, being it present in Europe, Africa and the Americas. Moreover, Enel has been the only Italian company and the only utility in the world to be invited to be part of the United Nation Global Compact's board.

Enel Green Power is one of the most important operator at international level, producing 32 billion kWh per year, mainly generated from water, sun, wind and geothermal, meeting the needs of over 11 million households and avoiding over 22 million tonnes of carbon emissions, thus contributing to a global sustainable development. The Group operates in 32 countries across 4 continents, generating power from over 95 GW of net installed capacity and distributing electricity and gas through a network spanning around 1.9 million km. Energy generation from renewables both sustains the safeguard of the environment and contributes to greater energy independence of nations. The company has an installed capacity of 10,468

MW, with 735 plants in 18 countries and a generation mix that includes wind, solar, hydroelectric, geothermal and biomasses.

The approach of Enel Green Power to sustainability is not limited to the emergence of its intrinsically *green* nature, but aims to promote a strategy that integrates sustainability into business processes and throughout the value chain. A sustainable culture is then at the center of the business model which focuses on the creation of shared value based on community involvement and on the rational use of resources. The goal is to develop a sustainable perspective on the long-term, to share across throughout the functions of the company. For these reasons EGP has been admitted for the twelfth consecutive year to the Dow Jones Sustainability World Index (DJSI World), a reference index for markets which includes the top players in economic, social and environmental sustainability.
Enel Green Power’s activities focus on two main directions:

- Mature markets, characterized by a decreasing curve of unit costs for the development of the most efficient technologies;
- Emerging markets, where development is necessary because of the economic growth and demographic expansion they are experiencing.

These markets, even if different, share some characteristics, such as the importance of the economies of scale, the importance of the local operative dimension (the facility), and the necessity to make the renewables a totally programmable source of production. This is why the company needs to focus on Operation & Maintenance activities in order to satisfy the standards of the transmission network, to improve the efficiency of the existing facilities and to develop tools that enable the production’s prevision and a better planning of the maintenance activity.

The strategy of Enel Green Power considers three main elements:

- Economies of scale and geographical diversification, through which the company can optimize some activities such as Operations & Maintenance and sales. Moreover, thanks to its experience e strong technological know-how, EGP can share its best practices throughout its geographies and technologies;

- Growth, achievable through the development of new projects and the immediate reaction in case of changes of the reference scenario. The goal is to capture growth opportunities in the most profitable markets and exploiting the local potential by using the technologies that best fit each particular territory;
- Innovation; R&D is a fundamental function being it focused to develop new and efficient ways of generating renewable energy through innovative technologies and the sharing of know-how within the Group.

In the coming years Enel Green Power intends to further increase its multi-technological presence in developing countries, with particular attention to South America, Africa, the Middle East area and to an opening in the Asia-Pacific region. The shared value approach is pursued through the implementation of cross-cutting projects on topics related to the core business – such as access to energy – aiming at the empowerment and development of skills of the communities themselves. The most important initiatives are the training of local technical personnel that can be able to work along the value chain, the use of renewable technologies and eco-sustainable solutions to minimize the impact on the environment during the power stations' construction phase, the installation of off-grid systems for those isolated communities that are not connected to the electrical network or the protection of biodiversity since the first phases of projects' evaluation. The commitment is to contribute to the socio-economic development through activities that are modeled on the needs and potentials of the territory and at the same time to identify synergies with the company's core business.

Enel Green Power is pursuing an organic approach to the management of environmental issues. The Group has implemented a Quality Management System integrating Health, Safety and Environment and certificated in the totality of its perimeter. It implements interventions of prevention, mitigation and management of environmental impacts at all stages of the value chain. As part of this commitment the management of the supply chain is also another fundamental step: mechanisms of qualification and selection of suppliers in line with the required criteria of Enel Group are applied. It has been also developed a specific Green Procurement Plan in order to raise the standards in the supply segments having a greatest environmental and social impact.

Sustainability in this sense needs a deep focus on innovation and the company fits its efforts especially on three innovative business opportunities:

- Innovative solar – identification, assessment and development of innovation opportunities in the entire solar value chain; promoting, developing and testing technologies, processes, products and services capable of enhancing the production of energy;
- Water generation – development and sustainable utilization of the sea's energetic capacity;
- Integration of storage systems with renewable systems – identification, evaluation, development and testing of industrial installations of energy storage systems integrated with plants of energy generation from renewables. The aim of these experimental activities is to check the capacity of such integrated systems to improve the management of renewable plants (compensating for any deviations between forecast and actual production), to optimize the flows of energy to and from the network (maximizing the use of the existent connections) and provide the network of ancillary services, in order to create renewable plants actively integrated in the electrical system, but also off-grid systems able to satisfy rural communities until now typically dependent from outdated and polluting power generation systems.

Moreover, from 2014 the Innovation Function of Enel Green Power incorporates the Sustainability Department, considered to be a sort of "process innovation". In fact, many synergies can be created between innovation and sustainability projects.

The power project of the Chilean village Ollagüe (3,700 m above sea level), isolated from the national electrical network, is an example of how the realization of an innovative renewable plant is a sustainable business opportunity. It has been built in 2004 and consists of a system of solar generation (photovoltaic and thermodynamic) and wind power (low impact mini-turbines) integrated with a sophisticated off-grid system of electrochemical, ecological, highly efficient and sturdy storage, able to guarantee the necessary reliability despite the extreme environmental conditions and to manage the flows of energy coming from different generation systems. This hybrid system is thus able to fully meet the energy needs of the whole local community of about 300 people and the thermal requirements (hot sanitary water) of public schools, using only in rare cases, pre-existing diesel generators, and exclusively during winter months. The plant allow the community, that never had before stable and constant access to electricity, to have energy 24 hours per day. This is a great example of the *Creating shared value model* because it conjugates innovation, protection of the environment, renewables and involvement of the local population.

In order to develop a logic of "open innovation", in 2013 it has been activated, and it is constantly updated and improved, the first crowdsourcing platform of the industry, accessible from the website of Enel Green Power, in order to share ideas and innovative proposals with those who are interested in it. EGP addresses the academic world, established companies and startups that can help to overcome the technological challenges that the company faces by sharing ideas and technologies and through forms of co-investment, also integrating in this process any input and experience of others societies of Enel Group.

A part from being an ethical business, to invest in renewables energy also seems to be necessary. The present energy scenario is characterized by a strong growth in energy consumption and by great attention to the issues related to the climate change.
According to the latest estimates of the International Energy Agency (IEA), by 2035 the global demand for electricity is going to increase by around 65% and CO_2 emissions by around 20%. Consequently, in this context, the need and challenge that the energy sector must address is to guarantee an adequate level of safety of the procurements, ensuring the environmental and economic sustainability arising from the necessary increase of the world's electric power generation system.

In a so complex scenario, characterized by an heavy dependence on fossil fuels, renewable energy represents a concrete and sustainable answer and by 2030 about 20% of the world's energy needs will be met by clean energy (World Energy Outlook

2014, New Policy Scenario, base year 2012). The worldwide market will be characterized from significant growth rates, in particular for wind and solar photovoltaic; more generally, it is expected that the entire renewable energy sector will grow at a steady pace that will lead to an installed renewable capacity from 1,581 GW of 2012 to approximately 4,070 GW in 2035. (World Energy Outlook 2014, New Policy Scenario, base year 2012).

An overview of EGP in South America

In Center and South America Enel Green Power owns 54 plants in Mexico, Costa Rica, Guatemala, Panama, Chile and Brazil. Among the various technologies, the company has reached an important role in the whole region with 1,698 MW of renewable capacity. Wind energy is the primary technology in which Enel Green Power is mainly directing its investments in terms of installed capacity, with 17 plants in 4 countries for a total of 830 MW.

Thanks to its knowledge in the geothermal energy field in Italy, Enel Green Power is exploring and developing new opportunities in this sector. Particularly in Chile it has been awarded three concessions for geothermal exploration, and thanks to these concessions it has been confirmed to be the leader of the market in the country’s geothermal energy development.
Moreover, important projects are being developed in the wind power sector in Brazil (118 MW Serra Azul), Chile (97 MW Carrera Pinto, 160 MW Finis Terrae), Mexico (100 MW Dominica), and in the hydropower one in Costa Rica (50 MW Chucas), Brazil (102 MW Apiacás) and Uruguay (50 MW Melowind).

Brazil is the Latin American country with the greatest installed renewable generation capacity mainly deriving from the hydroelectric segment (about 80% of the total), but also wind power and biomass are expanding rapidly. From 2015 in fact, EGP began the construction of Esperança, a wind farm of the final segment of Serra Azul, a wind complex in north-eastern Brazil that will be able to generate more than 500 GWh of electricity per year, answering the consumption needs of about 320 thousand Brazilian households and avoiding 53 thousand metric tons of CO_2. In 2014 renewable capacity was estimated to be 113 GW, 7% more than the previous year. In

2002 an incentive system for renewable energy have been set with the adoption of PROINFA (*Programa de Incentivo a Fontes Alternativas de Energia Elétrica*), a feed-in mechanism which allowed to promote the use of renewable technologies (especially wind, biomass and small hydro) through incentives and subsidies. Moreover, the last December 17, the Ministry of Energy published a new industry expansion plan (PDE2023 - *Plano Decenal de Expansão de Energia*) that envisages major growth in renewables capacity. Under the plan, the government forecasts that wind capacity will expand by an average of 2 GW a year until 2023, while solar and biomass capacity will account for about 13% of total installed capacity in 2023. Moreover, Enel Green Power is the biggest player in the Brazilian solar market after being awarded in 2015 the right to sign 20-year energy supply contracts for a total of 553 MW. The project is to build three photovoltaic plants in Horizonte MP (103 MW), Lapa (158 MW) and Nova Olinda (292 MW). In Bahia it also started the construction of a new solar power plant, Ituverava, which will be able to meet the needs of more than 268 Brazilians, with its 550 GWh per year, and to avoid more than 185 thousand metric tons of CO2.

Chile, differently from the majority of Latin American countries, does not have a high quantity of fossil fuel resources and consequently it needs to import energy from abroad in order to satisfy the domestic demand. However, the country has major renewable energy potential in a broad range of technologies (hydroelectric, wind, solar and geothermal), but unfortunately these resources are accounted for less than 1% of the 2014 energy mix. This is why the government set the target for electricity generated from renewables to 20% by 2025. In addition, another target has been recently introduced: reaching 45% of new installed capacity from renewable plants within 2025. For its part, EGP in 2015 began the construction of three photovoltaic power plants, Carrera Pinto and Finis Terrae. The former will be able to generate more than 260 GWh per year, satisfying the electricity needs of about 122 thousand households and avoiding emissions of more than 127 tons of CO2 per year. Finis Terrae will be the largest solar photovoltaic park of Chile, able to generate more than 400 GWh per year, the equivalent of about 198 thousand households' needs, avoiding more than 198 thousand metric tons of CO2 emissions. La Silla, near the Northern region of Coquimbo, is a 1.7 MW solar photovoltaic plant able to provide continuous energy to 2,000 home and the astronomical observatory of the region, ensuring its function even in case of technical defaults thanks to the application of new technologies. Also, EGP started to build the Sierra Gorda wind farm (112 MW), which will enter into service by the end of 2016 when it will generate 295 GWh per year. This energy will be delivered to the Chilean northern region Norte Grande, answering the energy demand of around 130 thousand of people. In Chile Enel Green Power won the *Best Sustainable Business Award 2015*, assigned by the newspaper *Diario Financiero*, thanks to the strong innovation and sustainability efforts of EGP in the country, aimed to give access to electricity to isolated community creating shared value, and in particular for the Ollagüe's plant, which had already received the award *Innovation of the year* from the international Chilean Renewable Energy Congress.

In Colombia, generation from renewables is expected to increase at an annual average rate of 3.6%, reaching 81.3 TWh in 2019, mainly thanks to the expansion of hydroelectric generation, which is forecast to rise at an annual rate of 4%. In 2015 the country has a total installed capacity of about 11.5 GW (mainly from hydroelectric power), 4% more than it was in 2014.

Peruvian electricity generation is expected to grow very rapidly between 2015 and 2023, according to Business Monitor International. The projections point to an annual average rate of 6.6% of growth, even due to the expectation of increasing demand by 5.4% a year. Hydroelectric generation accounts for about 54% of total generation and in 2014 the total renewables installed capacity was 3.5 GW (with an increase of about 6% on 2013). In 2015 the government announced its goal of achieving the target of 5% of electricity from wind and solar power by 2017. EGP is set, by 2018, to become the biggest energy provider in Peru by securing the rights to supply energy to three power stations at an investment of approximately $400 millions. Moreover, the company is engaged in developing education programs teaching future generations the importance of sustaining a mixture of energy sources, particularly important in Peru, a country that is particularly characterized by a great potential of solar and wind energy.

Creating Shared Value Model

The inclusive business model of EGP is known under the name *Creating Shared Value*. This model, created in 2013, aims to pursue a long-term strategy able to increase the competitiveness of the company while creating value in those territories where it operates. In its focus on finding new solutions for developing renewable energy, this model is built on three pillars:

- Technological innovation, given that the Group strongly directs its investments in improving plant efficiency, integrating renewables into urban areas, testing new renewable energies;
- Community integration, based on positive relationships with stakeholders in order to create value for both the business and the community also by finding technical solutions and establishing collaborations;
- Constant improvements of the process with the goal of systematically integrate the creation of a culture of shared value into each decision and action.

The Creating Shared Value Model is guided by principles of ethics, transparency, anti-corruption, safety and respect of human rights. These principles are also at the base of each Group's operation and are applied by each function of the organization. In fact, this sustainable approach is spread throughout the value chain, which is structured into the three phases of Business Development, Engineering & Construction, and Operation & Maintenance.

The company, before starting the construction of the project, has to consider different factors, such as its impact on the landscape and on the surrounding flora and fauna, the noise deriving from the plant, any possible impact on historical or protected sites, the topography, the soil, water conditions and other site's characteristics. The Group thus takes into consideration the needs of local populations and tries to find solutions that satisfy both the community involved and the business itself. This is why EGP meets residents and stakeholders that can be embroiled in the project development. Moreover, in order to develop a positive impact on the community, this first phase includes program aiming to build local human capital thanks to specific training that enable people to acquire the necessary skills and know-how to operate the plant.

The second phase begins with the design of the plant. The goal here is to find an innovative solution able to combine cost and operational efficiency with the need of reducing any negative external impact. Once the best configuration possible has been identified, the construction phase follows. In this stage, when it is necessary to involve external suppliers and contractors, the Engineering & Construction unit has to pretend those standards and criteria adopted by the Group that are related to environment, health and safety, and construction regulation, through contractual obligations and clauses that are imposed to third parties.

The third stage refers to operation and maintenance. Advanced systems are used to monitor the performance of the plant and to assess its status, to share best practices and to develop projects for improvement. Moreover, every EGP’s plant is controlled by in-house guidelines useful for analyzing potential actions that would increase efficiency. Forms of community’s inclusion in this phase take the form of employment of local residents and engagement of local businesses in case of outsourcing of some services.

Trying to traduce in numerical terms the benefits that the CSV Model can generate, in 2015 EGP developed a preliminary impact assessment model. This analysis helped Enel Green Power to measure the value deriving from projects of sustainability, enabling the company to focus implementation efforts and investments on the opportunities having the greater potential return for both business and stakeholders. This analysis has been applied to a sample of 23 projects (out of 168) and the result was that the social and business impact generated by these projects (thus, the Net Present Value of all discounted cash flows) was equal to €28.3 million.

Figure 3.4 Geographical representation of sustainable projects, beneficiaries and investments

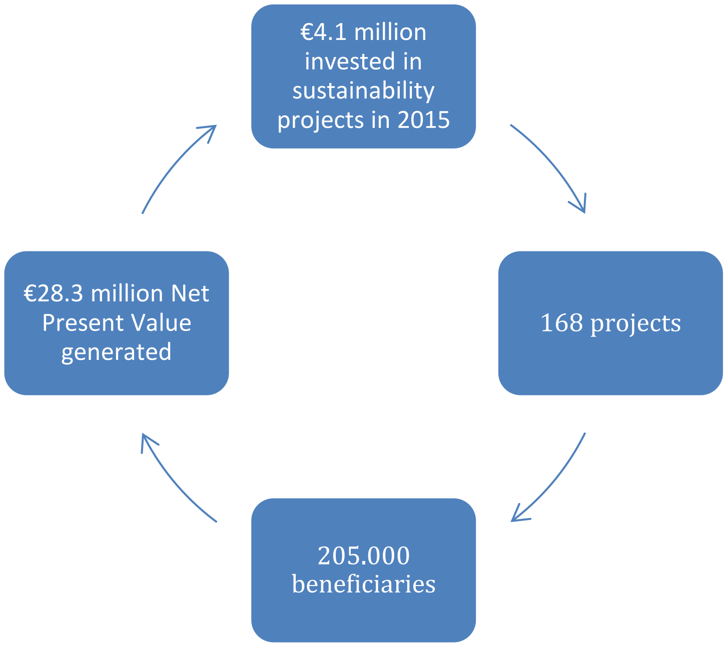
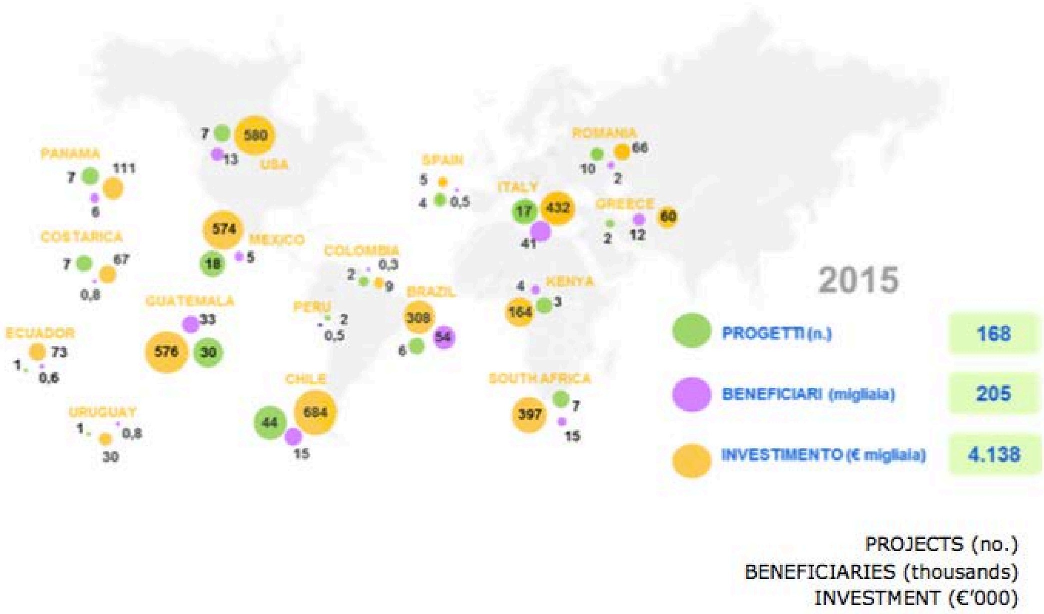


Figure 3.5 EGP's projects, investments and beneficiaries around the world



Source: Enel Green Power – Annual Report 2015 – Report on operations

Through these sustainable initiatives, Enel Green Power engages in achieving four of the United Nations' Sustainable Development Goals (SDGs):

1) SDG 4: Ensure inclusive and quality education for all and promote lifelong learning;
2) SDG 7: Ensure access to affordable, reliable, sustainable and modern energy for all;
3) SDG 8: Promote inclusive and sustainable economic growth, employment and decent work for all;
4) SDG 13: Take urgent action to combat climate change and its impacts.

Among the goals to be reached by 2020 we find: to grant access to electricity to 3 million of people; to furnish a base education energetically focused to 400.000 people; to support the employment and the economic growth of 500.000 individuals. By 2050 the company is willing to reach the *carbon neutrality* goal, totally eliminating the CO2 emissions in the entire set of operations.

Four most important strategies are thus taken into consideration when developing sustainable projects (Annual Report, 2015):

- *Promoting access to energy* – removing financial barriers to energy; promoting the development of technical skill and production capacity, access to technology and infrastructure, the culture of energy; increasing energy efficiency;
- *Increasing operational efficiency through sustainability* – using water and energy responsibly; efficiently using information technology; mitigating the environmental impact; promoting a sense of belonging within the company;
- *Contributing to the socio-economic growth of local communities* – promoting employment and relationships within the community; developing infrastructures; transferring skills and developing those of local communities;
- *Supporting the community* – promoting education, culture, diversity, health and safety, sports; supporting families, local events and initiatives; protecting the environment and biodiversity.

The long-term process of EGP’s value creation is spread throughout the value chain encompassing the combination of the following form of capital:

Figure 3.6 EGP's forms of capital

Financial Capital	Investments, revenues, and sources of funding that contribute to our business of generating power from renewable sources
Productive Capital	Production facilities and relations with our business partners (vendors and contractors) organized with the goal of contributing to the pursuit of strategic objectives
Intellectual Capital	The intangible assets that create competitive advantage for the Enel Green Power Group (Innovation, Research & Development)
Human Capital	Skills, knowledge, and relationships within the Enel Green Power Group
Natural Capital	The natural resources that enable us to conduct the Group's business and the tools and mechanisms for managing environmental impact throughout the value chain
Social and Relationship Capital	Relationships that the Group maintains with the local communities in which we operate and our ability to share information in order to create shared value

Source: Enel Green Power – Annual Report 2015 – Report on operations

Now we are going to analyze how each form of capital contributes to the creation of share value:

1) **Financial Capital – Socially Responsible Investments (SRI)**

They are investments that consider environmental, social and corporate governance (ESG) criteria to generate long-term competitive financial returns and positive societal impact. Today investors and analysts are more and more considering non-financial parameters in order to better evaluate business' performances. EGP is a leader company in this field considering that it is present in several international ethical indexes (FTSE4Good, Euronext, Vigeo, STOXX, ECPI, MSCI Index, Ethibel Corporate Social Responsibility Indeces, Standard Ethic Italian Index).

2) **Productive Capital**

Because the Creating Shared Value Model has been created by the company with the support of business lines (Business Development, Engineering & Construction, Operation & Maintenance) and staff functions (e.g.: Environment & Quality, Audits, Safety, Procurement…), it is characterized by a cross-functional approach based on a long-term vision of continuity for the adoption of CSV tools, mechanisms and actions

in the whole value chain and business. Each function and business line has thus to communicate to each other with the objective to promote together a sustainable and inclusive business model, multiplying in this way the benefits deriving from this approach. As a consequence, each operation of each business line considers the external consequences it generates as a priority, monitoring and managing the way in which it affects the local community. In fact, not only local laws and regulation are respected, but also best practices for minimizing the potential impact on stakeholders are implemented and environmental aspects are monitored for each plant and facility.
A part from not negatively impact local communities, the Group strongly seeks to create opportunities in local economies, by investing in them and building partnerships with local firms, trying to establish a true relationship with the community in order to reach a mutual beneficial objective (for the Group as well as for the community). Being this approach spread throughout the value chain, the Audits function is in charge to control that, in each EGP's facility and site of production and operations, also vendors and contractors respect the same ethical and social obligations and standards.

Moreover EGP, as part of its commitment, has created an Integrated Health, Safety, Environment and Quality (HSEQ) Management System, which has been certified by the most important international organizations. The objectives are the following (Annual Report 2015):

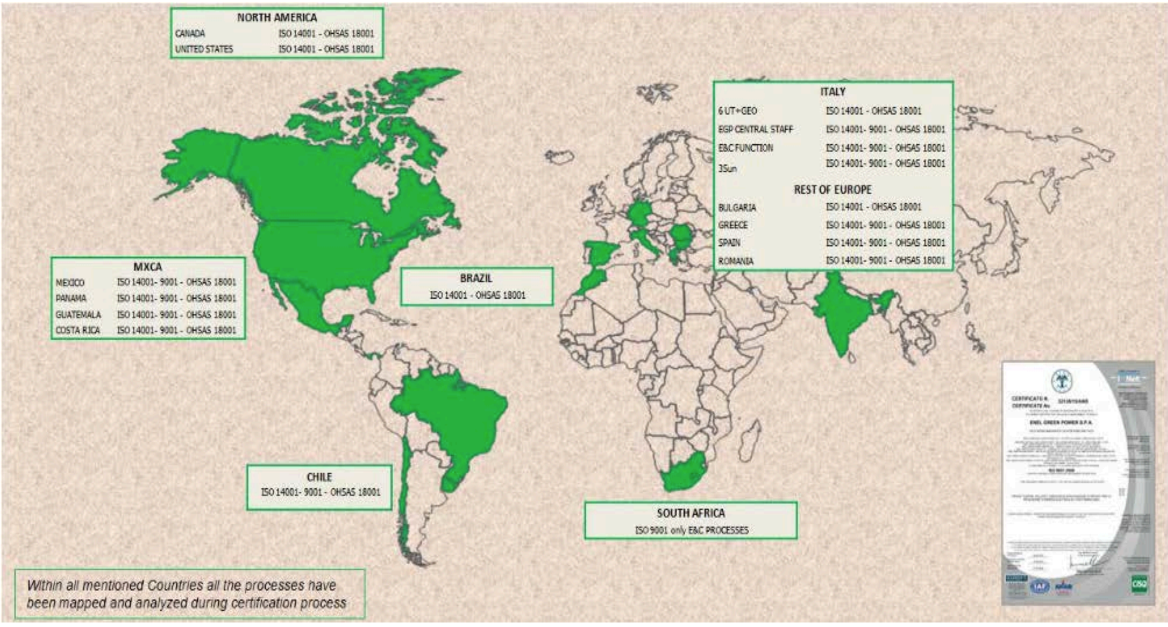
- Set information and training programs that aim to develop the employees' skills raising their sense of responsibility and awareness in the field of health and safety;
- Support plants with the best technology available in order to guarantee safety and environmental protection and consider these goals into operations of routine and decision-making process;
- Adopt measures trying to eliminate any possible risk related to personnel's health and safety, to prevent accidents and injures and to avoid or reduce environmental impact;
- Select vendors and contractors that adopt these same quality, safety and environmental practices and objectives;

- Promote an open dialogue with local communities on the impact the Group's activities have on them and on the environment, trying to satisfy their needs as far as possible.

The HSEQ Function operates on two levels: a department on parent company-level that establishes guidelines, policies and procedures and that coordinate the activities of the entire Group, and HSEQ units that are geographically-based, implement specific programs and initiatives and monitor performance on a local level.

Figure 3.7 shows, for the central line and staff functions in all countries in which EGP is present, the level of coverage of the most important certifications (ISO 14001:2004 – Environment; BS OHSAS 18001:2007 – Health and Safety; ISO 9001:2008 – Quality).

Figure 3.7 EGP's certifications



Source: Enel Green Power – Annual Report 2015 – Report on operations

With the objective of promoting a safe conduct across all the organization's activities, EGP implements a great variety of programs and initiatives thought for both employees and contractors. For example both management and operation personnel in all countries attend technical training courses (e.g.: the course on electrocution risk or the management of environmental incidents, the course on descending a wind turbine generator, preventing initiatives on the use of a defibrillator, etc.); or the project *Involve Yourself in HSEQ*, launched in 2015 in Italy with the goal of providing to the staff functions, since from their hiring, the necessary knowledge and key competencies that they will need throughout their career in these fields.

3) Intellectual Capital

It is based on an “open innovation” approach developed through two means of communication and engagement: a crowdsourcing platform in the Group’s website where people can share innovative ideas and proposals (in 2015 100 proposals have been submitted), and the Innovation Competition where participants from all over the world submitted 130 proposals.

The Group in 2015 spent around €12 million on innovation for development and operational testing of innovative technologies, one-fifth of which was allocated to medium/long-term research. It is expected that the commitment for the period 2016-2020 for these initiative will be €130 million.

The main innovative areas in which the Group is engaged are:

- Improve the performance of technology aiming to increase the availability of electricity by creating unconnected systems to the grid which combine diversified power-generation technologies and the use of electro-chemical energy storage systems;
- Develop renewable energy in urban settings mainly by using smaller-scale and low-visual-impact systems that can be easily integrated into the architectural areas (e.g.: advanced wind generators, small-scale thermodynamic solar power system);
- Use of renewable resources.

Moreover, in order to promote co-investments, partnerships and collaborations with public bodies, universities, research centers, other corporations and startups scouting channel has been established and, in 2015 500 projects submitted from outside have been analyzed by the Group’s Innovation Function. EGP is also collaborating with universities in order to provide scholarships aimed at training local students with teams of EGP's experts (in Latin America) and to support specialization programs in the areas of reporting, sustainability and creation of shared value.

Some of the most important 2015 innovation projects are:

- In the wind energy area: new technologies to exploit high-altitude wind energy and small-wind application with low environmental impacts (e.g.: the "Libellula" wind turbine designed by the architect Renzo Piano);
- In the energy storage area: advanced energy management functions in order to minimize intermittence and maximize the use of existing connections (e.g.: the electro-chemical energy storage system with a hybrid photovoltaic-wind-thermodynamic, off-grid generation plant in the Chilean village of Ollagüe, able to provide electricity to the village and covering about 85% of the needs of its inhabitants through renewable energy generation; a partnership agreement with Tesla in the home energy field in South Africa with the goal of developing a residential storage system where consumers can store self-generated energy, for example through a photovoltaic system, in their battery for future use in case of blackouts or if the home is not connected to the grid;)
- In the solar area: in Nevada (US) it has been created the first system of the world with double-sided solar panels and distributed electronics;
- In the geothermal energy field: a consortium, which includes CNR, three German universities, two Norwegian firms and led by EGP, for the development of a well where it is possible to extract high-enthalpy geothermal steam to fuel new plans.

4) Human Capital

The investment in and development of human resources is considered to be a critical factor able to guide structured growth. In this regard in 2015 EGP Brazil has been certified to be one of 150 Best Companies to Work For and the Best Company to Work For in Rio de Janeiro.

Recruiting teams, when hiring try to find the right people that can have positive impacts in the organization considering both their technical and personal characteristics. Then, training programs seek to develop the workforce's knowledge and skills. Investments in training mainly focus on:

- "Global integration", that means to operate in respect of local communities while following the guidelines and directives of the organization;
- "Synergy and teambuilding", that are two factors necessary to the achievement of long-term goals also by sharing best practices and knowledge between nations. Moreover, in order to promote ongoing, mutual collaboration and communication, it has been set a feedback project from the personnel involved in team activities;
- "Specialist training", increasing knowledge and skills related to health and safety in workplaces and promoting integration between different cultures within the organization.

Practical solutions have also been promoted in order to ensure the wellbeing of the people of the Group and to support their daily needs. These activities aim to promote a balance between work and personal life, to share best practices related to the wellbeing's promotion in the workplace and to set People Care guidelines and policies.

5) Natural Capital

Enel Green Power strongly engages in mitigating the environmental effect of its activities through strategies both globally and at local level. Its environmental impact depends on the plant and technology used, but there are also some general effects that are not limited to the specific technology used, such as energy consumption, waste production, noise pollution and water consumption. Energy consumption is one of the greatest impact deriving from the company's activities and consequently, EGP develops projects to save energy and to optimize maintenance, and activities in order to modernize the plants and to increase process efficiency. One initiative involving employees seeks to reduce business travel by using instead remote working and teleconferencing.

An Environmental Impact Assessment (EIA) is done for each local unit and for all stages of plant development, construction and operation. Regarding the business development stage, in 2015 Enel Green Power applied to six pilot projects with different technologies the interfunctional project “Design to Environment & Environmental Plan for Construction”, then merged during the year with the “Design to Safety” project, thought to develop an integrated approach for the design of worksites and plants’ characteristics and to share environmental lessons and best practices.

Being the construction phase the one in which the company has its greatest impact, the Group prepares for each project an environmental impact prevention and mitigation plan. The plans also set precise criteria for suppliers and contractors and establish mechanisms for monitoring and controlling the environmental performance during the construction of the site.

Finally, an Environmental Management System is put in place in all the sites in order to manage the environmental impact even during the operation phase and to develop actions which focus on the reduction of atmospheric emissions, the management of waste, the protection of water resources and the handling of emergencies. Moreover, the Group uses the MAPEC (Mapping of Environmental Compliance) a tool for the identification, analysis and mapping of potential environmental risks.

Regarding the environment, one of the most important objectives that the group has set is to become by 2050 a company with zero CO_2 emissions, with a commitment to contribute to the achievement of a global carbon-free economy. Today, half of the energy produced by the Group comes from renewable sources, thus avoiding 70 millions of tons of CO_2.

6) Social and Relationship Capital

EGP strongly engages in listening and analyzing the needs of communities, trying to establish a real relationship with them. This is the basis for maximizing shared value and to answering local needs. The main EGP's stakeholder are: employees, investors, institutions, suppliers, civil society and local communities, and the process of engagement is based on principles of involvement, inclusion, transparency, impact analysis, equal opportunities, long-term relationships, shared value, collaboration and timely management of complaints. The engagement mechanisms vary according to the country (geography) and the stage of the project's development (line function), as it is possible to see from the following table:

Figure 3.8 Mechanisms of stakeholders' involvement

Main stakeholder engagement activities		Line Function		
		Business Development	Engineering & Construction	Operation & Maintenance
Geographic area	Europe and Northern Africa	• Identification and evaluation of socio-economic aspects and local needs in the areas in which we plan to build plants, including surveys to identify needs • Prioritization of needs by importance • Selection of adequate solutions to each issue; • Selection of specific support mechanisms	• Meetings with the local communities • Involvement of local SMEs in the supply chain	• Mapping of strategic Enel Green Power plants (financial, environmental and social aspects) • Identification of the main categories of stakeholder for each site (relationship quality, interest type, degree of influence, attitudes) • Project planning taking account of stakeholder needs and business goals (assessment of stakeholders, benefits of activities, benefits to the local community, number of beneficiaries) • Execution and monitoring of CSV projects
	North America	• Stakeholder identification, engagement and interaction • Creation of a community development fund (CDF)	• Meetings with the local communities	• Meetings with the local communities
	Latin America	Activities during project feasibility analysis: • socio-economic and environmental analysis • preliminary assessment of the project's socio-economic and environmental impact • dialog and interaction with the community (i.e. meetings to discuss the project and the impact assessment and joint preparation of the sustainability plan)	• Involvement of existing local SMEs in the supply chain or generation of new businesses based on project needs • Establishment of complaint-reporting and management mechanisms • Skill training and transfer to the local communities (e.g. in the use and maintenance of photovoltaic panels) • Involvement of local SMEs • Construction site ecological footprint	• Use of new and existing SMEs (e.g. for the use and maintenance of photovoltaic panels) • Methods and technologies to protect strategic natural resources (e.g. the use of water to clean photovoltaic panels)
	Asia & Sub-Saharan Africa (South Africa)	• Identification of stakeholders affected by the projects and presentation of the document to the	• Meetings with the Project Steering Committees and the Community Liaison Officers	• Meetings with the Project Steering Committees and the Community Liaison Officers • Complaint-reporting

		leaders of the local communities • Discussion of the projects with the local communities during the feasibility-analysis stage; • Meetings and interviews with representatives of the most important categories of stakeholder • Meetings with the Project Steering Committees and the Community Liaison Officers • Complaint-reporting mechanisms	• Complaint-reporting mechanisms	mechanisms

Source: Enel Green Power – Annual Report 2015 – Report on operations

This sustainable approach is also at the base of the new *Open Power* strategy, presented on January 2016. It is founded on openness of the Group’s strategic and operative approach, which in means in practical terms:

1. Open access to energy to more people;
2. Open the world of energy to new technologies;
3. Open the energy management to people;
4. Open the energy to new uses;
5. Open up to more partnerships.

The new brand strategy conveys the image of Enel as a modern, open, flexible, responsive utility able to drive the energy transition. The Group introduces a new visual system and a new attractive and colorful logo, which incorporates the flexible and dynamic principles of *Open Power*. The new visual identity and logo are composed of many colors to reflect the diversity of the sources of energy, the multifaceted nature of the Group and the increasing diversification of the offered services.

Inclusive projects: Enabling Electricity

Enel Green Power is engaged in three actions that support the United Nations project Sustainable Energy for All through the EGP's Enabling Electricity programme. The initiative combines renewable energy, innovative network technologies and advanced storage solutions to provide clean energy to people twenty-four hours a day. To date, in fact, more than a billion people still lacks access to electricity.

The main actions of the Group in this field are:

- Facilitating the access to electricity by developing means of new distributed generation and network infrastructure technologies;
- Removing economic barriers in areas such as the Latin America where economic difficulties impede the access to electricity;
- Investing in capabilities building of disadvantaged populations, for example by offering technical training to young people.

EGP is thus engaged in developing transversal projects related to the Group's core business that enable to create share value and improve the social conditions of local and rural populations, facilitating long-term positive changes. One of the most virtuous "Enabling Electricity" project has been developed through the partnership with the Barefoot College.

Enel Green Power and the Indian university Barefoot College have promoted a project where women (usually grandmothers from 35 to 50 years old that usually have a family burden less onerous than young mothers) from all over the world go in Tilonia, a small village in the region of Rajasthan (North of India), where they can study electronics in order to learn how to install, repair and maintain solar photovoltaic panels, thus becoming "solar engineers". After six months of training, they come back to their villages where they install the panels and turn on the light for the entire community. Once in their native village, they also train other women and export the model to near villages in order to give them electricity for the first time. With this project, transition out of underdevelopment becomes possible. By sticking a community-based model and mobilizing people at the bottom of the pyramid the effects on climate can be huge, as we are talking about more than 40% of the population in the earth. This model in the proof that renewable can reduce poverty and spending energy access.

The Barefoot College is an NGO that since 1972, when social entrepreneur Sanjit “Bunker” Roy (nominated in 2010 one of 100 most influential personalities by the *Time* magazine) started it, is engaging in improving the quality of life of rural communities making them self-sufficient in a sustainable way. It is the largest university of the world to train rural population and it has improved the life of more than 450.000 people. By transferring knowledge to the most marginalized and illiterate poor, the Barefoot College has enabled thousands of women and men to become solar and water engineers, teachers, doctors and artisans. Especially women are seen as real change agents and grandmothers are trained and empowered to take up their natural roles as environmental stewards and active participants in the development of themselves and of their communities. Focusing its attention on women, the College also promotes gender equality, not limiting its activity to simply tackling the problems of poverty by creating jobs and bringing sustainable energy with solar systems.

One of the main philosophy of the College is to demystify and decentralize technology, bringing to the hands of poor people very sophisticated technology such as solar and rain water, making communities self-sufficient and sustainable. Moreover, thanks to very advanced techniques and the use of high tech solar panels, Barefoot College is the first Indian reality to be completely autonomous for both energy and water.

Women are trained on how to install a photovoltaic (PV) power system, they become solar technicians in order to go back bringing to their village their PV kits given by EGP, light, development and jobs. The collaboration with the Barefoot College started in 2012 and since then, 39 solar engineers from 39 different communities (Brazil, Colombia, Chile, Guatemala, Ecuador, El Salvador, Mexico, Panama, Peru) have learned the necessary competencies to operate the new solar systems all along the 20 years of equipment life cycle, bringing light to 2.460 families. To date in Latin

America, over 3,500 solar kits have been installed and distributed to 19,000 beneficiaries.

This is a great example of how sustainable energy can improve the life of poor people and this is why EGP is the first private donor of the Barefoot College. The project is in line with the policy of responsibility and commitment of Enel for the improvement of living conditions in the most disadvantaged communities, in cooperation with the governments of countries where the Group is present in order to fill the *energy divide* that now sees 1.4 billion people worldwide still lacking access to electricity. Because of the responsibility of the company in improving the quality of life of people at the bottom of the pyramid, Fortune magazine, with the help of FSG (Foundation Strategy Group), a nonprofit social-impact consulting firm, has ranked Enel, the solely utility of the world, fifth in the list of companies that can "change the world". With this list Fortune didn't want to rank companies according to their social responsibility. It would be instead a spotlight on instances where companies are doing well as part of their profit-making strategy, in order to demonstrate in which way a different application of capitalism can improve the human condition. In the evaluation process, the criteria that have been considered are the degree of business innovation involved, the measurable impact at scale on an important social challenge, the contribution of the shared-value activities to the company's profitability and competitive advantage and the significance of the shared value effort to the overall business.

The Barefoot College initiative has been reported by the documentary-film "Bring the Sun Home" directed by Chiara Andrich and Giovanni Pellegrini, winners of the Enel Green Power Nuove Energie – Sole Luna Festival award (2013), and the Speciale Rinnovabili.it award during the CETRI Educational Awards 2016 at the Italian Senate.

3.3 Banca Popolare Etica

Ethical Finance versus Ordinary Finance

Banca Popolare Etica (BPE) is the first and most important Italian financial institute that engages in socio-economic initiatives inspired by the values of a sustainable social and human development. The bank invests savings in initiatives that follow both social and economic objectives, in full respect of human dignity and the environment. Founded in 1999, Banca Etica is a credit institute inspired to the teachings of the *Ethical Finance*.

Financial activity follows the founding principles expressed in the 5th article of the Articles of Association: transparency, participation, equity, efficiency, sobriety, attention to the non-economic consequences of economic actions and credit as a human right, which are those on which Ethical Finance is based. The Manifesto of Ethical Finance (1998), in fact, states that the ethically oriented finance is based on seven fundamental rules:

1. *Credit in all its forms, is a human right.*
   Beneficiaries of loans are not discriminated on the basis of gender, ethnicity or religion, and not even on the basis of the assets and properties. Consequently it considers credit to be a right also for poor and marginalized people. This is possible by considering not only the typical property guarantees, but also those forms of personal warranties from categories or communities that enable access to credit to the weaker sections of the population.
   Ethical finance is oriented toward the promotion of human, social and environmental activities, evaluating the projects considering both economic viability and social utility.

2. *Efficiency is a component of ethical responsibility.*
   Ethical finance is not charity but an economic activity that intends to be socially useful. The assumption of responsibility, related both to the availability of savings and to the use of them in a way that is able to preserve

their value, is the foundation of a partnership between individuals with equal dignity.

3. *The enrichment based on the only possession and exchange of money is not legitimate.*

   The interest rate, in this context, is a measure of efficiency in the use of savings, in order to safeguard the available resources to be used in vital projects. This is completely the opposite of the dominant logic according to which high interest rates allow banks to make money. Instead, ethical banks' interest rate is not zero is kept as low as possible, based on economic, social and ethical considerations.

4. *Transparency.*

   The ethical financial intermediary has a duty to treat information on savers with confidentiality. However, at the same time transparency also mean to make nominative savings in order to give customers very complete information. Depositors have the right to know the financial institution's operating processes and its use and investment decisions. Ethically oriented intermediaries are responsible in providing the appropriate information channels in order to guarantee transparency of their activities.

5. *Not only shareholders but also savers have to participate in important company's decisions.*

   The goal is to promote economic democracy. Different terms on inclusion can be used. For example: direct mechanisms of indication of preferences in the allocation of funds, or democratic mechanisms of participation in decisions.

6. *Social and environmental responsibility is a fundamental reference criterion for the decisions according to the employment of savings.*

   Ethical finance introduces benchmarks based on the promotion of human development and social and environmental responsibility allowing the selection of some preferential fields. Moreover economic activities that hinder human development and contribute to the violation of basic human rights - such as the production and trade of weapons, productions gravely injurious to health and the environment, activities that are based on exploitation of children or on the repression of civil liberties – are not even taken under consideration.

7. *Comprehensive and consistent adherence by the manager who directs the whole activity.*
   This means that in case of partial development of financially ethic activities, the bank have to explain in a transparent manner the reasons for the limitation adopted. Savers' guarantee institution also monitors a part from these mechanisms of self-control, the bank.

Considering principle n. 6, EBC finances organizations operating in four specific areas: social cooperation, international cooperation, culture and environmental protection. Moreover, Banca Etica is the only bank in Italy which shows on its website all loans disbursed (principle 4). In this way members and customers can check how their savings are used and can verify that they are supporting initiatives that are socially and environmentally responsible.

It can be useful for a better understanding of the topic to underline what differentiate traditional finance from the ethical one and consequently ordinary banks from ethical financial institutions. This is why I have interviewed Mr Riccardo Milano, university professor, author of several books on this topic, one of the founding member of BPE and responsible of cultural relation in Banca Etica.

Mr. Milano explained me that usually traditional finance does not intervene in social processes and is indifferent to the consequences on the environment, developing instead an economy only based on logics of free and absolute market. The main goal to pursue is to maximize individual profit, from which a strong concentration of wealth will derive. Moreover, it exalts an exasperated competition according to which it is necessary to win, it does not matter what are the means used to reach the objective.

The goal of ethical finance is instead the maximization of the common good and the distribution of wealth, also taking into great consideration the consequences that its activity has on the environment. It promotes collaboration and fair competition (Mr Milano remebers me that the word *competition* comes from the Latin *cum petere*: live together, relate together, run together), supportive markets as market can bring men closer, not dividing them. It put forward the commitment for the adoption of a development model that creates inclusion, by establishing business networks and alliances.

An ordinary bank, thus, aims to fund projects only in the light of the return on capital and without considering the social value of the investment and profit and securities of the investment are the only argument required, leading to the maximization of the income for shareholders (*shareholder value*). Consequently, they give credit only to those who have the appropriate warranties and money is considered to be an end, not only a mean. Profit is the solely goal pursued, and banks take into account the problems of human development only in case of strong objections and criticism. Social activities (e.g.: restoration of ancient artifacts, microcredit and microfinance, etc.) are financed mainly in case of large positive return for the image and/or in a compassionate perspective, being Corporate Social Responsibility rarely adopted and Social Report, if it exists, draft only for marketing reasons. The core business consists in directing lending towards the more productive activities even if detached from any social environmental and cultural utility, supporting for-profit and income-generating activities. The Mission does not mention the protection of vulnerable groups and social distribution of wealth, as it is delegate to welfare policies. Decisions are thus very centralized, without any involvement of stakeholders and social participation and the total transparency, apart from what is required by the regulations is regarded as pernicious and not strategic. The economic system is never denounced, even if unfair, as it is the main source of profit. Growth and greater quality of life are synonym of enrichment and sectors in trouble are financed only according to the results that can derive. Finally, ordinary banks are not engaged anymore, as it was in the past, in an educational action of the saver and the borrower, trying to focus almost exclusively on the monetary and productive benefit.

The Vision, Mission and activity ethical banks are exactly specular to those of ordinary banks. In fact, the former are sensitive to the non-economic consequences of economic actions and credit is seen as a human right. The profit gained from the possession and exchange of money must result from activities oriented to the common good and should be equally distributed among all those who contribute to its realization (*stakeholder value*). In fact, through the means of lending, they direct the collection to socio-economic activities aimed at the social, environmental and cultural profit, sustaining (in particular through no-profit organizations) activities of human, social and economic promotion among the most disadvantaged and areas. Savings are thus directed towards the realization of the common good of the community, for example by supporting initiatives of self-employment, entrepreneurship of women and young people, including *microcredit* and *microfinance* and by allocating profits to companies and individuals who take charge of ethical and socially relevant goals. Banks do not aims at the maximum distribution of dividends (shareholder value), but at the maximum distribution of social profit. Ethical investment and funding symbolize a denunciation of the current distortions of the economic system and propose, at the same time, a starting point for finding a new way to experience economic relations. Money is considered to be a mean not an end. This is why enrichment based solely on possession and exchange of money (*financialization of the economy*) is regarded as illegitimate. These banks adopt Corporate Social Responsibility's tools (*Social Report*, *Code of Ethics*, *SA 800*, etc.), and they engage in the education of investor and borrower. The former is informed about the destination and method of use of his money, the latter is counseled by the bank on how to better develop its economic autonomy, planning and entrepreneurship. Finally, being transparency of all operations a fundamental requirement of any financially ethical activity, both shareholders and savers must participate in the choices of the bank.

Values and principles of financial institutions determine what are the technical evaluations related to the credit activity.

Traditional banks, during their lending activity, only focus on the investigation of the borrower's creditworthiness and the verification of personal guarantees, while ethical banks also perform a socio-environmental investigation having the same dignity of the classical investigation of creditworthiness. Moreover ethical banks consider guarantees only as collateral to the project proposed for funding, and there is a great attention to social guarantees from territorial networks in which the financing is made.

They tend banks tend to equalize the rates on both sectors and territories because everyone, including the poorest, must have the same chance of growth and of creation of a social GDP, while the policy of lending rates of traditional financial institutions is unequal, tends to penalize the riskier sectors and territories, not considering the opportunities for growth chances and creation of a social GDP, and focus more on the amount of money deposited than on the quality of the depositor (apart from considering the legislation against money laundering). Depositors of ethical banks have the possibility to self-determinate the interest rate at downward, keeping as reference the national benchmark rate, a possibility unavailable in ordinary banks, thus allowing the promotion of loans at a lower rate. Moreover, they can also choose the sectors on which to deposit the savings (National cooperation, international cooperation, environment/energy, culture). Savings are, thus, managed in a transparent way: the investor knows about the operations and activities of the organization that handles his savings and the destination of each individual loan. In ethical banks we find a low ratio between the highest salary and the lowest within the company (below 10 points), while in traditional banks it is well above 10 points. The governance is shared with other social actors of the networks, not only among shareholders, and it not only focuses on profits and on the distribution of dividends.

Credit policy of Banca Popolare Etica

Credit merit is valued according both to economic elements (technical analysis) and non-economic elements (analysis of the social, environmental and ethical attitude). This credit policy, so different from the one of traditional banks, is a symbol of a professionalism that resides in the ability to listen and to give effective banking answers that are also at the same time socially, environmentally and economically sustainable. This approach enable Banca Etica to be an ethically oriented financial intermediary. Banca Etica, thus, privileges as borrowers those that direct their activities in the direction of sustainable human, social, environmental and economic development, consistent with the mission of Banca Etica itself.

The areas of privileged application and intervention are the following:

- Welfare system: social services, social housing, welfare microcredit, etc.;

- Energy Efficiency and Renewable Energy: insulation properties, cogeneration, solar thermal, solar photovoltaic, wind, hydroelectric, etc.;
- Environment: waste management, recycling of raw materials, eco-friendly products, etc.;
- Organic: production and marketing of biological products;
- International cooperation: development cooperation recognized by the Ministry of Foreign Affairs and/or supranational institutions, microfinance, ethical finance and solidarity;
- Socio-cultural activities: education, culture, sport for all, youth centers, etc.;
- Fair trade and economic realities with strong social connotations: fair trade shops, organizations managing properties confiscated from the mafia, etc.;
- Social and responsible enterprises: entrepreneurial activities that also contemplate the inclusion of social, solidarity and environmental criteria (Corporate Social Responsibility), bypassing the dichotomy “profit/no-profit” and favoring instead the concept of social benefits creation for the entire community;
- Credit to the person: primary financial requirements (first house, transportation, etc.).

Moreover, Banca Etica excludes the possibility of financially supporting all those economic activities that, even indirectly, hinder human development and contribute to the violation of fundamental human rights. A necessary condition to apply for a loan is therefore not to be engaged in activities that include:

- Production and marketing of weapons;
- Obvious negative environmental impact;
- Use and development of risky energy sources and technologies for man and the environment;
- Exploitation of child labor, violation of human rights, non-compliance with guarantees of the contract;
- Research activities that lead to experiments on weak subjects or not protected or animals;

- Intensive animal factory farms that do not meet the criteria laid down by the standards of organic farming certification;
- Exclusion/marginalization of minorities or of entire categories of the population;
- Direct relationship with regimes which typically do not respect human rights and/or who are severely responsible for the destruction of the environment;
- Commercialization of sex;
- Gambling.

Before accomodating the loan, BPE neesd to acquire information about the borrower, his projects, including an analysis of its socio-environmental impact, his specific requests, and a complete documentation which shows the ability to repay the loan (that is the economical and financial capacity of the applicant to use the financing in an effective way and to guarantee the repayment).

The economic and financial evaluation is carried out by the operational structure of the bank, while the social and environmental one is carried out by the Social Assessors, that are volunteers among shareholders. Finally, in case of necessities, the evaluation of the credit and social merit must be supplemented and strengthened by an adequate warranty provision, but, even in this case, the policy implemented is different from the one of any other bank. In fact, the principle according to which "credit is a human right" requires the promotion of operational approaches to encourage the creation of collective guarantees and network. Banca Etica then establishes relations and systemic cooperation with guarantee consortiums and credit limits with all those public and private organizations that promote collective guarantees in favor of entities, both individuals and organizations, that are potentially fundable. The goal is to favor a warranty policy which is consistent with the Mission of BPE, thus considering the issues of vulnerable people and trying to facilitate their banking inclusion.

Finally, Banca Etica strongly focuses its activity toward the financing of innovative startups that operate in the social, educational, health and environmental spheres. This support is based on a careful assessment of technical and entrepreneurial skills of promoters and on the sustainability of any technological risks; on the presence of an effective social and environmental network of reference; on a capital structure in line with risk profile of each individual activity; on the assessment of relational and network's warranties and on any collective warranties.

Business model and main activities

Corporate Social Responsibility is developed throughout a global process of sustainable development that permeates every aspects of the enterprise, from the core business to the stakeholders' involvement. Accordingly, Banca Etica has been able to realize an innovative business model which adopts ethical criteria in the financial activity, develops a system of multistakeholder governance characterized by participatory mechanisms and by an established dialogue with every category of stakeholder, extends its responsibility also to the consequences of its actions (also including the supply chain), actively participates to the campaigns promoted by the civil society and collaborates to initiatives which aim to the protection of human rights and the promotion of the CSR culture.

The business model is characterized by a Management System of CSR, consisting in policies, regulations, tools and well-defined responsibilities, aimed at monitoring and promoting ethics and transparency of the processes inside and the outside the bank. The tools through which it operates are: Ethic Code, Social Report, Social Value (a standard that provides, unlike other instruments, the risk's monitoring throughout the supply chain together with the use of instruments to prevent the negative impact of production activities on human rights and social and environmental aspects), Social and Environmental Evaluation of funding to legal entities (Banca Etica is the first Italian bank that has set up a social and environmental investigation for the assessment of creditworthiness), Model of organization and management. Moreover, there is a "personal part", which is the knowledge, expertise and sensitivity that each bank's employee must have in order to be able to operate in a way that is consistent with the Mission. It is a level of personal culture that is not imposed, but stimulated and fed through training and communication programs.

According to Mr. Milano, Banca Etica's business model can certainly be defined as inclusive. Banca Etica for example, is the only bank in Italy that grant credits to the Third sector or to non-bankable people, that is, those who are considered unsuitable for using services and/or financial products of the traditional financial sector. The traditional financial sector consists of banks and other regulated financial institutions whose services are intended for a particular type of customers considered "bankable", based on several factors such as the income received, the contractual situation and, above all, in the case of applying for a loan, the possibility of granting formal warranties. In particular the difficulty of overcoming the informational asymmetries contributes to increasing the transaction costs, making it too costly and not cost-effective the supply of financial services to non-bankable individuals. In developing countries financial exclusion applies to the majority of the population, especially in rural and peripheral urban areas. In Italy and in other advanced economies, the excluded are generally temporary workers, the unemployed and immigrants.

Those excluded from the traditional financial system, both in advanced economies and in the developing countries, because of the non-availability of collateral, high examination costs of the cases, the lack of information about their credit history etc., often turn to informal finance where the operations are not registered, regulated or taxed and, at worst, end up falling into the lap of wear.
This is why Banca Etica intervenes through the tool of the microfinance, trying to create tailor-made products, using a mix of techniques and tools taken from the formal sector and the informal sector in order to broaden the financial offer also for those who remain excluded. Moreover microfinance escapes the subsidy mentality and sees in poor people a strong potential for economic and social development for the communities to which they belong.

Mr. Milano explained me that microfinance is the use of the management of many financial activities (microcredit, microsaving, microinsurance, research and giving of guarantees, social equity, training and consultancy) in favor of people with low socio-economic profile, and normally excluded for various reasons from financial institutions, for the creation or development of production and business activities. Microcredit is part of microfinance, consisting in loans of a small amount of money granted by banks, financial cooperatives or consortium, in favor of individuals or organized in groups (where the joint responsibility of a group of people to loan repayments can operate as a substitute for formal guarantees) to develop a viable economy and who have not normal requisite to access traditional lines of credit concessions. These are financial services for poor and very poor, very often women, with no guarantees or job prospective, that can enable them to get out of the misery and poverty.

Microcredit, thus, tends to give to these people a quick and effective response to the daily life, allowing to start work activities, with small amounts, aiming to change for the better the reality of family and social groups. Its goals are:

- To finance non-bankable people in order to make them bankable, according to the principle that it is important to consider to each person his dignity and its right to build his future;
- Using the various forms of financial services such as tools for growth and development of the territory in a socially relevant way;
- Letting millions of people to participate in the construction of a fairer world.

Microcredit has been invented by the Nobel Peace Prize Muhammad Yunus and first developed in developing countries but today it has spread also in Western nations, where it is becoming a welfare tool able to ensure social inclusion (for example, by giving a microloan that allows the purchase of consume goods), still keeping of course the entrepreneurial objective (the development of a business activity). Even in developed countries in fact, many people fail to cope with difficult situations, for their very low incomes, and they are in absolute distress.

The Western microcredit conditions are different from the classical one both for the amounts granted, and for being almost exclusively personal and not given to groups; but the goal is the same: try to answer in a positive way to the general feelings of malaise in which the entire world population is, offering alternatives. Microcredit is, then, effective in extreme poverty contexts, but can also be very useful in developed countries because it is inspired by a way of doing business that focuses on social and human relations and thus builds relationships of trust. A first difference between the microcredit in Italy and the one developed in the South of the world, is (Milano, 2016) the amount of the credit and the interest rates, because of the different cost of life and the socio-economic context of countries. In Europe with only 50 or 100 euros it is not possible to start a business, and the maximum amount for a microcredit is €25.000, but usually the loans are between €1.000 and €10.000, to be reimbursed in a period going from 1 to 5 years and with an annual interest rate between 3% and 8%; Second, the cost of labor, so that a single bank cannot grant microcredit to disadvantaged people. In fact, a bank should devote to a €1.000 loan up to 45 minutes from the beginning to the end of the credit processing time. It is rather obvious that the more you are in trouble, for small amounts, the more there is the need to talk, understand and offer not only economic support. It becomes, so, valuable the network of human and social relationships that are the key microcredit. This is why Banca Etica develops its microcredit activity by collaborating with professional partners that share the same ethical values, such as public administrations and Third sector's associations.

In Banca Etica, microfinance focuses on two lines of action:

- Social welfare, to people who are in difficult conditions;
- Micro-enterprise, for the creation or consolidation of social enterprises with no more than 10 employees, for self-employment or the development of local economic activities.

In 2015 the bank provided 298 micro-loans for a total amount of € 3.897.781, allocated between the two lines of action in the following way (Annual Report, 2015):

- Social assistance: 122 loans (€ 1.107.133)
- Entrepreneurial: 176 loans (€ 2.790.648).

In total, since 2001, Banca Etica disbursed 3.199 micro-loans for a total amount of € 20.626.871 (social welfare: 1,258 loans for € 7.048.728; entrepreneurial: 1.941 loans for € 13.578.143).

A part from microfinance, social cooperation and fair economy are two of the most important activities promoted by Banca Etica. One third of the funding is given to cooperatives, thus becoming partner of those companies that believe in the responsible use of money and in the development of mutual solidarity and models. Specifically BPE offer support for ordinary operations or liquidity needs and for co-design activities and partnerships in order to realize projects aimed at the creation of innovative services to the territory. Some services are: current accounts, cash management, POS service, ethical investment funds, preferential terms on loans to members, proposals for the cooperatives' employees and associates (e.g.: dedicated current accounts with favorable conditions and benefits on the first home mortgage, personal loan and capitalization microcredit loan, which is a product designed to support and strengthen cooperatives wishing to set up capitalization processes with the involvement of members). Moreover, Banca Etica is part of the GAS (Gruppi di Acquisto Solidale) movement. The fair trade groups are spontaneous groups or associations of families and citizens who come together with the goal of creating a fair and sustainable purchasing network in their territory. BPE has also created a specific bank account thought for the GAS, with favorable conditions.

Then, Energy projects are developed in partnership with experts, with the goal of financing specific products that sustain the use of renewable resources and energy saving. These "financial energetic products" can be given to privates and families (under the form of mortgages and loans, on favorable conditions, for the purchase and/or renovation of a building with energy efficiency criteria; "Micro Energy Motgages" for photovoltaic systems with a capacity of less than 20 kWp, small plants using other renewable energy sources, small measures of energy efficiency at household/family level), or to organizations and enterprises (loans given for interventions on plants or properties in order to increase energy efficiency; loans for the installation of photovoltaic systems or systems that use other renewable sources).

The bank also collaborates with local authorities with the objective to participate in initiatives for the common good, such as microcredit, asset building towards low-income citizens, social economy, environment, co-design, right to housing and social housing. Today 7 regions, 38 provinces and 267 municipalities are members of Banca Etica.

Always with the objective of create positive collaborations with different actors of the community, BPE started in January 2012 the New Economy Workshop, an initiative started taught to meet companies, universities, Third sector organizations, in order to draw with them a red thread between all those experiences that are raising a *new economy* in Italy. *New economy* are all those experiences that try to combine the economy, finance and business with the social dimension overcoming the dichotomy between the profit and a no-profit approaches. This year, in 5 stages, BPE met around fifty companies and no-profit organizations that are engaging in project of *new economy*.

Finally, BPE sustains crowdfunding mechanisms through which people, enterprises and organizations send their application to the bank, which is in charge of selecting among their projects in order to decide which ones will be financed through the crowdfunding method. Moreover, those projects that will reach the 75% of the budget through funding from the bottom will benefit from a donation of the remaining 25%.

We have just demonstrated how BPE is able to reconcile the fact of being a bank and, at the same time, to have an approach that is not the maximization of profit. I asked Mr. Milano if there exists in Italy or in Europe similar virtuous models. He told me that Banca Etica unfortunately is a unique case in Italy (there is also Banca Prossima – controlled by Intesa Sanpaolo Group – but it focuses on less initiatives), while in Europe and abroad there are other institutions with whom BPE also collaborates. They are:

- FIARE, a project promoted from Banca Etica, the networks of the social economy and the international Spanish cooperation, in order to build from the bottom a Spanish ethical bank; Fiare Banca Etica is the first branch that BPE opens outside of Italy;
- Global Alliance for Banking on Values (GABV), an independent network made up from banks from all over the world that operate according to the principles of ethical finance. It counts 19 banks from 24 countries;
- European Federation of Ethical and Alternative Banks (FEBEA), a no-profit organization created by Banca Etica, Crédit Coopératif et Caisse

Solidaire du Nord Pas-de-Calais (France), Crédal and Hefboom (Belgium) and TISE (Poland), in order to promote the fair and ethical finance in Europe;

- Europe Society of Ethical and Alternative Finance (SEFEA), founded from the participants of FEBEA as operative instrument able to sustain (financially and not) its members by creating synergies through the establishment of a European network.

BPE in the next future wants to focus on technology, seen as a fundamental tool able to conjugate ethic and efficiency. The goal is to overcome the old banks' model. An example of this effort is the establishment of a new system of mobile payment for clients and members: Satispay, an app created by an Italian start-up that can contribute to create a monetary circuit of fair economy. Satispay is a secure, transparent and very convenient payment system. It allows you to send money to contacts from your phone book, to return or lend money to friends, to pay in shops, both physical and online, and it is particularly attentive to the no-profit world thanks to its a special program to enable the easily collection of online micro donations without costs.

Conclusion

The three cases presented above helped me to highlight what are the common practices and activities that need to be developed for the building of an inclusive business model, independently from the size, the industry and the geography in which the organization develop its activity.

First, a market analysis for the identification of needs that must be satisfied is necessary. In fact, they we have seen how needs differ a lot depending on multiple factors (location, economic and social conditions of the targeted population, availability of basic services, etc.). Because the goal is to meet an unsatisfied need with a product or service specifically taught to a particular group of people, it could be useful to include them in the process of product development instead of creating a standardized product to be offered indiscriminately to consumers all over the world. Moreover, having personnel with cross-cultural management's skills within the company could be helpful, as the objective is to understand and analyse the needs of people with different culture, language, background, lifestyle, etc.

An inclusive business must be able to promote a social innovation and development that are consistent with its business, and in doing so it has to develop deep listening capabilities. The CSR approach, viewed as "a way to give back to communities that a business operates in" (Fabricant, 2015), is thus reversed.

Second, the inclusive company has to make available an offer that effectively satisfy an unmet need by selling it at low prices, otherwise disadvantaged people will not be able to buy it. Innovation can be the solution allowing the business to reduce its marginal costs of production, developing efficient processes and value chains. Innovation means a greater disbursement of investments before, in order to beneficiate from it in a second time, thus presupposing the adoption of a long-term view. The objective should be then to boost the long-term competitive position rather than the company's short-term profits. Sustainable development and social inclusion have innovation as fundamental assumption and this is why in Enel SpA the functions Innovation and Sustainability are grouped under the same department: *Innovability*.

Third, inclusion means to develop a reticulate and multi-directional approach in order to build a collective intelligence and collaborative economies. Partnerships are thus at the base of this approach, and involve all the actors of the surrounding environment, thus facilitating a company's global expansion especially when local knowledge is valued as an important asset. Networks and collaborative efforts among different actors (such as companies, suppliers, distributors, NGOs, governments, civil societies, etc.) are taught in a sharing perspective where each of them makes available its value assets, like know-how, infrastructure, distribution or management systems, to other partners, bypassing in this way the bi-directional logic (enterprise vs. stakeholders) on which CSR is based. Only in this way it is possible to get out from a logic based on assets' protection and create a new model of creation of shared value. Community building should be considered, then, a fundamental asset of future corporations. Also Mrs Dal Negro focuses on the importance of partnerships as vehicle of communication and exchange of information. The contribution of no-profit entities, from NGOs to local authorities, is definitely necessary when companies that engage in inclusive business models are be tied up by a cultural and social point of view with those realities in the shade such as hidden and black markets.

Another characteristic of progressive and sustainable companies is that they are perfectly aware of the relationship between growth, business activity and loss of natural capital. Being they aware of their responsibilities towards the environment and local communities and of the externalities deriving from their business activity, companies are more and more asked to develop a systemic thinking and integrated solutions to guide their decision-making process. This nexus approach is based on considerations about resource use and development, sustainability over time and externalities generated.

This can be an effective receipt in order to promote an inclusive capitalism able to transform the poorest areas of the world into dynamic, opportunity-rich communities. Accordingly, the corporate sector can become the driver and catalyst for global development having a crucial role in solving problems such as poverty first of all by tapping informal economy and creating wealth for all the stakeholders, thus increasing the total value generated. In these sense, sustainable enterprises are able to create a profitable business while simultaneously raise the quality of life, build communities respecting cultural diversity, take charge of the environmental impact of the human activity keeping the ecological integrity for future generations.

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   To recognize the poor as effective consumers, restoring their dignity

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Introduction

The thesis aims to discover what characteristics an organization must have and what practices and actions it has to implement in order to build an inclusive business model, regardless of its size, industry and location. Inclusive business models are adopted by those organizations that aim to include the poorest bracket of the population in their value chain as producers, suppliers, workers/employees, distributors or consumers. The objective is “to contribute to poverty alleviation by including lower-income communities within its value chain while not losing sight of the ultimate goal of business, which is to generate profits” (WBCSD and SNV, 2006: 2). The importance of this model derives from the possibility of creating shared value through an entrepreneurial activity that is at the same time economically profitable and environmentally and socially responsible.

The necessity of developing a sustainable economy is becoming an opinion increasingly shared worldwide. Companies are beginning to recognize their role in the challenge of the fight to poverty and social exclusion. It is progressively framing the model of business organizations that, apart from aspiring to the attainment of a legitimate profit, they also aim to maximize the positive effects of their activities in social and environmental terms. Business and social spheres are merging and integrating, becoming thus interdependent to each other. The vision of Corporate Social Responsibility as a reputational means for improving the enterprise’s image, promoting it as a strategy of marketing and communication, is outdated. This is demonstrated by the fact that several for-profit companies around the world are tailoring the structure of their business model taking into consideration ethical implications, and long-term visions of sustainability are substituting short-term logics of profitability. Sustainability within an enterprise involves a reconfiguration of the economic activity, meaning to evaluate new products, processes or technologies to achieve a sustainable business model.

The work is divided in three chapters. The first explains what have been the main consequences of a global capitalist economy. Then, the second chapter shows the most important theories and business models that aim to promote a fairer and sustainable economy. With the third chapters I am going to present three cases of virtuous organizations that have decided to structure their business model following an inclusive approach.

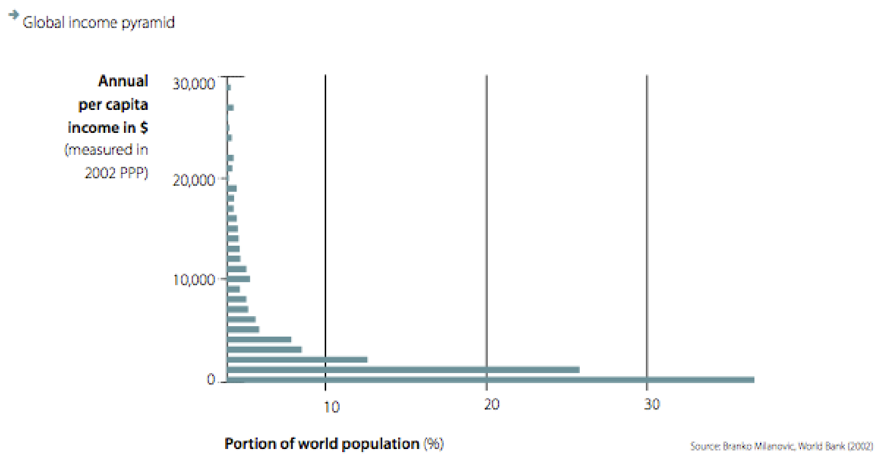
Main sources of information and data have been the most important papers produced by the literature about the theme of sustainable development, especially “The Fortune at the Bottom of the Pyramid” (first and second edition) by the economist C. K. Prahalad, papers from Porter and Kramer, “Creating a World Without Poverty” ad “Building Social Business”, both by Muhammad Yunus; and reports from several international organizations, such as the United Nations, International Financial Corporation, Organization for the Economic Co-operation and Development, Oxfam and European Commission. Data and information about the companies analyzed have been sourced mainly from their Annual and Sustainability Reports. In order to have a deeper insight on the topic of inclusive business I have interviewed Lucia Dal Negro, founder of De-Lab, a laboratory that develops consultancy for companies about inclusive business and social innovation. To get more information about the companies studied I have interviewed Cristina Hanabergh, Sustainable Development manager of Birra Peroni, and Riccardo Milano, one of the founder of Banca Popolare Etica.

The information gathered allowed me to identify a prototype of a business at the same type ethic and profitable, thus funding the most important characteristics and activities that a company must have and adopt in order to implement a virtuous model of business able to produce value to the company, the environment and the society, mainly focusing in developing contexts. I have found that first an inclusive business has to conduct a market analysis in order to identify the unmet needs that have to be satisfied through the business activity and according to which the entire business model has to be built on. Then, it has to find the most efficient process and value chain that enable the company to sell a product or service with high quality and low cost. Innovation is the key factor for the achievement of this objective. Third, the bi-directional logic of CSR must be overcome by a multi-directional approach where partnerships and networks create a new model of collaborative economies among different actors. Finally the inclusive firm has to replace the view of short-term returns with the one of long-term thinking and value creation, allowing the company to remain competitive and sustainable over the long-term.

1. Criticism of capitalism and new perspectives

Today almost 5 billion people living with less than $2 per day. They are called Bottom of the Pyramid (BoP), in contrast to those living at the top. During the last fifty years, it had developed an economy where ethics succumbs to the logic of profit "at any cost", based on excessive financialization and exploitation of natural resources, on the lack of concern of the physical environment, on the indifference to the financial health of key suppliers and on the discomfort of host communities.

Figure 1 *Global Income Pyramid*



Source: Branko Milanovic, World Bank's research department (2002)

The Indian economist C. K. Prahalad, considered to be one of the world's ten most influential management gurus, is convinced that economic recovery and the fight against poverty must start from the bottom, involving those people that have always been excluded from economics dynamics restoring their dignity as human beings. Until now, according to a top-down thinking, governments and NGOs have considered the poor as victims needing an help, not as people that can be part of the solution. Prahalad sustains that if we start to overcome our intellectual barriers, to see the opportunities that are at the basis of this huge market (globally valued $13 trillion a year) and to think that even poor people can be successful entrepreneurs and value-conscious consumers, then the eradication of poverty becomes possible.

The worldwide attention on these topics is increasing: the World Business Council for Sustainable Development (WBCSD) in 2010 launched a new agenda for businesses, governments and civil society describing a path and highlighting the changes and actions that need put in place in order to realize a sustainable future. The goal to reach is to ensure that "the global population – 9 billion people – will live well and within the limits of the planet" (WBCSD, 2010). "Living well" means that everyone has the right to afford the basics of water, food, energy, education, healthcare, mobility and consumer goods. "Living within the limits of the planet" can be translated with the necessity that these standards of life have to cope with the available natural resources. This last one concept is closed to the one of sustainable development defined by the World Commission on Environment and Development as "development, which meets the needs of current generations without compromising the ability of future generations to meet their own needs," (Brundtland Commission, 1987). This definition puts great emphasis on the ethical principle of the responsibility of present generations towards future generations, so touching two aspects of eco-sustainability, namely the maintenance of natural resources and the environmental balance of our planet. In order to increase the general commitment toward the achievement of *Vision 2050,* WBSCD launched in 2013 a stepping stone initiative, *Action 2020,* identifying what targets have to be met by the end of this decade. Moreover, since the beginning of 2016, 150 global leaders subscribed the adoption of the new UN 2030 Agenda, which sets 17 objectives of sustainable development and 169 targets thought to address the major obstacles that plague our society, calling for a general commitment from different actors all around the world (governments, local authorities, NGOs, academia, business, financial institutions, civil society). These 17 Sustainable Development Goals (SDGs), to be reached by 2030, a part from social and economic development, also integrates the environmental sustainability and they are going to substitute the 8 Millennium Development Goals (MDGs) that in 2015, the expiration date, have not been completely reached yet. However, important improvements have been made since their institution in 2000. SDGs hark back to the MDGs but, setting more challenging and numerous objectives, they can be divided in the three macro areas of end of extreme poverty, fight of inequalities and injustice and combatting climate change.

2. Ethical theories of business development

Since the Seventies, new thesis emerged in opposition to the neo-classical theory of Milton Friedman that sees the company as a profit-oriented "black box" and an unnecessary cost everything that could jeopardize its efficiency. In 1971 the Committee for Economic Development (CED) for the first time talked about the "three concentric circles" approach, according to which the firm can and should overcome its traditional economic function (the inner circle), giving importance to social values and priorities (intermediate circle) until to consider its active and voluntary involvement in activities that are outside of its core business, aiming to improve the society as well as its performance and development (extreme circle). In this regard, the Stakeholder Management theory of Robert E. Freeman (1984) is based on the idea that enterprises not only have a financial obligation toward owners and investors (shareholder theory), but also they should create value for the entire set of people involved, directly or indirectly, in the operations of the firm. According to Freeman, stakeholders in its broader sense are "any group or individual who can affect or is affected by the achievement of the organization's objectives" (1984:46), and that consequently has a legitimate interest in the company.

Corporation's activities to take responsibility for its effects and impacts on social and environmental wellbeing are usually referred as Corporate Social Responsibility. The European Commission defined CSR as "a concept whereby companies decide voluntarily to contribute to a better society and a cleaner environment" (2001: 5) and as "a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis” (2001: 8). The WBCSD explained the notion as “the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large” (1988: 3). Some critics have been advanced as CSR activities usually deviate too much from the company core business. As a consequence, the primary goal of the firm still remains profit and CSR turns to be more a tactic of defense and an instrumental marketing tool able to improve the reputation of the firm, than an opportunity for transformation. This is the ethical paradox that we can find at the basis of CSR initiatives: instead of solving the problem of opportunism, ethics will create new opportunities for a disguised opportunism.

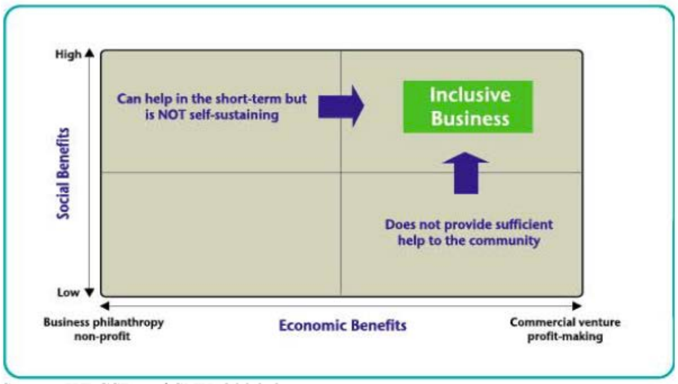
In order to overcome the structural failures of CSR, Porter and Kramer (2011) sustained the necessity of integrating CSR with a business strategy aimed at the Creation of Shared Value, as the only possible solution for “reinventing capitalism”. Through the CSV model, companies elevate sustainable goals to a strategic level, actively contributing to the resolution of social problems through their business activities. Firms should deal with these kind of problems also for the benefit of their own interest, as the deterioration of physical and/or social environment out of the company, makes it less able to create value and compete; on the contrary, to achieve the goals of the enterprise in line with the outside, ensures better and more sustainable results. The competitiveness of a company and the welfare of the surrounding community are therefore closely interlinked (Porter, Kramer, 2011). According to this win-win strategy, companies become the institutions able to create wealth, prosperity and societal value.

Collective or social needs can be better satisfied needs through the generation of more efficient products, services or business models, through the establishments of new relationships and competencies, and favoring a better use of structures and available resources. These new solutions are the foundations for building Social Innovation (SI), an innovative business process able to bring effective and measurable improvements for the society and constituted from six main phases (TEPSIE, 2010): Prompt (identification of the social need); proposals (elaboration of solutions and proposals); prototyping (realization of the prototype and experimentation); sustaining (implementation in a new product/service/operation); scaling (diffusion of the new product/service/operation); systemic change (modification of the whole socio-economic system involved and system's change). Moreover, SI "does not necessarily involve a commercial interest, though it does not preclude such interest" (Westley, 2010: 3). If instead the entrepreneur by innovating tries to redefine "organizations, markets, or industries in order to create or sustain competitive superiority" (Covin, Miles, 1999), we are talking about Corporate Entrepreneurship.

Corporate entrepreneurship, when combined with Social entrepreneurship, creates the so-called Corporate Social Entrepreneurship (CSE), which aims at creating economic, social and environmental value, according to a triple bottom line perspective, embedding this approach in the company's strategy (differently from CSR) by focusing on innovative activities able to make an entrepreneurial redesign in this direction. The ideal models that meet the criteria of CSE are the Social Business and the Inclusive Business.

Social business, whose inventor is considered to be the Nobel Peace Prize Muhammad Yunus with the creation of Grameen Bank, is an evolution of the philanthropic approach as it gives priority to the social objective. Owners can recoup the money invested but they cannot receive any other dividends, so the business' goal is to deliver social value while remaining self-sufficient. Inclusive business, instead, is an evolution of traditional businesses as it allows the sharing of revenues among shareholders, but putting social benefits on the same footing as economic ones (Michelini, Fiorentino; 2011). It is, then, an entrepreneurial activity at the same time economically profitable and environmentally and socially responsible.

Figure 2 *Economic and Social benefits of Inclusive Business*



Source: WBCSD and SNV, 2006: 2

The word *inclusive* refers to the main characteristic of this model of business: the build of bridges between the firm and the poor for the benefit of both. Inclusive companies enter into an underdeveloped or developing country, circumventing the existing market or public authorities' inefficiencies and integrate disadvantaged people on the demand side as clients or on the supply side as distributors, suppliers of services and/or raw materials, or employees (Prahalad, 2007). They seeks "to contribute to poverty alleviation by including lower-income communities within its value chain while not losing sight of the ultimate goal of business, which is to generate profits" (WBCSD and SNV, 2006: 2). In this way, businesses can provide or expand access to goods, services, and livelihood opportunities for those at the base of the pyramid in commercially viable, scalable ways. By adapting products and processes with regards to BoP societies, inclusive business helps low-income people to overcome poverty by turning underserved populations into dynamic consumer markets. The "Three As" model of the global business thinker and theorist of the inclusive business model C. K. Prahalad describes a winning strategy able to create the capacity to consume in BoP markets, making the offer *affordable* without compromising quality, *accessible* thus considering the local area and work habits in the definition of the distribution pattern, and *available*. By considering poor as effective consumers with defined preferences and desires, and not as victims in search of help, companies also restore their dignity and recognize their identity as for the first time their name and personal details become important for the private sector. This fact is of extremely importance because without identity people cannot access to some basic services, such as credit, and the status of "nonperson" in legal terms may confine people to a cycle of poverty. To satisfy the specific needs of the poor, MNCs must approach BoP markets by developing new products/services and country models that differ from those adopted in Western countries. Innovation, as Prahalad explains, helps to: make price-performance improvements, create hybrids, make commercially scalable operations, elaborate sustainable and eco-friendly solutions, deskill the work, improve marketing and communication campaigns for educating people about the use and functionalities of products/services and building brand identity, design products and services suited to the hostile infrastructures of these markets and with an easy-to-understand interface, create innovative processes and functional distribution channels.

Inclusive models suggest that reconfiguring the firm's value chain in order to integrate the poor in the global value chain as small producers, suppliers, workers/employees, distributors and/or consumers, large companies can access to BoP markets, where the demand for goods and services continues to increase. This strategy can lead to increase the profitability of a company that only focuses its activity in developed markets that are more and more saturated, and, at the same time, it can contribute to poverty alleviation, thus combining business motive with the corporate social responsibility's one. Surely, the profitability is not usually immediate, but companies can beneficiate from this form of entrepreneurial initiative by capturing market shares not only in a growing economy, allowing to increase brand recognition and loyalty with a growing customer base, but also in developed markets where products, services and business models that result from the implementation of an inclusive business can be successfully transferred, attracting new consumers there (UNDP, 2008: 17-18).

In 2010 the UNDP carried out a research, the Growing Inclusive Markets (GIM) Initiative, seeking to understand and enable the development of inclusive business models all over the world. The results show that the most common form of inclusive business organization is MSME (Micro, Small and Medium Enterprises), followed by large domestic companies and MNCs. The majority of them are located in Sub Saharan Africa, Latin America and Eastern Europe, mainly covering the following sectors of business: agriculture, ICT, food and beverage, artisanal goods, health care, consumer products, energy, bio-fuels, housing and construction, microcredit. However, the redefinition and restructure of the company's value chain and business model according to an inclusive approach is not yet a common practice among for-profit organizations.

3. Case studies

In the last part of my work I have decided to analyze three cases of virtuous companies able to successfully align the economic and social perspective for the definition of an inclusive strategy. The first, SABMiller plc, is a multinational brewing and beverage company, considered to be a pioneer in the field of sustainability. Through its program named *Prosper*, SABMiller structured a global sustainable approach setting five shared imperatives with specific targets to be reached by 2020, leaving each company of the Group free to decide independently how to implement each imperative according to the specificities of the local context. The imperatives – a Thriving world, a Sociable world, a Resilient world, a Clean world, a Productive world – contribute to the achievement of the UN SDGs. This mechanism allows every company to focus on the specific features of their country enjoying of great flexibility at the local level, still remaining under a general cap on critical issues for the Group. Each theme is then operated differently from country to country as each division works more on the imperative that has a greater impact on its business context, by investing more on it. I have chosen to compare the strategy implemented in Italy by Birra Peroni with the one adopted in South America. Specifically, Birra Peroni declined the five imperatives into four phases: with suppliers by supporting farmers with training programs aimed to develop their entrepreneurial capabilities, in a global, comprehensive approach, from the management of the territory to the understanding of the accountability and the relationships with banks; in relation to the environment, thus including plants and specific targets on the reduction of emissions, water savings and recycling during the whole production cycle; with distributors through training programs taught to help the sales force to increase their revenues and at the same time avoiding that the point of sale may contribute to the growing of alcohol abuse; with consumers in order to sensitize people to a moderate and aware consumption of alcohol. In Latin America, instead the two top *Prosper* priorities, differently from developed countries, are water security and the acceleration of the value chain’s growth and social development. In order to preserve scarce resources and enabling at the same time economic and social development, SABMiller has created a nexus within the flows water-food-energy integrating it into its corporate strategy. This is why for example the Group established a partnership with the charitable environmental organization The Nature Conservancy (TNC) in three Latin American countries, in order to build AquaFunds, a model that aims to ensure clean and safe drinking water for lower level downstream water users. In turn major water users save money by pre-empting the need for more expensive water treatment in the future. Because this model turned to produce very positive results, it has been exported also in Africa, a continent where water scarcity is typically a difficult challenge. Moreover, through its program *Farming Better Futures*, the Group seeks to impact the three areas of inclusive growth, health and water in a comprehensive approach centered on locally sourcing the agricultural raw materials from smallholder and commercial farmers. The program contributes to developing countries' inclusive growth by creating and boosting the incomes of smallholder farmers and farm workers, by helping them in building their capabilities and by replicating a virtuous and commercially viable smallholder farmer business model across different territories and geographies in order to create impacts at scale.

The second case study analyzed is Enel Green Power, an Italian multinational born in 2008 as a spinoff of Enel Group and one of the most important operators in the renewable energy sector at international level. EGP promotes a business model that focuses on the creation of shared value based on community involvement and on the rational use of resources. The most important initiatives are the training of local technical personnel that can be able to work along the value chain, the use of renewable technologies and eco-sustainable solutions to minimize the impact on the environment during the power stations' construction phase, the installation of off-grid systems for those isolated communities that are not connected to the electrical network or the protection of biodiversity since the first phases of projects' evaluation. The commitment is to contribute to the socio-economic development through activities that are modeled on the needs and potentials of the territory and at the same time to identify synergies with the company's core business. This is why, in 2013, EGP created the *Creating Shared Value* model, spread throughout the value chain, involving the three phases of Business Development, Engineering & Construction, and Operation & Maintenance, and built on the following three pillars: technological innovation, community integration and constant improvements of the process. The four most important objectives, also considering the SDGs, that are taken into consideration when developing sustainable projects are: promoting access to energy, increasing operational efficiency through sustainability, contributing to the socio-economic growth of local communities, supporting the community. With this regard, EGP is developing the *Enabling Electricity* program which aims to provide clean energy to people twenty-four hours a day combining renewable energy, innovative network technologies and advanced storage solutions. One of the most virtuous Enabling Electricity project has been developed through the partnership with the Indian Barefoot College, the largest university of the world to train rural population. Where, in six months of training, women from all over the world they can study electronics in order to learn how to install, repair and maintain solar photovoltaic (PV) panels, thus becoming "solar engineers". With this project, transition out of underdevelopment becomes possible. By sticking a community-based model and mobilizing people at the bottom of the pyramid the effects on climate can be huge, as we are talking about more than 40% of the population in the earth. Since 2012, 39 solar engineers from 39 different communities (Brazil, Colombia, Chile, Guatemala, Ecuador, El Salvador, Mexico, Panama, Peru) have been trained, bringing light to 2,460 families. This initiative is particularly important in a world where the *energy divide* now sees 1.4 billion people still lacking access to electricity.

Finally, Banca Popolare Etica (BPE) is the first and most important Italian financial institute that engages in socio-economic initiatives inspired by the values of a sustainable social and human development. The bank invests savings in initiatives that follow both social and economic objectives, in full respect of human dignity and the environment and according to the principles of the ethical finance. This is why, for example, credit policy in BPE differs from the one of traditional banks, as credit merit is valued not only according to economic elements but also through an analysis of the social, environmental and ethical attitude of the borrower and/or the project to be financed. As a consequence Banca Etica is the only bank in Italy that grant credits to the Third sector or to non-bankable people, that is, those who are considered unsuitable for using services and/or financial products of the traditional financial sector. These people, both in advanced economies and in the developing countries, because of the non-availability of collateral, high examination costs of the cases, the lack of information about their credit history etc., often turn to informal finance where the operations are not registered, regulated or taxed and, at worst, end up falling into the lap of wear. BPE then intervenes, for example through the microfinance tool, in order to solve this problem and letting people to escape misery.

Conclusion

These three cases have been a starting point that enabled me to understand what are the common practices and activities that need to be established and developed for the building of an inclusive business model, independently from the size, the industry and the geography in which the organization promotes its activity.

First of all, it is necessary to conduct a deep market analysis in order to identify what are the needs to be satisfied. Accordingly, the business has to maturate efficient listening capabilities, also by providing to the personnel cross-cultural management's skills, as the objective is to understand and analyse the needs of people with different culture, language, background, lifestyle, etc. Then, it is important that the company is able to make available an offer with good quality and low cost, otherwise it will not have a market in poor countries. Through innovation, for example, the company can reduce the marginal cost of production developing efficient processes and value chains, and thus sell the product/service at lower prices. Finally, partnerships, networks and collaborative efforts among the different actors of the surrounding environment are fundamental especially when local knowledge is considered to be a vital asset enabling growing and profitability. Collaboration means to promote a sharing perspective where everyone participates making available his assets, such as know-how, infrastructure, distribution or management systems, to other partners, bypassing in this way the bi-directional logic (enterprise vs. stakeholders) on which CSR is based.

By developing a similar model, the objective of promoting an inclusive capitalism, able to transform the poorest areas of the world into dynamic, opportunity-rich communities, can be reached. However, in order to overcome the main global challenges, poverty and inequalities as first, a real commitment of the private sector, which turns to be a catalyst for global development, is today even more an undeniable imperative.

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