Department of Business and Management

Chair of Corporate Strategies

How Corporate Social Responsibility Drives Business' strategy

Supervisor

Francesca Vicentini

Co-supervisor

Maria Isabella Leone

Candidate

Gianluca Pirozzi

ID 667411

Academic Year

2015/2016

Table of Contents

Classic business theories state that ethics and profits are two opposite concepts:

the reason is explained by the role that firms have assumed until the mid-XX century, and it can be resumed in three different perspectives. The first one, supported by Charlie Wilson (General Motors chairman in during the first half of '900), which, in 1953, said: "What is good for General Motors is good for America, and vice versa", recognize to the firm one only role, to indulge its consumers.

The second one is based on Adam Smith theories, which stated that for a company, the best way to serve its customers is trying to earn profits using as few resources as possible.

The last one stand upon Milton Friedman theories, which stated that the real firms' social duty, is to obtain high profits, creating as efficiently as possible wealth and work places for the community [1].

What seems to combine all the mentioned theories is the fact that each one of those excludes social obligation for companies, because they are different from those that impose high profits creation, and because the market is viewed as a scope in which economic relations are developed through voluntary cooperation.

Finally, the only responsibility for companies is to guarantee the ideal conditions to ensure that any single firm maximize its profit.

The aim of this thesis is to analyse how corporate social responsibility (especially sustainability) can drive companies' corporate strategy, describing how and why management view changed during the last years, and trying to demonstrate that a company can create value developing proper relations with its numerous internal and external counterparts, in order to contribute to a better life quality, implementing instruments and creating new forms of relations with its different stakeholders.

My idea is that environmental and social responsibility do not have to be viewed as an extra constrain, but as a key factor to increase company's competitiveness in a fast moving market.

---

[1] M. FRIEDMAN, The Social Responsibility of Business is to Increase its Profits, in G.D. Chrissides, J.H. Keler , An Introduction to Business Ethics, Chapman, London, 1993

1.0 Introduction

Mid-1970s surveys by Ernst & Ernst (precursor to Ernst & Young) of social reporting found that only 1 per cent of Fortune 500 companies provided separate social responsibility booklets along with annual reports [2]. More conservative politics and poorer economies are usually linked to reduced interest in social and environmental issues. For example, in the UK, Margaret Thatcher's premiership during the 80s included a significant period of economic difficulties. In the US, Ronald Reagan presidency during the same years was also a time of great recession. In both countries, deregulation and economics were emphasized over other issues, to create possibilities for companies to get out of that crisis. Correspondingly, social reporting waned during the 1980s.

There were some exceptions to this decline. Companies such as The Body Shop (personal care products), Patagonia (outdoor clothing) and Ben and Jerry's (ice cream), run by enlightened entrepreneurs who based their business models on social and environmental concerns, not only pushed social agendas, but also provided information on social matters. These corporations have continued to provide social reports in various forms. [3]

So, over time environmental issues have became more of a concern to society, and corporations have became more heavily regulated and pressured to provide information about how their activities affected the environment. Corporations appear to have responded to the pressure. A 1999 study by KPMG found that out of the largest 250 corporations in the Global Fortune 500 (G250), 35 per cent had environmental reports [4]. While not a majority, it is a large proportion relative to the low social reporting frequency occurring in the mid-1970s.

The firsts sustainability reports appeared in the late 80s, and were published in US by companies in the chemical industry: it was an answer to the increasing volume of emissions data put into the public domain by the 1987 SARA (Superfund

[2] Buhr, N 2007, in Sustainability Accounting and Accountability, Unerman,

[3] Soderstrom, N. 2013, Sustainability Reporting: past present and trend for the future, *University of Melbourne Insight.*

[4] KPMG International Survey of Corporate Responsibility Reporting, 2005.

Amendments and Reauthorization Act) Title III legislation - the 'right to know' legislation, which established the Toxic Release Inventory [5]. Right to Know is a legal principle used in environmental law, which declares that any individual has *the Right to know* the chemicals to which he/she may be exposed during his/her daily living.

Another important event for today's sustainability reporting happened on October 1987: Brundtland Commission (formally known as the WCED, World Commission on Environment and Development), headed by Gro Harlem Brundtland, at that time former Prime Minister of Norway, released "*Our Common Future*", also known as the Brundtland Report [6].

Our Common Future coined the term "Sustainable Development", defined as "the development that meets the needs of the present without compromising the ability of future generations to meet their own needs" [7].

It is generally accepted that sustainable development calls for a convergence between the three pillars of economic development, social equity, and environmental protection. In this sense, sustainable development can be considered a great development paradigm. In the last 25 years, a large part of world's companies recognized sustainable development as one of their fundamental principles, but a real problem remained that sustainable development has not found the political entry points to make real progress

The Brundtland report created the basis for the 1992 Rio Summit that laid the foundations for the global institutionalization of sustainable development. The Earth Summit adopted the *Rio Declaration on Environment and Development* and Agenda 21, a global plan of action for sustainable development. The Rio Declaration contained 27 principles of sustainable development, including principle 7 on "common but differentiated responsibilities," which stated: "*In view of the different contributions to global environmental degradation, States have common but differentiated responsibilities. The developed countries acknowledge the responsibility that they bear in the international pursuit of sustainable development in view of the pressures their societies place on the global environment and of the technologies and financial resources they command.*"

[5] Paul Scott, Next Step Consulting, 2004.

[6] Report of the World Commission on Environment and Development: Our Common Future

[7] Report of the World Commission on Environment and Development: Our Common Future

In the meantime, more and more companies, operating in different markets, began to communicate information about how did they operate for sustainability, and a lot of guidelines came out, such as Global Reporting Initiatives, an international independent organization that helps businesses, governments and other organizations understand and communicate the impact of business on critical sustainability issues such as climate change, human rights, corruption and many others [8].

In the meantime, in 1991, Germany passed the Ordinance on the Avoidance of Packaging Waste under the German *Waste Act*, which held producers responsible for packaging waste, while Denmark started requiring some corporations to disclose environmental impact in annual reports since 1999. Deegan and Gordon linked an increase in corporate disclosures about environment for Australian companies, to an increase in societal concerns [9].

Even if environmental disclosures have been increasing year after year, it is important clarify that these kinds of disclosures are different from country to country. Jorgensen and Soderstrom in 2012 [10] stated that whether a country's legal system is based on common or code law, it will affect the reporting frequency, that obviously is also influenced by the general level of regulation. Other authors, such as Simnett, Vanstraelen and Chua in 2009 [11], Van der Laan Smith, Adhikari and Tondkar in 2005 [12], also found systematic differences across countries. These studies show that difference in stakeholder power across countries is related to reporting levels. The level of disclosure varies by industry, with more environmentally sensitive industries having higher disclosure levels [13].

---

8 https://www.globalreporting.org/Information/about-gri/Pages/default.aspx

9 Deegan, C & Rankin, M 1997, 'The materiality of environmental information to users of annual reports', Accounting, Auditing, and Accountability Journal,

10 Soderstrom, N. 2013, Sustainability Reporting: past present and trend for the future, *University of Melbourne Insight.*

11 Simnett, R, Vanstraelen, A & Chua, WF 2009, 'Assurance on sustainability reports: An international comparison', The Accounting Review.

12 Van der Laan Smith, J, Adhikari, A & Tondkar, R 2005, 'Exploring differences in social disclosures internationally: a stakeholder perspective', Journal of Accounting and Public Policy.

13 Li, Y & McConomy, B 1999, 'An empirical examination of factors affecting the timing of environmental accounting standard adoption and the impact on corporate valuation', Journal of Accounting Auditing and Finance

The 2005 KPMG survey [14] notes that post-1999, corporate responsibility reporting shifted toward sustainability reporting rather than focusing primarily on environmental reporting. In 2002, about 70 per cent of the reports were published as Environmental Health and Safety reports; in 2005, about 70 per cent were published as Sustainability Reports. The number of corporations providing CSR information continues to increase. In 2005, 64 per cent of the G250 corporations provided CSR reports, either standalone or as part of their annual reports. KPMG's 2008 survey shows that nearly 80 per cent of the G250 provide CSR reports [15].

[14] KPMG, International Survey of Corporate Responsibility Reporting, 2005
[15] KPMG, International Survey of Corporate Responsibility Reporting, 2008

2.0 A general overview

On 15.04.2014, European Parliament adopted the Directive on disclosure of non-financial and diversity information by large companies and groups [16]. This directive implies that Large public-interest entities, such as listed companies, insurance undertaking, banks, and other companies designated by Member states, with more than 500 employees, should disclose their management report relevant and useful information on their policies, main risks and other outcomes relating to at least:

- Environmental matters;
- Social and employee aspects;
- Respect for human rights;
- Anticorruption and bribery issues;
- Diversity in their board of directors.

This directive leaves to companies the possibility to choose between an integrated report, which disclose both financial and non-financial information, and two separate reports; at the same time, companies are free to rely on international, European or national guidelines, such as UN Global Compact, Global Reporting Initiative, Organization for Economic Cooperation and Development, or ISO 26000.

The basis for the new directive, definitely approved on October 2014, are set up by a series of law and amendments approved in the past years, which are a direct consequence of what I am going to explain in the further part.

First, we should consider the Single Market Act [17], adopted on April 2011. The Commission identified the need to raise the transparency of the social and environmental information provided by undertakings in all sectors, to a similarly high level across all Member States. This is fully consistent with the possibility for Member States to require, as appropriate, further improvements to the transparency

[16] *Directive 2014/95 EU*, European Commission, April 15, 2014

[17] Single Market Act – Twelve levers to boost growth and strengthen confidence, European Commission, 2012

of undertakings' non-financial information, which is by its nature a continuous endeavour

Then, the resolutions of 6 February 2013 on, respectively, 'Corporate Social Responsibility: accountable, transparent and responsible business behaviour and sustainable growth' and 'Corporate Social Responsibility [18]. European Parliament, promoting society's interests and a route to sustainable and inclusive recovery, acknowledged the importance of businesses divulging information on sustainability such as social and environmental factors, with a view to identifying sustainability risks and increasing investor and consumer trust. Indeed, disclosure of non-financial information is vital for managing change towards a sustainable global economy by combining long-term profitability with social justice and environmental protection. In this context, disclosure of non-financial information helps the measuring, monitoring and managing of undertakings' performance and their impact on society.

Thus, the European Parliament asked the Commission to bring forward a legislative proposal on the disclosure of non-financial information, in order to take account of the variable nature of corporate social responsibility (CSR), and the diversity of the CSR policies implemented by businesses. The reason is that European Parliament understood the need to guarantee a sufficient level of comparability to meet the needs of investors and other stakeholders, as well as the need to provide consumers with easy access to information on the impact of businesses on society.

In this context, it was clear the need to coordinate national provisions concerning the disclosure of non-financial information of certain large undertakings, even more because most of those companies operate in more than one Member State. Another important element was the need to establish certain minimum legal requirements as regards the extent of the information that should be made available to the public and authorities by undertakings across the Union.

Resuming, the EU directive on non-financial information is clearly linked to regulation about financial disclosures. It is based on other earlier directives, which regulated corporate annual financial statements: in fact, these directives required companies to publish reports, in which they provide a clear and comprehensive

[18] European Commission, on corporate social responsibility: accountable, transparent and responsible business behaviour and sustainable growth, (2012/2098(INI))

analysis of the corporation’s business, and give additional information about market position and both financial and non-financial performances, even if this last information should be included “to the extent necessary”. Now, the directive clearly says that is to be done.

The main problem here was that sustainability reporting was a voluntary tool, in which a companies could report the information they wanted (organizations choose the guidelines, but they are not obliged to report all the points asked in the guideline), and the largest part of the companies that decided to provide a sustainability report didn’t ask for an auditor’s opinion.

There is significant flexibility for companies to disclose relevant information (including reporting in a separate report), as well as they may rely on international, European or national guidelines (e.g. the UN Global Compact, the OECD Guidelines for Multinational Enterprises, ISO 26000, etc.).

Financial and non-financial reporting provides shareholders and other stakeholders with a meaningful, comprehensive view of the position and performance of companies.

Large public-interest entities (listed companies, banks, insurance undertakings and other companies that are so designated by Member States) with more than 500 employees should disclose in their management report relevant and useful information.

2.1 Managing stakeholders value

It’s quite obvious that globalization changed the world we live in, and as a consequence, it has imposed new borders to competition between companies, in order to obtain competitive advantage.

Furthermore, globalization has become also a politic problem, and it has led companies to a higher awareness to social and environmental issues, and to a sustainable growth.

As I have said in the previous section, from the mid-70s firms are required to not underestimate environmental issues, which are perceived form that moment as urgent and alarming, because related to the planet future. As a consequence, companies have tried to consider those issues as welcome opportunities to technological progress and to launch new environmentally sound products, implementing a proactive behaviour, in accordance with sustainable development principles [19].

Interchange between firms and environment is an inextricable aspect for an organization's survival and growth: indeed, environment in economical and social view, need to be conceived as the set of the entities in which the company operates, including employees, customers, and all the other stakeholders. The systematic approach highlights the evolving of business management through interactions with the framework the company works in: a firm that is put in a high competitive context is able to perceive framework changes, and to operate governance choices and changes, but is capable to survive.

What comes out is that a company is contingent by environmental issues, and it reacts trying to anticipate evolutions, or to direct them towards its needs, off so to determine a strong socially and environmentally oriented competitive advantage. To compete for this achievement, firms need a skilled management, which is able to predict how environmental externalities will evolve, and to adapt them in time to their needs, so as to satisfactorily conclude its operations.

A company, although operating to reach its primary objective (to increase value for shareholders) in the long run tends to align those aims to those of other stakeholders, as a result of management's conscious and responsible efforts. An important step is to understand and manage the different aspiration that each stakeholder has: to this end, it is crucial that the company obtain information about its framework, and considers carefully those information.

Therefore, companies need a dynamic management system, which is able to adapt to frequent and sudden environmental changes, being able to survive. Many firms identified this system in the integrated report, which it will be the core issue of this section. On the basis of what I have claimed in this section, it results the dependence between firm and environment I mentioned before. The firm thrives only through the contribution of numerous different actors, whose interests are often opposing each other. Many researchers such as Golinelli claimed that to deeply comprehend the concept of business it is important understanding how it is possible to define and

---

[19] *J.J. LAMBIN, Changing Market Relationships in the Internet Age, UCL*

implement coordinate's economic action resulting either from increases in value creation, to be able enlarging to all the stakeholders. The ability to generate prosperity needs strong and positive relationships with all the stakeholders, subjects that have an interest in the company and are able to influence its operations. In the current hypercompetitive context firms' act, it is important that corporations produce consensus and use resources from surrounding environment in order to be profitable in the long run. For this reason, companies strive to achieve successful results not only in economic terms, but also in social terms: the need to develop strong relationships with stakeholders goes with the aim to generate high profits for shareholders, in order to grow and thrive in a sustainable way.

2.2 The Stakeholder Theory

A true architect is not an artist but an optimistic realist. They take a diverse number of stakeholders, extract needs, concerns, and dreams, and then create a beautiful yet tangible solution that is loved by the users and the community at large. We create vessels in which life happens. *Cameron Sinclair*

A heated debate about which should have been business purposes characterized last century's 70s and 80s. Many scholars, headed by Freeman (1984) [20] support stakeholder theory that arose by systemic theories about the so-known "open systems", which currently shape debates between company and reference environment. This underlines the simultaneous action and reaction possibilities between company and reference environment, and it is referred to complex interactions between different third parties' involved, which share common interests, affect, or are affected for different reason by company's choices.

Therefore, a company needs to maintain consolidated relationships with its stakeholders (their narrow definition reverted to the language of the Stanford Research Institute (1963), defining stakeholders as those groups "*on which the*

[20] *R.E. FREEMAN; Strategic Management. A Stakeholder Approach, Pitman, Boston, 1984*

organization is dependent for its continued survival" [21]) to obtain and keep its own success; it is crucial to meet the expectations of those subjects, which behaviours could influence business success. Even if they are not intended as business processes' input, "relational resources" act and can determine a competitive advantage in relation to competitors.

This approach does not just imply that a company needs stakeholders' support in order to become successful, but also that business success corresponds with the third involved parties' satisfaction. From this perspective, a company has not to act only to maximize its profits, but also in order to realize stakeholders' interests, trying to evenly allocate the produced wealth.

Stakeholder theory highlights how a company needs a strong, lasting and continuous commitment to its stakeholders; experience can help to understand that harmonic relations with surrounding environment and with subject related within it, facilitate the possibilities to generate wealth: a good reputational degree can help the company to create value.

Stakeholder theory can be considered as "a genuine theory though a perfectible one" [22]. Basing on this idea, reading stakeholder management as the process through which managers are able to combine both their objectives with stakeholders' expectations and requests, has become an important tool to convert ethical questions in business strategies [23]. Thus, this has enhanced the existing correlation between stakeholder theory, business ethics and corporate social responsibility: the concept of stakeholder has emerged as a lecture for social responsibility analysis [24].

Stakeholder management challenge is to guarantee to primary stakeholders to achieve their objectives, while for other third parties it is enough to obtain a good satisfaction degree; it is possible to reach a "win-win result", in which all the involved parties reach a high level of satisfaction, by achieving their interests. Certainly, having to fulfil expectation under stakeholder management requires more expensive and complex decision-making processes. Thus, it is useful to realize

[21] Stanford Research Institute, 1963

[22] F. LÉPINEUX, Stakeholder Theory, Society and Social Cohesion, Corporate Governance, n.5, 2005

[23] B. WAXENBERGER, L. Spence, Reinterpretation of a Metaphor: from Stakes to Claims, Strategic Management, n.12, 2003.

[24] M. ATTARCA, T. JACQUOT, La Représentation de la Responsabilité Sociale des Entreprises: une confrontation entre les approches théoriques et les vision managériales

corporate governance structures that guarantee a proper involved third parties interests' interpretation and implementation, defining business methods and practices that helps the company to understand internal and external social needs, and to find specific and innovative strategies to gain or increase competitive advantage.

Therefore, top management often try to achieve a sustainable development through its decisions, which arise from a detailed analysis of the entire amount of the requests originating by the system the company is part of: the intent is to move business choices towards stakeholders expectations. Sustainable development created corporate social responsibility, which is a very meaningful field of research, and which aims to evaluate the relations between companies and environment, by giving both social and economic obligations to the organizations [25].

Corporate social responsibility also increases confidence with social environment, which allows internal changes intended to find a better understanding of social need. The emphasis on environment has led companies to invest huge amount of moneys to draw up new social auditing techniques, to define new stakeholders' relationship model, to create sustainability reports and new codes of conduct. The company's work is subject to constant legitimacy processes by subjects that aim to safeguard their interests, and which are able to influence also firm evolution (primary stakeholders). All third parties involved in social environment the firm operate in (secondary stakeholders) flank these subjects.

A company is not an abstract entity, but it is a system immerged in a complex over system, and which need to be able to balance social, political and ethical aspects, without sacrificing its own economic nature. Socially responsible firms are those that during their activity are able to combine both ethic and profitability purposes, and are constantly looking for resonance between business and social goals. Some business theories refers to the relation between companies and environment, among which the most significant is stakeholder theory, which considers the environment as a set of social interlocutor, each one with its interests and expectations. This theory has been developed as a result of the emergence of the environment and third parties in strategic choices in the pursuit of business objectives, and of the awareness that

[25] E.M. EPSTEIN, The corporate social policy process: beyond business ethics, corporate social responsibility and corporate social responsiveness, California Management Review, n.29, 1987

business strategic decisions will have to satisfy different group of stakeholders' expectations.

Here, the term "stakeholder" can be viewed in opposition to the concept of "shareholder", which identifies a single category, compared with the multiple classes related to the concept of stakeholder. This term refers to those who influence business management, causing risks, pressures, tensions, opportunities and other effects. These subjects have been defined by Post in 2002 as "all individuals and constituencies that contribute either voluntary or involuntary, to its wealth-creating capacity and activities and are therefore its potential beneficiaries and/or risk bearers" [26]: they do not have the same influence on business behaviour. In that respect, Clarkson identified two stakeholders' categories: primary and secondary stakeholders [27].

Corporate economic role can not be separately considered from its social and environmental role; companies can not avoid considering the impacts of their own choices on entire society. Stakeholders are identified and categorized in relations to their "interest, right, claim or ownership in an organization" [28] Stakeholder theory is considered a good framework to evaluate Corporate Social Responsibility trough social reporting activity [29]. Basing on Carroll's CSR definition (something composed by four domains: economic responsibility, legal responsibility, ethic responsibility and philanthropic responsibility), it is possible to identify the close and significant relationship between CSR and Stakeholder Theory. Indeed, if a company has economic, legal ethics and philanthropic responsibilities, therefore it should act trying to respect third involved parties' interests [30].

Media, governments and non-governmental organizations exerting pressure on companies, to act responsibly in order to effectively satisfy different group of

---

[26] J.E. POST, L.E. PRESTON, S. SACHS, Redefining the corporation-Stakeholder Management and Organizational Wealth, Stanford University Press, Stanford, CA, 2002

[27] M.B.E. CLARKSON, A Stakeholder Framework for Analysing and Evaluating Corporate Social Performance, Academy of Management Review, 1995

[28] T. COOMBS, The Internet as a Potential Equalizer: New Leverage for Confronting Social Irresponsibility, Public Relations Review, 1998

[29] J. SNIDER, R.P. HILL, D. MARTIN, Corporate Social Responsibility in the 21th Century: A View from the World's Most Successful Firms, Journal of Business Ethics, 2003

[30] J. SNIDER, R.P. HILL, D. MARTIN, Corporate Social Responsibility in the 21th Century: A View from the World's Most Successful Firms

stakeholders. Prejudices due to some big scandals that involved important worldwide known companies [31], such as Parmalat, Nike, Shell and many others, justifies this kind of pressure.

Media and other significant stakeholders often disclosed illegal defined business behaviours, and took this opportunity to advertise (in some cases for their benefits) presumed damaging behaviours. A manager should try to identify the right practices in order to develop a good stakeholder dialogue; different stakeholders' perceptions surely have a strong impact on the interactions between the company and the external environment they are involved in. For this reason, stakeholders' opinions are of considerable managerial interest: a company is not a closed box, which have not interactions with external parties, actually it has numerous and of a different nature and intensity close relations with other companies, institutions and so on. Thus, in order to produce wealth it is crucial to exchange and combine resources; it seems unavoidable the organization to develop interactions with external environment to obtain all the needed resources for its production process, to establish relations with its relevant market and to exploit its own activities.

Turning back to stakeholder theory, in 1984 Freeman published a book called "Strategic Management. A Stakeholder Approach", which identifies the plurality of third parties involved in business management process, and "re-conceptualize the nature of the firm to encourage consideration of new external stakeholders, beyond the traditional pool – shareholders, customers, employees and suppliers – legitimizing in turn new forms of managerial understanding and action" [32].

Stakeholders' theory surely offers a "new way to organize thinking about organizational responsibility. By suggesting that the needs of shareholder cannot be met without satisfying to some degree the needs of the other stakeholders" [33]. The term "stakeholder" comprises a subject or a group of subjects interested in business activity, or in which the company has an interest: it highlights the one-to-one nature

[31] C. HANDY, What's Business For, Harvard Business Review on Corporate Responsibility, Harvard Business School Publishing Corporation, USA, 2003

[32] J. JONKER, D. FOSTER, Stakeholder Excellence: framing the evolution and complexity of a stakeholder perspective of the firm, Corporate Social Responsibility and Environmental Management, 2002.

[33] D. FOSTER, J. JONKER, Stakeholder Relationships: The Dialogue of Engagement, Corporate Governance, 2005.

of the internal/external relationship between the firm and the framework. Stakeholder management requires identifying efficient methods to coordinate the relations with the several players involved in the interactions with the firm; it also requires trying to align the often-divergent stakeholders' expectations with company's interests.

In 1995, Donaldson and Preston have tried to justify Freeman's stakeholder theory basing on two related aspects, its instrumental power and its legal validity, highlighting the dominant position of the first one. In fact, instrumental vision considers stakeholder's management as a functional way to reach business success; whatever the purpose the company pursues, stakeholder management promotes to successfully aim the objectives. The legal validity is considered because a company, operating to reach business success, have to consider the whole stakeholders, respecting their moral values or philosophical principles. The two scholars underline that normative significance depends on two important aspects: the first one implies that stakeholders identify themselves because of their own interest in the organization, whatever the existence of a functional interest in them by the company; the second one supposes that stakeholders' different interests have an intrinsic value and deserve to be considered in managerial decisional process, independently from the possibility of a group of stakeholders to promote their interest on another one. Thus, the theory recognizes the difficulties for the company to identify and evaluate all different groups of stakeholders' interests, and the authors believe that managerial implication of this theory is borne by the managers, that have to understand the importance of the different stakeholders' involvement in business decisions. In this vision, it assumes a great importance input-output business perspective, which is a model that considers investors, employees, and suppliers as inputs that the company should turn in output to offers greater benefits to its consumers.

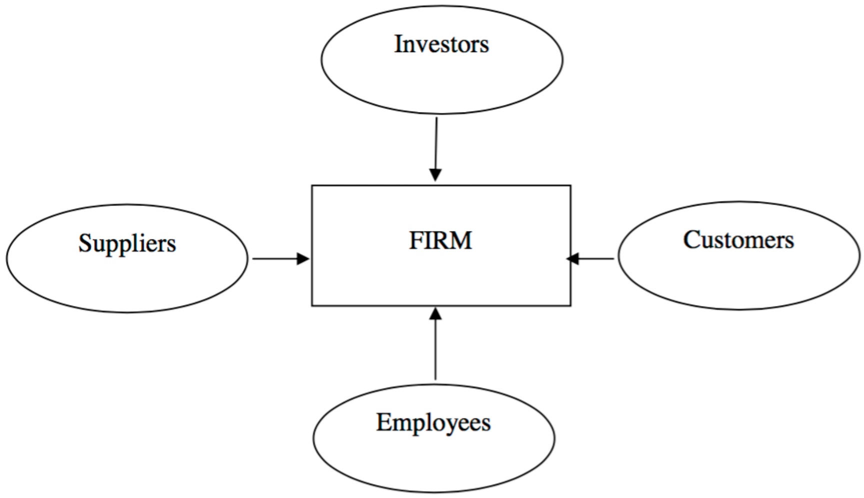

Figure 1: Donaldson and Preston Input-Output model

Freeman introduces in this model two other external groups, which are influenced by business activities: governments and communities. He considers the company as the heart of a set of two-way relationship interdependences, while in his first works he considered the company as the heart of a wheel and the stakeholders as the most external part of the spokes (Hub and Spoke Model). This new structure includes eight stakeholders: Investors, Customers, Communities, Suppliers, Employees, Governments, Political groups and Trade Associations, to which they can be added also Non Governmental Organizations, Environmental Communities, Media and Critics.

Furthermore, stakeholder model goes against input-output model because it considers that all third subjects with legitimate interests have to take part to business life to obtain advantages, and it does not consider any priority bracket to some interests and benefits against others. All the stakeholders are considered in the same way, and are involved in business processes in order to satisfy their (and business) interests. Therefore, stakeholder model depicts the organization not only as a set of market transactions, but as a cooperative effort that involves numerous subjects, organized in different ways. Thus, the company is considered an organization through which many different actors try to reach their own ends.

Having mentioned different management theories, we can state that stakeholder theory differs a lot from the others. It is essential to explain and lead the structure and the operations of a big, successful company. Stakeholder Theory is general, and many aspects it describes are implicit rather than explicit, by encouraging a confused and distorted use. It should be helpful in explaining the nature of a company; to explain how managers relate to business management; how the board management handles company, shareholders and stakeholders' interests, and basically how a company is managed.

Combining this theory with descriptive data, can be useful to identify connections or problematic between stakeholder management and the achievement of the traditional business objectives such as profitability and growth. Nevertheless, it might be used to find out existing relations between stakeholders and common expected objectives, such as monetary return. This is supported by a famous definition coined in 1963, during an internal memorandum at the Stanford Research Institute, for which stakeholders are "those groups without whose support the organization would cease to exist" [34], meaning that corporate managers have to hardly engage on monetizing third parties' contributes, in order to implement actions aimed at reaching those desired results as stability, growth and profitability.

At this stage, it is possible to take in consideration Clarkson's theories: in 1995, he proposed to analyse and evaluate Corporate Social Performance through a model focused on relations created between business management and its stakeholders, because there were not existing and generally applicable definitions of Corporate Social Responsibility, Corporate Social Responsiveness and Corporate Social Performance. Data collected through its work showed that in that period, managers, in normal business management conditions, acted without thinking in terms of Corporate Social Responsibility, Corporate Social Responsiveness, and even less social issues and performances. What emerged, was that "*in many cases public affaire department were not established to handle social responsibility issue as such but to help the organization respond more competently to a whole range of stakeholder issue*" [35], which means that public affairs uses CSR only to meet stakeholders demands, including relationships between employees, media and governments. Managers have no difficulties in understanding concepts and features related to stakeholder management, but they identify them both as stakeholder issues

[34] Stanford Research Institute, 1963

[35] Clarkson, "A stakeholder framework for analysing and evaluating corporate social performance" 1995

than as social issues. Occupation rate, health, workplace safety are issues related in general to society, and are regulated by laws and regulations, but they are also concerns which affect business choices in terms of relations with employees and governments. Even environmental problems are social issues, and this is obvious because of governments' interventions with laws and regulation's emanation, but they involve also local communities in which companies operate.
In his work, Clarkson states that it is crucial to distinguish between stakeholder issue and social issue, because companies and the management have to put their efforts in the relationships created with their stakeholders and not with the society as a whole. This highlights how it is difficult to define social issue concept: the "social" connotation is different from "society", and it creates ambiguity. Preston defined this ambiguity in this way: *"corporate social performance was intended to suggest a broad concern with the impact of business behaviour on society. The concern is with ultimate outcomes or results, not simply with policies or intentions; moreover there is some implication that these outcomes are to be evaluated, not simply described".* Friedman used this ambiguity in 1970, when talking about social responsibility of a business which operates in a free system, he stated that *"the discussions of the social responsibilities of business are notable for their analytical looseness and lack of rigor [...] The first step towards clarity in examining the doctrine of the social responsibility of business is to ask precisely what it implies for whom"* [36]. So Friedman has preferred to read social issue and social responsibilities as not pertain to the business. He made a distinction between the company and the society, claiming that *"business of business is business"*, as all the neoclassical economists. Claiming a clear separation between companies and society, Friedman has denied the validity and the need from which the concept of Corporate Social Responsibility stems, defining it even subversive: *"businessmen who believe that business has a social conscience and takes seriously its responsibilities for providing employment, eliminating discrimination, avoiding pollution [...] are preaching pure and unadulterated socialism"* [37]. About this, it is important that managers define

[36] The Social Responsibility of Business is to Increase its Profits
[37] The Social Responsibility of Business is to Increase its Profits

beforehand what they identify as “social concerns” borne by the company, so as to define their behaviours and actions.

Basing on what these economists said, it seems impossible to ask managers to carry out, for example, responsibilities aimed at the institution of assistance plan for employees or career planning, despite it is an important and relevant issue even for stakeholders. Their thought is that these aspects fall within the stakeholder issue category and concern the relationships with them; for this reason, the only management should decide to take in consideration or through them away, because only the aspects directly related to stakeholders should be considered as relevant, unlike those related to social aspects.

These assumptions can not work in our time. The foundations of these article take their cues from the Directive on disclosure of non-financial and diversity information by large companies and groups by European Union, so it is clear that a regulation has been implemented, and now managers have to crucially consider both stakeholder issues and society issues.

This is because in the last years, more and more society issues has became stakeholder issues and companies have to engage directly with their stakeholders, meeting their expectation and trying to satisfy obligations stemming from the definition of socially responsible actions in their strategies. Organizations have to outline innovative and socially sustainable solutions, enabling to meet management priority and stakeholders’ priority, in order to generate wealth and to increase competitive advantage compared to competitors. In this sense, a company needs to develop skills and competencies through the introduction of innovative processes, such as to ensure stakeholders’ and shareholders’ satisfaction and to fulfil their requirements better than competitors.

In the current hypercompetitive scenario, firms reach and save competitive advantage with more difficulty than in the past, because they operate in dynamics markets characterized by frequent changes that could be managed only through the use of skills, which allows companies to adapt to those environmental changes. In this respect, Corporate Social Responsibility has to be viewed as a real managerial instrument, which is useful to legitimate firms’ work and to implement corporate image. The mistake would be to not intend CSR as something that allows companies not only to promptly satisfy stakeholders' expectations, but also to implement new innovative tools and actions aimed at improving processes to comprehend customers emerging needs, and to improve company's ability to adapt to the new environment

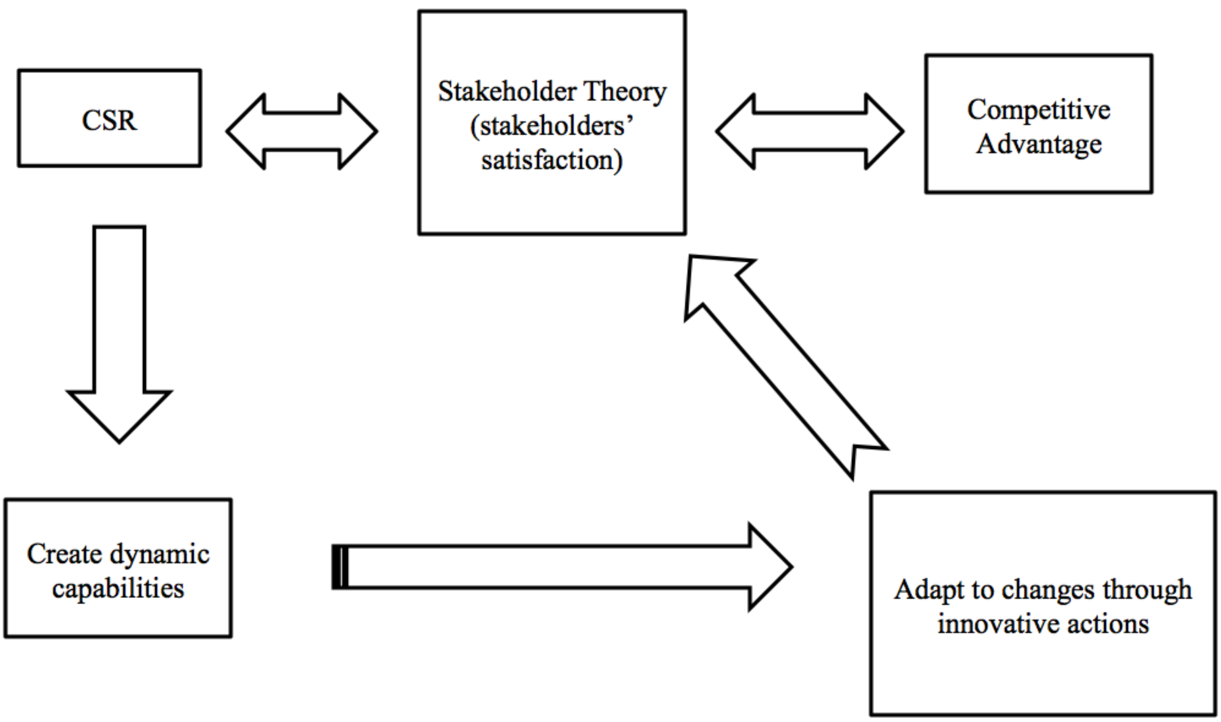

Figure 2

The idea is that a company has to develop unique resources and business-related skills to gain an over time sustainable competitive advantage, but also it has to develop the ability to rearrange its own resources considering any possible environmental change [38].

Dynamic abilities theory comes from Resource-Based View, which focuses on resources owned by the company to provide the basis of high financial return [39]. Competitive advantage, so basically the situation that allows companies a sustainable positivity of its economical results, is one of the few principles on which managerial choices stand up. Until the 80s, competitive advantage was set on Porter's theories,

---

[38] R. KAMINSKA-LABBÉ, C. THOMAS, W. SACHS, Dynamic Capabilities and Competence Building Process in Times of Environmental Turbulence, Sixth International Conference on "Enterprise in Transition", 2005

[39] M.A. HITT, D.R. IRELAND, R.E. HOSKISSON, Strategic Management. Competitiveness and Globalization, South-Western College Publishing, Cincinnati, 2001

which focused on "how" companies gained an advantage, claiming that this aim was possible only pursuing certain strategies. Therefore, another approach has spread: Resource-Based View, which investigates on "what" ensure a strong competitive advantage, focusing on resources available for the company. So basically, the advantage would result from the right use of firm-specific assets. Amit and Schoemaker in 1993 defined resources as "*stocks of available factors that are owned or controlled by the firm*" [40] and they believe that those resources are the results of the implementation of a variety of assets such as technology, know-how and to build up relationships of trust between management and human resources. In harmony with this theory, we identify resources as those factor that companies are able to manage and control, and classify them in:

- Tangible resources
- Intangible resources
- Financial resources
- Human resources

Those resources need to be combined, to be used in different business activities; the abilities in combining and aggregating them represent the core competencies on which competitive advantage stands up.

Here I will focus on intangible resources, because the aim of this paper is to identify the best reasons for a company to adapt to new stakeholders' and shareholders' expectations about CSR strategy, and transparency in its reporting: the starting point will be how and why intangible assets are so important in business, and than I will focus on the best way companies can disclose their nonfinancial results. Vito di Bari in an interview in 2009 said something that fully fits with this paper. He stated that companies can not take a chance on ignoring to consider the environment as a whole: a company can survive to global economy changes only if it is part of a social an environmental system with which it can constantly engage. Repeatedly in this paper we have emphasized on the idea that a company can not have profits as the only aim, but it have necessarily to take into account the environment in which it operates. First of all, social and environmental responsibilities a company has to its

[40] R. AMIT, P.J.H. SCHOEMAKER, Strategic assets and organizational rent, Strategic Management Journal, 1993

stakeholders have to be implanted within the business context, and then outside the perimeter, through a clear and transparent communication. Again, turning back to John Elkington's Triple Bottom Line Theory, we can state that a company has to set out its strategy mixing the three P's (Profits, Planet, People) to gain a competitive advantage in the medium term. Once the three P's will be "pegged" to the core of the company, they will be able to generate success in the short term.
I used the term "Pegged" to point out that CSR (or 3P) has not to be a marketing tool, but one of the main company's drivers. New technologies, consumers' constantly increasing expectations (now become prosumers, i.e. subjects that are assuming increasingly active role in business value creation process) do not generate advantage for companies that sets out marketing campaigns on green washing, namely a company's environmental virtues unjustified appropriation, finalized to the creation of a positive picture of the organization to divert the attention from its own responsibilities to negative environmental impacts. We are living a historical phase in which reputation has replaced image, and companies which set up their marketing strategies on image will not gain positive hoped-for results.

"Reputation, reputation, reputation! Oh, I have lost my reputation! I have lost the immortal part of myself, and what remains is bestial. My reputation, Iago, my reputation!" Cassio, Othello, William Shakespeare

Corporate reputation is the credibility that an organization has in the society's eyes, about thematic that are crucial for the society. And it is clear that now one of the most felt social thematic is the environment. Predictions for the future and many surveys reveal that (cost and quality being equal) people buy (and will buy) brands and products supporting a noble shared cause.
Therefore, organizations that will undertake a really responsible way and at the same time will be able to efficiently communicate this clear responsibility with the CSR's most appropriate tools, will gain many more advantages in the mid-long term compared with companies that will have invested all their resources in marketing and advertising.

So, we can derive that intangible resources represent a stronger competitive advantage source, compared with the other resources, because in the global economy a company reaches the pinnacle of success only by using intellectual capacity, instead of physical goods. Intangible resources are hard to identify, competitors have more difficulties to comprehend, acquire and imitate them, and so companies choose them as the key basis for their abilities and competencies. Reputation is the par excellence intangible resource, and it is crucial to gain competitive advantage. It is fostered with company's communication, represents stakeholder's perception of business competencies and indicates the level of attention that the organization has developed for its stakeholders, and at the same time the stakeholders' consideration for the company.

Many scholars stated that the intangible resources which able to support competitive advantage are identifiable in two kinds:

- Competencies resources;
- Trust resources.

Competencies resources refer to the ability to combine assets in order to implement business' activities. We can identify, for example, technological resources (Research & Development), market competencies, which refer to the ability to create a strong structure in the distribution, selling and consume processes.

Trust resources refer to the quality of the relationships with internal and external stakeholders (both social and competitive stakeholders, such as banks, suppliers, and other companies). Skills are determined by the ability of the company to use its available resources to achieve its goals, and they are the results of a long-term process, which considers interactions between tangible and intangible resources, originated by the development and interconnections of ideas and information between people within the company [41].

Even if Resource-Based View conceptualizes basic conditions to the corporate competitive advantage sustainability, it has an internal untapped potential because of some discernible limits on its basic preconditions, such as its static approach: indeed,

[41] Cfr. M.A. HITT, R.D. IRELAND, H. LEE, Technological learning, knowledge management, firm growth and performance: An introductory essay, Journal of Engineering and Technology Management, 17, 2000.

it focuses mostly on the resources' definition and categorization rather than the way those resources are deployed.

Concluding, it emerges that core competencies are certainly strengths (and competitive advantage sources), but in our analysis they can even become weaknesses: events that characterize external environment facilitate key competencies to turn in key rigidities, generating innovation limits. However, it is not only external environment that cause key competencies shifting in rigidities, but also manager's lack of adaptation and flexibility in business management. Companies might increase the possibility to reach excellent long-term competitive success levels, carefully considering internal and external environment. Dynamic Capacity Theory [42] stems from these statements, i.e. considering dynamics capabilities rather than rigid, and adapting these capabilities to external environment changes, in order to generate competitive advantage. Teece, Pisano and Shuen in 1997 developed Dynamic Capabilities View as "*the firm's ability to integrate, build and reconfigure internal and external competencies to address rapidly changing environments*". Through DC View, advantage arises not just from the possession of unique resources, but also from the resource configurations built from Dynamic Capabilities. They allows companies to leverage on internal assets, not only to satisfy demand coming from external environment, but also to influence it and to align stakeholders' and shareholders expectations to corporate targets.

Dynamic Capabilities are important because they are recognized as organizational routines (or processes), through which the company determines the use of assets and resources as a response to market changes. Those routines focus on *"integrating, reconfiguring, gaining or releasing resources to match or even create market change* [43] *"*. Routines boil down to organizational behaviours that are evenly implemented to solve recurrent problematic: they are the result of business history and represent organizational memory of successful solutions.

---

[42] Car, D.J. TEECE, G. PISANO, A. SHUEN, Dynamic capabilities and strategic management, Strategic Management Journal, 18, 1997; K. EISENHARDT, J. MARTIN, Dynamic Capabilities: What are they?, Strategic Management Journal, 21, 2000.

[43] Cfr. R. NELSON, S. WINTER, An Evolutionary Theory of Economic Change, Harvard University Press, Cambridge, MA, 1982.

In the next chapters I am going to identify the best solutions to integrate those capabilities with external environment and stakeholder expectations' changing.

3.0 Understanding the environment

Think for a moment that sustainability and financial reporting - which means the set of information that a company provides to stakeholders -, is a good to launch in the market. To this end, as in the case of goods, time is believed as a critical factor (time-based competition), overtaking the static and defined definition of competition space, and thinking to an enlarged competition space (market-space management [44]). Those kinds of conditions improve the possibility to develop organizations that exploit corporate intangible assets - such as corporate culture, information system, and brand equity. In this super-competitive environment, companies can not rely only on their resources, skills and abilities; business development depends on relationships established with the set of business stakeholders. In this sense we can identify the correlation between goods and information: globalization and new competition borders brings companies to adopt a competitive "market driven" management, which aims to non-stable aggregate customers satisfaction (market-bubble management), before competitors. Indeed, market-driven management (MGM) is a management theory stated in the late 1980s [45], directed to the study of the open market companies' development, characterized by continuous innovation-based market politics, aimed at face frequent market changes, and which guarantee attention to both competitors and customers.

A market-based company is able to comprehend, affect and keep high economic profile customers; those kinds of organizations are strongly communication-oriented, and are convinced that any function need to be conscious of competitors' choices, so as to anticipate consumers expectations to draw up effective and efficient solutions, in order to gain a competitive advantage compared to competitors.

Market-driven management favours and outside-in approach, leading to the maximum possible value establishment, projecting and offering what the market wants to time-based obtaining of useful information, derived from the reference market.

---

[44] *E. RANCATI, Il tempo nelle imprese orientate alla concorrenza, Torino, 2007);*

[45] *M. SCIARELLI, Resource-Based Theory e Market-Driven Management*

Different intensity levels characterize actual markets, summed up in: weakness in supply (D>S), steady state (D≈S), and excess in supply (D<S) [46]. It can be explained because in global markets, competition degree between firms is the result of the competitive relation system active in a given market. Therefore, companies have to constantly update their strategic choices, through continuous learning processes, so they can adapt in time to the changing environmental conditions, without losing competitiveness.

Taking back my initial comparison between goods and information, markets are characterized by low degree of supply suffering (as a consequence from unsatisfied demand), because maximum production capacity is lower than total demand, and this generate disequilibrium between demand and supply. Involved companies are in a monopolistic (or semi-monopolistic) situation, and they are able to control demand, to determine selling price and selling quantities. On the other hand, dynamic equilibrium between demand and supply characterized static oligopolistic markets, common in most evolved world countries, in which business economy highlights a spread attention on markets internationalization, through non price-competition policies. For companies that operate in such industrialized and globalization exposed markets, it is more and more conscious to care about corporate social responsibility. The first reason, which is linked to what I have exposed in the last lines, is because in competitive markets companies need to differentiate, and before sustainability reporting by last 1990s, than integrated reporting by last 6-7 years, it has been a strong tool to show off, extolling not only financial but also environmental and social virtues. The second reason is that now companies' growth requires to act in a sane and prosperous environment; firms not only pursue economies objectives, but also have to protect social and natural environment in which they operates, promoting a sustainable growth. Indeed, recently public opinion paid particular attention to firms' action to pursue a sustainable development: it is more and more informed and concerned to ethics behaviours and leader in social responsible behaviours companies. Corporate social responsibility is a widely debated topic, and it is always

[46] *S.M. BRONDONI, Patrimonio di Marca e Risorse Immateriali d'Impresa, Torino, 2004)*

involved in discussions pointed out during profound changes that took place in production, distribution and consumption processes.

In markets in which demand is unsatisfied, because it exceeds supply, and firms are in a monopolistic or semi-monopolistic situation, corporate social responsibilities are finalized to achieve profitability objectives, and this growth goes hand in hand with relationship with environment and society development.

During mid-50s, with the development of welfare state, companies started to analyse their results blending economic performances with social and environmental performances, which began to be considered as a duty to pursue desirable considered politics, compared to objectives and values recognized by society.

A clear division between State's roles and market role characterizes welfare state; it is driven by a new concept of corporate governance, focused on growing role recognized to management; it is based on the adoption of a new innovative legislation, and on the definition of public inspection bodies, which should be involved to oversee the operation of the delicate balance between market and financial system. In this context, a firm is considered a core component for social equilibrium; therefore, social responsibility attributable to international businesses needs new management capabilities, which are able to separate governance from management duties. Companies become more and more internationalized, but head office is often still localized in origin countries: thus, it has placed a new CSR idea based on simultaneous achieving of both economics results and assertion of socially recognized corporate value, thus the firm is placed in the middle of a social system.

Head offices lay down rules of conduct for delocalized offices and, thus, all the involved organizations are forced to operate respecting common rules set out by central offices. After markets' internationalization, companies are committed to establish important relationships even with local communities they operate in. Then, it is crucial to evaluate the effects generated by their choices and operations about economic and productive conditions in those areas. Companies' willingness to establish relationships with its target market materializes and grows stronger with brand success, which even reflects consistency and socio-cultural obligations.

Macro-level competitiveness is primary defined as a sustainable enhancement of living standards. It is relevant to consider that corporate social responsibility is less intensively applied to small and medium-sized enterprises, compared with larger sized corporations. It is often linkable to personal and ethics virtues owned by managers responsible for business management; applying a more general rule, the smaller the company, the larger is the importance given to Corporate Social Responsibility drivers such as ethical and personal values. On a business level, scholars and businessmen that have in common the banner "the business cares for CSR" have debated for a long time the link between competitiveness and CSR. Competitiveness can be evaluated considering both the essential skills to innovate and to produce a larger number of quality products and services, than the skills to be able to maintain or increase market share in global and international markets.

The US President's Commission on industrial competitiveness provided a frequently mentioned competitiveness definition, stating that:" *A firm is competitive if it can produce products or services of superior quality or lower costs than its domestic and international competitors. Competitiveness is then synonymous with a firm's long-run profit performance and its ability to compensate its employees and provide superior return to its owners*" [47]. Financial performance indicators, such as sells, profits and costs analysis or stock markets performance indicators, are key issues to measure micro-level competitiveness.

First of all, CSR is an integration of environmental and social concerns within business operation, and it means that it is not only philanthropy; emphasis is on how companies daily carry out their work: the treatment of workers, goods production and their commercialization. An efficient Corporate Social Responsibility does not consider only how companies use their profits, but also the actions that have been generated those profits. Furthermore, interactions with stakeholders are crucial issues: CSR requires an effective dialogue and partnership with the different stakeholders (stakeholder view – stakeholder theory).

Again, defining CSR as a voluntary activity implies that it should link environmental and social business activities with what is required by law: in fact, in many countries CSR is considered an activity that facilitates companies to comply with the law.

CSR is clearly a very broad concept, and it is generally divided in four main areas:

---

[47] A. FRANCIS, The Concept of competitiveness, in A. Francis, The Competitiveness of European Industry, London, 1989.

- Workplace: it refers to the treatment of workers in the firms, and it includes different issues such as recruiting, diversity (both about salaries and working conditions), health and safety and union recognition;
- Market place: it provides information about the relationships between the firm and its suppliers, customers and competitors. It refers to responsible marketing and advertising actions, according to social requirements about anti-corruption measures, the involvement of ethical practices and the social and environmental standard imposition even to suppliers;
- Environment: it describes measures undertaken by the company to mitigate environmental negative impacts, for instance in terms of energy efficiency and pollution. It could even refer to the promotion of good and services that actively help to enhance and protect the environment.
- Community: it can be attributed to relationships between companies and people; it includes respect for human rights, dialogue and partnerships with involved communities and the provision of contributions to the well being of those communities, even through the approval of projects voluntarily realized by employees.

Transparency in social and environmental performance communication is CSR's crucial issue and it is discernible in each one of the four identified areas. An analysis made by European Union in 2008 [48] considered financial effects generated by CSR through six competitiveness indicators: structural costs, human resources, consumers' perspectives, innovation, risk management, business reputation and financial performance. Similarly, European Competitiveness Report identifies some issues that could "jeopardize" competitiveness, such as: considering CSR only as a cost with no apparent benefits; considering just pure chance the link between competitiveness and social responsibility; considering the existence of investors and shareholders with no interest in corporate sustainability.

The first of six indicators mentioned in the European Survey concerns structural costs, because Corporate Social Responsibility can help reducing costs especially in terms of reduction of electricity consumption and input involved in production

[48] EUROPEAN COMPETITIVENESS REPORT, Overview of the links between Corporate Social Responsibility and Competitiveness, 2008.

processes. At the same time, it is difficult to draw general conclusion about CSR effects on costs' reduction, because the latter are highly dependent on different measurement types. For this reason, the debate about the possibility to generate competitiveness through CSR has not to be closed off within costs reduction, but it has to involve value creation and increased profits concepts. About this, Porter and Kramer stated that "*if corporations were to analyse their prospects for social responsibility using the same framework that their core business choices, they would discover that CSR can be much more that a cost, a constraint or a charitable deed it can be a source of opportunity, innovation and competitive advantage* [49]".

About human resources, according with Cochran (2007) [50] it is possible to assert that a company that is able to establish strong relationships with its employees could reduce turnover rate and could increase their motivation producing positive effects for the firm. Moreover, good relationships with employees could encourage new and competent staff to join the company, confirming empirical surveys about positive correlation between CSR and human resources' management.

Indeed, Montgomery and Ramus (2003) [51] emphasized that European and American MBA students show great interest in some CSR issues such as relationships between employees and environmental sustainability, or between stakeholders and business ethical behaviours, to make their occupational choices and preferences. More than 90% of people surveyed showed interest in giving up some financial benefits to work in organizations with a good ethical and CSR reputation. Another research published in 2008 by Aspen Institute has shown that 26% of involved subject state that spending a part of employer's contribution in social concerns could become a crucial factor in work opportunity choice. Furthermore, Turban and Greening in 1997 [52]

[49] M. PORTER, M. KRAMER, Strategy and Society: the link between competitive advantage and corporate social responsibility, Harvard Business review, 2006

[50] Car. P.L. COCHRAN, The evolution of corporate social responsibility, Business Horizons, 2007.

[51] D.B. MONTGOMERY, C.A. RAMUS, Corporate Social Responsibility Reputation Effects on MBA, Job Choise, Stanford Graduate School of Business Research, 2003

[52] D.B. TURBAN, D.W. GREENING, Corporate Social Performance and Organizational Attractiveness to Prospective Employees, Academy of Management Journal, 1997

have shown that good CSR business performance may increase competitive advantage, attracting expert and efficient senior managers.

I want to focus on this aspect because many scholars suggested that HR should have a more important (some suggest leading) role in CSR practices. Jonny Gifford, research advisor to the Chartered Institute of Personnel and Development (CIPD), commented that when CSR became a buzzword, "*organizations found it easier to turn it into a branding opportunity by having a CSR webpage but wouldn't necessarily do anything about it. However, you can only say that you care about CSR for a certain time before you actually have to do something about it as expectations are raised among stakeholders. The more we talk about responsible business practices the better. There are two broad aspects to corporate responsibility: one is the traditional focus on CSR which is what the organization does with the local communities in which it operates and environmental policies and then activities which are core to the business and how they make their money"*[53]. Then, assuming that people play a central role in value creation process, which is about understanding the way an organization works and the consequences of its activities, HR profession has a three-fold role in CSR as many aspects relate to HR management: "*HR needs to make sure people management practices are ethical, to embed corporate responsibility you need to give people the right support and training and HR has a role in learning and development side of that. The third aspect is embedding ethics into the organizational culture. That's about being able at board level to ask the challenging questions*" [54]. So in my opinion, HR function should be totally integrated into CSR because, as Judi Marshall, program director in MA in leadership for sustainability for Lancaster University Management School said, "*The HR function needs to think about leadership, recruitment and reward. Some of the*

[53] KAREN HIGGINBOTTOM, Why HR Needs To Take A Leadership Role In CSR, Forbes, January 06, 2014

[54] KAREN HIGGINBOTTOM, Why HR Needs To Take A Leadership Role In CSR, Forbes, January 06, 2014

best organizations have taken an interesting HR aspect to this where they look at the work-life balance of CSR" [55].

Elaine Cohen in her book "*CSRforHR: A necessary partnership for advancing responsible business practices*" focuses on the relationship between HR and CSR through some practical cases. For example, imagine that the strategic business priority for a company is to reduce carbon footprint to meet new environmental regulations, reduce costs and attract investors: on the CSR point of view, the actions to take will be to state emission measurement and reporting, to do an impact assessment, to develop new green technologies and to reduce workplace energy consumptions and business travels. How can HR lead this process? Establishing new environmental targets for managers, recruiting greenies, educating employees on environment, establishing a Green Team with a clear structure and processes, developing employee energy saving suggestions and new travel policies.

Evidences suggest a positive and significant relationship between CSR and competitiveness in Human Resource Management, even if for some companies in the short-run additional costs seems to have a greater impact compared with future obtainable benefits. It is proved that CSR activities applied within work environment are crucial for companies that want to attract talents and in terms of reputation.

The third of six indicators mentioned in the European Survey concerns consumers' perspectives, but it is still very debated if the implementation of corporate's socially responsible behaviours induce consumers to be loyal and faithful. All the consumers tend to positively respond when they are asked about the propensity to pay a premium price to buy products and services with no negative impact on society or environment. In practice, these good intentions are not always being complied with, maybe because of deep global economic crisis. Relationships between CSR and competitiveness in terms of consumers' choices strictly depend on companies' competitive position within the market and on the strategies firms have chosen to implement. For some organizations well positioned in the market, corporate social responsibility is an integral part of offered product quality. Contrarily, the possibility

[55] KAREN HIGGINBOTTOM, Why HR Needs To Take A Leadership Role In CSR, Forbes, January 06, 2014

to act over environmental and social legal standards is reduced for not well-positioned organizations.

Meijer and Schuyt (2005) [56] have analysed Dutch consumers' behaviour, and they realized that companies' social performance does not both influence and motivate consumers' purchasing choices. However, many other researches have shown that CSR is an important driver to reinforce business image and reputation, and those two issues are considered crucial in customer satisfaction. Furthermore, Mandl and Dorr (2007) [57] stated that in different European countries characterized by high employees' satisfaction rate about CSR corporate initiatives, firms can even benefit in terms of customer choices loyalty.

Many large-sized companies have imposed stringent social and environmental requirements even to their suppliers, in order to improve their image and reputation in customers' eyes. Instead, many other organizations are criticized because they realize advertising spots that improperly communicate environmental benefits deriving from the use of their products, so as to obtain a "greener" business image, which could influence customers' purchasing behaviours. Fake and excessive spots could determine serious risks and could generate consumers' sceptical reactions: this could damage not only brand image, but also the desirable potential competitive advantage for companies that advertise their goods on the basis of real observable "green properties".

Link between innovation and CSR is constantly increasing, and it is considered a good way to demonstrate how companies invest in social and environmental issues not only to reduce costs, but also to incorporate essential potential to create value and to develop new sources of income. CSR can lead to innovation by social, environmental and sustainable drivers, through the creation of new management systems, of new products, services and processes, or through the firms' entry in new markets. Mendibil in 2007 [58] has carried out a study about the propensity for

---

[56] M.M. MEIJER, T. SCHUYT, Corporate Social Performance as a Bottom Line for Consumers, Business & Society, 2005.

[57] I. MANDL, A. DORR, CSR and Competitiveness. European SMEs' Goo Practice, Consolidated European report, Vienna, 2007.

[58] Cfr. K. MENDIBIL, J. HERNANDEZ, X. ESPINACH, E. GARRIGA, S. MACGREGOR, How can CSR practices lead to successful innovation in SMEs?, Publication from the response Project, Strathclyde, 2007.

innovation of Italian, Spanish and UK small-medium sized companies, and it is possible to track down the existence of a positive interrelation between innovative performance and CSR. CSR can contribute in creating innovation skills and good business performance in three ways:

- To innovate thanks to the stakeholders' effort;
- To identify business opportunities bringing about challenges for society;
- To create workplaces appropriately to innovation.

CSR requires cooperation and dialogue between the firm and the whole stakeholders, both internal and external. Strong commitment to employees and external stakeholders influences innovative skills and business competitiveness. Innovation is meant as a cooperation exercise because it can help in solving social and environmental problems; it can improve the positive relationship between CSR and innovation. The developing of technologies that reduce carbon emission is an example of how social challenges can be involved in innovative actions.
It is an important opportunity for all the companies regardless of firms' size that innovation is addressed to all companies' challenges. Kramer in 2007 [59] published a paper about a 50 Danish SME analysis, and he demonstrated that innovations producing both social and environmental effects seem to be an expandable and non-negligible niche. The ability to integrate social and environmental issues within corporate strategy is crucial to determine business skills useful to successfully exploit social challenges. Through a massive analysis of 120 case studies, Totterdill [60] on 2004 found that new kinds of work organizations based on trust and participation can offer multiple advantages including competitiveness, through the introduction of successful innovation within products, services and processes. The importance of firms' trust placed in their own employees is strengthened by a 15 EU countries' study that has underlined the link between innovation and work, and

[59] Car. M. KRAMER, M. PFIZER P. LEE, Competitive Social Responsibility: Uncovering the Economic Rationale for Corporate Social Responsibility among Danish small and medium-sized enterprises, Project report, Copenhagen, 2007.
[60] Car. P. TOTTERDILL, Adaptability: Reuniting Competitiveness and Working Life in Europe, Nottingham, 2004.

which has highlighted how creativity and internal innovation are higher when the firm grants employees higher autonomy in problem solving processes.

Furthermore, it has been demonstrated that diversity within the workplace has a positive impact on innovative abilities [61]. Different backgrounds and experiences may bring to more creative and more efficient ways of thinking. London Business School studies [62] have revealed that innovative performance tend to be more effective in a mixed team environment, with a good gender balance. For the same reason, risks associated to diversity such as poor cohesion, conflicts, poor communication and participation have not to be sneezed. Innovation and other benefits can be ensured only if the company is able to implement a high quality of diversity's strategy, minimizing the risks above.

The fifth of six indicators mentioned in the European Survey concerns the link between CSR and strategic risk management. Bowman (1980) [63] refers to CSR as something that anticipates and reduces the sources of potential business risks. Heal (2005) [64] suggested that CSR may minimize conflicts between companies, society and environment. Furthermore, he stated that risk management intended in terms of conflicts' reduction and/or elimination could be the main benefits obtainable by CSR programs' efficiency.

Husted (2005) stated that CSR is an essential part of business risk management [65]. Orlitzky and Benjamin (2001) [66] identified different business risk kinds that CSR could mitigate, including agitation and concern in the workplace. CSR may help companies including SME to develop possible new regulation about social and environmental issues.

Growing number of companies is considering its own CSR commitments not only in terms of risk management, but also as a way to implement and improve reputation in

[61] Car. P. CAMPAYNE, The Business Case for Diversity – Good Practice in the workplace, 2008.

[62] Car. LONDON BUSINESS SCHOOL, Innovative Potential: Men and Women in Teams, The Lehman Brothers Center for Women in business, London, 2008.

[63] Car. E.H. BOWMAN, A Risk/Return Paradox for Strategic Management, MIT Press, 1980.

[64] Car. G. HEAL, Corporate Social Responsibility: An Economic and Financial frame work, The Geneva Papers on Risk and Insurance Issues and Practice, 30, 2005.

[65] HAYNE E. LELAND, Agency Costs, Risk Management and Capital Structure, The Journal of Finance, Chicago, 53, 1998.

[66] M. ORLITZKY, J.D. BENJAMIN, Corporate Social Performance and Firm Risk: A Meta-Analytic Review, Business & Society, 40, 2001.

consumers', employees' and government's eyes. CSR can be seen as a strategy to improve competitiveness through a better business image, if it is deeply embedded in business values and operations. Business Leaders' Initiative on Human Rights [67] stated that a key component for strategic approach is to convert potential risks in opportunities towards internal stakeholders' human rights. Opportunities deriving from companies' implemented policies for human rights could include positive impacts for the relationship with stakeholders, society and media, it could lead to positive impact on investors' trust and it could improve workers' morale, which inevitably influence their productivity. Even in supply chain management is possible to develop strong competitive advantage: many companies realized advantages in terms of brand value reinforcement, and creation of a deeper and more sustainable relationship with suppliers. What's relevant seems to be the advantage achieving not only for buyer companies: other studies revealed that buyer company's needs could become critical driver even in the introduction of a better supplier companies' management system.

Transparency about Corporate Social Responsibility reporting is an important issue: indeed, in the actual scenario many companies implement CSR actions or sustainability reports. In the past, firms were incentivised with the purpose to protect themselves against non-government organizations' critics. Although firms not always reached this aim, they had been the possibility to check other advantages, such as improving employees' welfare and pride to work for a specified company, a stronger relationship with external stakeholders, improving internal ability in measuring and managing social and environmental issues. Pohle and Hittner (2008) stated that a higher level of transparency might help firms to prevent troubles they could face with external stakeholders:" *the company that invites more eyes on its operations can preempt problems that would otherwise become very expensive to solve*" [68].

CSR is an essential risk management and reputation component for many companies. Firms operating in current markets are highly exposed to judgements and critics

---

[67] BUSINESS LEADERS INITIATIVE ON HUMAN RIGHTS AND THE GLOBAL COMPACT, A Guide Integrating Hights into Business Management, 2006.

[68] G. POHLE, J. HITTNER, Attaining sustainable Growth through Corporate Social Responsibility, IBM Institute for Business Value, IBM Global Business Services.

comparing with the past, and it causes a greater pressure to include CSR within their values, mission, and business operations.

Many academic studies were published about CSR effects on stock market, and they jump to different conclusions. McWilliams and Siegel in 2000 found those different views, individuating researcher who examined CSR impact on financial performances jumping to positive results, and others who underlined negative or neutral impacts. Even Orlitzky (2003) and Margolis (2007) showed that links between CSR and stock markets exist, are positive, but immaterial. Those different results depend on how CSR and financial issues are analysed. If investors consider those results in their analysis, good Corporate Social Responsibility's performances might lead to better and simplified access to financial resources. Growing interest in Social Responsible investments is relevant, and it better explains opportunities that firms interested in financial resources could face.

European Commission defined CSR as a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis, and considers it an essential part of the complex European strategy for growth and employment. If more and more companies were recognized both social and environmental responsible, it could help Europe to achieve the identified objectives to define those growth and employment strategies. Those objectives include making Europe more competitive, creating a greater social integration.

Some Member States have defined internal policies to promote CSR locally and to improve national competitiveness. Danish government in 2008 published its own CSR strategy and officially declared its commitment to reinforce Danish reputation on an international level, spreading the idea of a carful country about responsible growth, and intent on supporting its position on global markets in terms of share of investments and improving working conditions.

Even Italian government launched in 2002 a project aimed at increasing awareness of Corporate Social Responsibility, called CSR-Social Commitment (CSR-SC). It was inspired by the growing international community's interest in adopting ethical and nature-friendly behaviors. The program's guidelines have been defined in relation to CSR European Commission definition I've mentioned in the previous lines. The voluntary approach to CSR and the promotion of a social responsible culture in national economic system are the key elements of the Italian approach in 2002. The main goals of the program are to spread CSR, sustainable development and good practice culture; to spread the Social Statement use, consist of the set of indicators that companies could adopt in assessing their own social responsibility performances.

Credible (and so recognized by citizens and other stakeholders) CSR practices might move the company to narrow the trust gap between firms and other stakeholders. Contrarily, not credible CSR practices might create trust problems between the counterparts. Improve relations with its stakeholders might lead to positive benefits for the company, because it would be perceived as an entity that is able to share value creation with the society, and as the entity that is able to manage society challenges creating income, through its commercial success. Investments to develop employees' skills and knowledge are an important aspect that could have positive implications for the company in terms of workforce growth and maintenance, in order to guarantee global competitiveness. Therefore, CSR can help business performance innovation, and it might improve even international competitiveness. Some firms could be able to increase their attractiveness to incentivize local investments through by developing a good reputation; it is clear the positive relation between CSR and competitiveness.

Concluding, CSR has positive effects on all the indicators and the main identified issues; what it changes is the impact intensity. Firms could face stronger positive evidences for human resources, risk management, reputation and innovation, while lower effects could be faced for structural costs, consumer perspectives and stock markets. It is important to underline that organizations implement CSR to create value; for some companies CSR propensity depends on their competitive positioning; other firms develop competitive strategies that require only applying respect for the law in social and environmental situations, because if they break legal conformities they would face higher costs that would threaten their competitiveness: this is the case of those companies whose competitive positioning depends on lower costs policies.

For SME, CSR impact is relevant mostly on human resources, business reputation and innovation. Results support the idea that CSR shall make a considerable contribution to European goals about growth strategies and employments' policies, and it should induce many Member States, in according with stakeholders, to promote CSR as a key part of the new national policies. It is crucial to comprehend interrelations between companies and society to let CSR concept and actions evolve: those interrelations have to be anchored in activities and strategies; successful companies demand to operate in a healthy society. Training, attention to health, equal opportunities are essential to develop a productive and profitable workforce within the company. Safe products and good working conditions not just attract many customers, but also reduce accidents and, as a consequence, operating costs. Efficient use of water, energy and other natural resources makes a company more productive and looks good in stakeholders' eyes, and it implies that both business decisions and social policies have to follow "shared value" principle. Business choices should produce benefits and advantages for both organizations and society. If the two parties followed politics whose benefits were going to advantage only one, it could be obtained dangerous code of conduct. Temporary advantages may undermine long-term shared prosperity. For this reason, it is essential that a company integrates social perspective in is own structure (even if it is already defined) to understand more fully the important issues of its business strategy. Interdependence between firms and society can be analysed with two points of view. In the first case, companies "invade" society through their business operations: those are defined "*inside-out linkage*" [69]. Virtually, any business value chain component experiences with the community within which the firm operates, generating both positive and negative consequences. Companies become more and more conscious of social impact generated by their activity (staff recruitment, polices, emissions/pollution and refuses; those impacts might vary according to intensity and seriousness and indeed strictly depend on in which area the firm is located. At the same time, the firms' impact on the society changes over time according to social standard evolution and

[69] M.E. PORTER, M.R. KRAMER, Strategy & Society, The link between Competitive Advantage and Corporate Social Responsibility

scientific progress, and companies might jeopardize their survival if they don't pay carefully attention to identify and predict how social effects will evolve over time.

Society is interested not only in business activities, but even external social condition could influence (for better or worse) companies. This second issue is defined "*outside-in linkage*" [70]. Every company operates within a competitive context, which significantly influences firms' ability to follow its strategy, especially in the long run, and social conditions are for sure key elements in those conditions. Competitive context get less attention compared with value chain effects, but it might a greater strategic relevance, both for companies and society. Social context could be divided in four areas:

- Quantity and quality of available human resources and inputs, such as infrastructures;
- Regulations and incentives such as policies that protect intellectual property, ensure transparency, fight corruption and encourage investments;
- Size and characteristics of local demand, which is influenced both by products' quality and safety standards, customer rights and government's justice;
- Local willingness to support the industry, such as services for the supplier and equipment for the producer.

All those aspects characterizing the framework could be considered opportunities for CSR initiatives. Companies obviously can not solve all problems affecting society by their own, and sustaining related costs. Therefore, every organization should choose which issue has to be considered, evaluating interactions with its business, leaving other numerous issues not linked to its activity to other firms or Non Governmental Organizations. The essential aspect to consider in CSR implementation is the existence of a real opportunity to create value to share, which is the most relevant benefit for the whole society. Kramer and Porter in 2006 proposed a model that suggests classifying corporate social issues in three different categories:

[70] M.E. PORTER, M.R. KRAMER, Strategy & Society, The link between Competitive Advantage and Corporate Social Responsibility

- Generic Social Issues: important for society, but they are unaffected by business operations and don't influence long-run firms' competitiveness;
- Value Chain Social Impacts: they refer to business activities linked to ordinary business operation conduct;
- Social Dimensions of Competitive Context: they are external factors that significantly refer to crucial competitiveness drivers related to the contexts in which the company operates.

Within each category, the social dimension will change from business unit to business unit, from sector to sector, etc. It is essential to categorize social issues because it is the only way to efficiently achieve the final goal: to create an explicit, clear and profitable CSR strategy. Corporate Social Responsibility looks beyond community's expectations and existent market's opportunities, to simultaneously reach social, economic and environmental benefits (triple bottom line); indeed companies try to mitigate problems arising from the strengthening of the business strategy. In this idea, companies should consider CSR on a strategic point of view, and, for this reason, they have to hardly commit to get a relevant social impact and to obtain larger business benefits.

CSR is characterized by the application of "good corporate citizen" behaviours, because companies have always to comply with the constantly evolving stakeholder concept, and they have to act in order to mitigate existent/future business activities' inimical results.

A CSR sine qua non condition is to be good citizens; therefore companies feel the need to act in the right way. Many worthy local corporations really need to enlarge business contributes, and their employees are proud to belong to a firm that positively relates to local communities: it is crucial for employees to feel proud and honoured to be part of a socially responsible firm. A reactive CSR is characterized by actions that aim to mitigate possible problems deriving from business value chain. It exists multiple possible value chain impacts for each business unit; so many companies have adopted a CSR checklist referring to a standardized set of environmental and social risks. This list represents a crucial starting point, but companies need to be more proactive and to implement internal ad hoc processes. Managers of each single business unit may use value chain as an instrument to systematically identify social impacts of every single activity, in every situation and environment. Besides being reactive, CSR might be strategic: company has to face with best practices, but also its goal is to achieve a unique position and to implement innovative actions compared to competitors, in order to reduce costs and to meet better emerging customers' needs. For this reason, CSR strategy includes both inside-out and outside-in approaches, and drives to adopt both contemporary because it creates a symbiotic relation between business success and positive results for community. In this way, strategic activities under value chain could be implemented so as to improve social dimension's results. At the same time, investments in competitive environment have the potential to mitigate negative effects deriving from the externalities of business value chain activities.

It is interesting to measure CSR social impacts. Managers should understand the importance of outside-in influences on competitive environment, while people leading socially responsible initiatives have to develop a clear view of each value chain activity. Corporations that make the right choices and are able to integrate social actions within their core strategies probably will increase their competitive advantage.

When companies provide jobs, invest money, produce goods and develop business strategies they constantly have a deep and positive influence on society. All attempts to find a shared value in operations practices, and social dimension of competitive environment have the potential both to protect social and economic development and to change way of thinking to firms and society. Non Governmental Organizations, governments, and companies should stop thinking in terms of CSR, but act in terms of Corporate Social Integration. CSR should be perceived as a positive shared value instead of damage or an advertising campaign, and it requires a dramatically different way of thinking business. However, researchers are convinced that CSR (in a Corporate Social Integration point of view) will become a more and more important issue for competitive success. Companies can not be responsible for the whole world problems, and they can not employ all their resources to solve them all. Each firm may identify a given set of social problems, might act to try to solve them and benefit from those actions (obviously if it has the competences). Directing social issues to shared value creation may lead to positive solution and rules out the need of

governmental or private aids, because the most significant action that companies can take to local communities is to contribute to economic prosperity.
An "Osservatorio Socialis" 2014's article [71], in partnership with Council Presidency, Ministry of Economical Development, Ministry of Labour and Social Politics and Ministry of Environment, showed Italian situation about Corporate Social Responsibility issues.
The article underlines that the number of Italian companies with a strong interest in CSR practices is growing: even if the amount of money invested is reducing because of the financial crisis, firms are implementing targeted measures. New business strategies are focused on employees' involvement: waste combating, optimization of energetic consumes and waste cycle. In the last years, awareness about CSR importance has spread in Italian companies and has permeated their own identity, while the national institutions are failing to follow up the demand of fiscal incentives for good practices. From the financial situation, companies are especially absorbing that resources are valuable, processes are crucial, and that business social impact requires a clear strategy. In terms of numbers, in 2011 report, 64% of interviewed firms declared to put efforts in corporate social responsibility, while in 2014 this number has grown to 73% of Italian firms with more than 80 employees. Even if financial crisis reduced invested resources (in 2013 average invested amount was 25% lower than 2011), the number of firms interested in CSR practices is growing, and in 2014 the average budget amount is 7% higher than 2013: from 158 thousand euros to 169 thousand euros. The most active sectors in CSR practices are finance, pharmaceutical and manufacturing, but even technologic/informatics, with a total investment of about 920 million euros. But it is in strategic CSR choices that it is possible to identify the most relevant change compared with 2011 report. Indeed, in the previous years it was diffused an external dimension of CSR, linked for example to humanitarian donations; now and for the future, companies invest in environment: 54% of sample declared to have activated strict measures on wasted paper, water, lighting and canteen leftovers reducing; then investments to improve energy saving (36%), separate collection strengthening (33%) new technologies to reduce pollution and improve waste disposal (33%), while money donation are falling down (only

[71] L'Italia volta pagina con la csr: aziende e dipendenti insieme per l'ambiente, Osservatorio Socialis

26% claimed to organize fundraising within the company) with philanthropic activities (24%).

Therefore, the larger number of firms chooses to focus their CSR activities on local area (42%): then, organizations try to use CSR even to improve their "neighbourly relations". Roberto Orsi, Osservatorio Socialis director, claimed, "*the first world identified by the analysis of those data is "attention": attention to waste, to employees, to the environment that we live and we will leave to our children and nephew, to the territory in which we operate, so it is emerging a new way to do business. The other key-world is "saving", which in the last years it has been become an obligation, but it is also one of the main advantages to act responsibly, and a real tonic for CSR development. We refer to reductions in raw materials and resources consumption, to more control on value chain and a greater attention to costs*" [72]. The first argument to Social Responsible behaviors is reputation (47%), which means that firms have understood the centrality of social responsibility in business image building, but are missing that CSR behaviors have positive and large impacts on business, competitiveness and internal environment (only 27% of sample). On the third level are located moral motivations (CSR as business contribution to sustainable development) and relations with stakeholders and local authorities. Coherently, the main criterion in initiative choices is their visibility (40%), than geographical area (31%) i.e. link with the region in which the firm operates. An important trend emerged from this analysis: even if firms have claimed that their first argument to social responsible behaviors was to gain reputational results, the first advantage they have really recognized is the improving of internal environment and employees involvement (around 50% of the sample). It confirms the idea that in new hyper-competitive markets CSR activities can not be implemented to achieve only reputational goals, because the whole large and small-medium enterprises have embarked on this road, and because you could face sudden problems. Think about diesel gate scandal involving Volkswagen, the world's leading car manufacturer. In brief, the company planned "to invade" American automotive market, and implemented the production of million of Euro 5 cars, characterized by a poor environmental impact. After a massive advertising campaign,

[72] L'Italia volta pagina con la csr: aziende e dipendenti insieme per l'ambiente, Osservatorio Socialis

they sold around 11 millions of cars in the whole planet, earning billions of dollars. The problem was that those cars had software installed on the control unit that allowed producing the information necessary for the approval, whereas in fact those cars were much more pollutant than what registration stated. American researcher through crossed data analysis discovered that Volkswagen its other brands' car emissions did not complied with Kyoto Protocol. This led to an enormous scandal and as a consequence the firm was both forced to pay a great amount of money in each country the noncomplying cars were sold, and to face the massive reputational problems that reduced sells and led large float of cars renter (such as big companies or firms' sponsor) to cut off contacts with the Group. This is an example of why social and environmental thinking have to be integrated within corporate's activities, value chain, employees, and more in general strategy to face positive performance for all set of indicators.

Another element supporting this idea is that firms interviewed within the Osservatorio Socialis' initiative clamed that is the private citizen (meant as public opinion) that put efforts to spread social responsible behaviors' culture: they are people that will buy firms' products. Only 3% of the sample thinks national institutions are putting efforts in CSR implementing, and 75% of the sample keeps asking institutional policies to reward CSR activities, such as certifications, recognitions and tax relief. Nevertheless, 40% of respondents believe that the financial crisis has generated (or has sustained) an implementation of CSR attention. In the last years firms have reanalysed the economic situation and CSR is perceived as a powerful strategic repositioning instrument.

A pessimist sees the difficulty in every opportunity; an optimist sees the opportunity in every difficulty. Winston Churchill

3.1 Triple bottom-line reporting

In the mid-1990s, John Elkington, co-founder of the business consultancy SustainAbility, coined the term 'triple bottom line' (Elkington 1994). In common business language, “bottom line” is referred to profit or loss, which is usually recorded at the bottom line of the financial report. The basic principle behind it is that financial results do not provide a comprehensive vision of company’s performance. For example, if a company shows high monetary profits, but its activity with dangerous chemicals cause water pollution and many health problems for people using that aquifer, how do we perform a cost-benefit analysis? Elkington suggests that in addition to financial information, corporations should also report on social and environmental performance, the other two “bottom lines”; arguing that, as all of these aspects of performance are essential to future market success, so they should be reported. However, while it is satisfying to envisage an income-like number for financial, environmental and social impacts, such metrics are unlikely to be feasible (Norman and MacDonald 2004). Wheeler and Elkington (2001) subsequently proposed the development of interactive sustainability reports and communications, relying more on the conceptual notion of the triple bottom line rather than a strict interpretation and a single audited report. This proposal implies a reduced role for accountants as the nature of reporting changes from 'end of pipe' verification and attestation to a more strategic form of assurance based upon examination of governance and risk-management systems (Wheeler and Elkington 2001).

Basically, Elkington 3BL model intends to measure social and environmental performances: doing it helps firms to improve social performance, and firms with better social and environmental performance tend to be more profitable in the long-run.

Elkington wants to explain that companies can not only aim to earn profits, but they need to take account of the environment in which they operate. Therefore, by focusing on comprehensive investment results such as the three interrelated dimensions of social, economic and environment, its triple bottom line reporting can be an important tool to support sustainability goals.

Interest in triple bottom line accounting has been growing during the years, even in profit and non-profit sectors: therefore, many businesses corporation have adopted triple bottom line framework to evaluate their overall performances.
Here, a problem can be that the three P's (People, Planet, Profits) do not have a common unit of measure: we know that profits can be measured in euros or dollars, but what about social capital or environmental health?
Some scholars have proposed to monetize the Triple Bottom Line dimensions, including environmental damage and social benefits: we argue that, while having a common unit of measurement (dollars or euros) might be a convenient idea, it could be not appropriate to put an economic value on forests, wetlands or endangered species [73], and it could be difficult to calculate a method of finding the right price for forests or wetlands.
Another solution would be to calculate the Triple Bottom Line as an index: in this way, the problem that arose about the incompatibility of unit of measurement could be overtaken, because comparisons between entities can be an accepted accounting method.
Nevertheless, even this method can bother: in fact, there remains some subjectivity for example about how is the index components weighted, or if each "P" get equal weighting, or even if each of the three P's have got equal weighting, and about the sub-components of each "P".
An example of an index, which in this case compares a county with the nation's performances for different components, is the Indiana Business Research Centre's Innovation Index, which allows investigating firms' region innovation capacity, guiding firms' approach to public investments and identifying occupation and business clusters (Exhibit). Another option would be measuring sustainability using dollars or using an index. If the users of the TBL had the stomach for it, each sustainability measure would stand-alone. "Acres of wetlands" would be a measure, for example, and progress would be gauged based on wetland creation, destruction or status quo over time. The downside to this approach is the proliferation of metrics that may be pertinent to measuring sustainability. Having understood how much it

[73] The Triple Bottom Line: What Is It and How Does It Work? Indiana Business Review, Timothy F. Slaper & Tanya J. Hall

could be difficult to calculate TBL using those parameters, I will focus on how Global Reporting Initiative the worldwide most important sustainability framework suggests acting.

According to the Global Reporting Initiative (GRI 2011), sustainability reporting is:

"The practice of measuring, disclosing, and being accountable to internal and external stakeholders for organizational performance towards the goal of sustainable development. Sustainability reporting' is a broad term considered synonymous with others used to describe reporting on economic, environmental, and social impacts (e.g., triple bottom line, corporate responsibility reporting, etc.). A sustainability report should provide a balanced and reasonable representation of the sustainability performance of a reporting organization – including both positive and negative contributions. [74]*"*

According to the evolution that is including sustainable reporting and the doctrinal evolution on corporate governance on one hand, and on the other hand the impact that triple bottom-line reporting had on modern management, we can identify in the integrated report one of the best possibilities to integrate non-financial information with financial disclosures, giving to management the best possible view of the whole company's internal and external relationships, problems and strengths.

The integrated report is the holistic and integrated representation of the firm's business situation, referred to company's' financial, social, economic and environmental results. It could represent a tool through which a company could implement trust and legitimacy with its stakeholders, especially for listed companies, because it provides a lot of information that can be useful to determine the firm's economic value.

To determine the economic value of a company, it is important to take in consideration not only what the company reports on its financial report, but also the so-called *"non-financial information":* for example, reputation, board of directors' and management's quality, company's strategy and its risk management, such as social and environmental risks. Basically, the investors through the integrated report can evaluate corporate risk management's quality, including environmental and social risks.

---

[74] Www.globalreporting.org, Global Reporting Initiative, 2011

Today, many companies include risk evaluation about social and environmental aspects in their sustainability report. However, sustainability report is often untied to financial reporting, and we can identify some differences between the two reports, such as:

- Financial reporting is mandatory, while sustainability report is voluntary: the first one must be drawn up basing on the law, and international accounting principles; for the second one, there are not (yet) legal frameworks, and companies usually adopt international guidelines (such as Global Reporting Initiative) to draw up it. These guidelines allow firms to choose between three different levels of reporting, depending on the number of indicators to be included.

- Date of publication: annual financial reports (for listed companies) should be made available fifteen days before shareholder meeting; for sustainability reports, it does not exist a time limit for its publication, and it is possible that companies issue it later than financial reports.

- Responsibility for the document: according to the law, mandate for drafting financial reports is given to the directors, and the board of directors formally approves it. Furthermore, in Italy, listed companies' annual reports have to be linked with a written statement prepared by the manager in charge of financial reporting, which certify correspondence between accounting records, registers and entries. Because of its voluntary nature, sustainability reports' approval process is not always formalized.

- Layout and graphics: There is often an inconsistency between graphic layout used for financial report and sustainability report. In fact, whereas the first one often aims to communicate with institutional investors, the second one aims to communicate directly with heterogeneous stakeholders.

- External Audit: according to the law, annual financial statements are required to be audited by external auditor, whereas sustainability report is not legally required to be audited by external professionals, even if it should be to certify data reported.

In this context G4 was planned and developed. The GRI Sustainability Reporting Guidelines are periodically reviewed to provide the best and most up-to-date guidance for effective sustainability reporting. The aim of G4, the fourth such update, is simple: to help reporters prepare sustainability reports that matter, contain valuable information about the organization's most critical sustainability-related issues, and make such sustainability reporting standard practice: it is crucial for society and markets that sustainability reporting evolves in terms of content, and from an exceptional activity undertaken by a minority of leading companies to a standard practice.

3.2 Integrated Report Content

Integrated report should describe the way the company applied its sustainability strategies, and the positive and negative consequences that will influence stakeholders in economic, social and environmental terms.

Sustainability report parameters are not standardized, instead of financial report; however, Global Reporting Initiative guidelines could be a useful benchmark, and could allow reaching certain uniformity of approach between companies. Furthermore, basing on the importance and the emphasis that GRI guidelines give to the most relevant themes in term of sustainability development and corporate strategy, the integrated report should be not only a simple indicator collection, but also the representation of the sustainability governance process.

Companies should provide its own sustainability indicators system, which should be integrated with GRI system, in order to represent the link between the impact on stakeholders and net profits; the firm should systematically issue those indicators, in order to guarantee the higher possible level of transparency.

Another important point is about the so-called "ethics fund": integrate reporting should allow investors to take conscious investment decisions, even considering the business sustainability degree. Currently, ethics fund make use of external evaluations, particularly based on answers that companies provide through reporting

questionnaire to specialized agencies. This kind of information transmission, inevitably create further information asymmetry about corporate sustainability: in fact, the answers companies provide to questionnaires are not always included in sustainability reports, and other investors could have interest in these information.
Integrated report should be linked with information set that the company provides to ethics fund and specialized agencies. The "apply or explain" principle should be applied to answer sustainability and social business topics: this principle is already used on a voluntary basis in other context for issues of compliance with corporate governance requirements. Through integrated report, companies could explain the way sustainability principles and recommendations have been applied, and the reason for any failure to apply them.
Therefore, an integrated report should tell the story of the company, including both financial information and other information explaining the company's strategic view and direction, analysing targets, risks and potential opportunities. Obviously, the report structure depends on the complexity of the company's business (PwC), but it should focus on some topics that the company considers most important to be analysed and discussed, and that could be relevant for the medium-long term success: this again leaves to the company the possibility to choose different scope of reporting.

3.3 Roadmap to integrated reporting

First of all, it could be important to describe the process that a company should implement creating its integrated report. Indeed, we recognize a dual value to this tool: on the one hand, it provides appropriate information to company's stakeholders and shareholders, but on the other hand it could be important to internally define and understand the whole company's corporate strategy, analysing internal purposes. To guarantee a concrete output, company needs a clear pool of data from which the firm can choose the most relevant and congruous information, and it means that the "heart" of the company should be organized in a way it can provide those kinds of data as quickly as possible, and on a regular and reliable basis. To get there, it is important to have a high degree of cooperation across the various area involved in this process, creating communication channels between different business units, because the final result will simply reflect those internal processes.

Thus, the first important point is to clearly define the business model, with the intent to offer a more extensive description of performance, which means to consider all the relevant capital on which a company depends, explaining their role in how the company seeks to create and sustain value. In this case capitals can be defined as the resources (economic and non economic) and the relationships that are consumed by the company, influence it or are influenced by it.
Here, it is useful for a company to define the importance of each capital, and categorize it by importance: some examples are financial, manufactured, natural, social, intellectual capital and so on. The integrated report is built on this business model analysis, and it is the level of integration of relevant capital that opens non-alignment possibilities. It means that an integration analysis could be a recommended first step, which allows the company to evaluate value drivers in current reporting period and compare them with the desired future level, trying to identify possible gaps and action to reduce them.

The second point is directly linked to the first: once the firm have understood its own business model, and categorized its capital, it is the moment to assess the opportunity and risks that could arise from the integrated view. Indeed, it is clear that if a company uses to evaluate itself and develop business strategies basing on its current business model, an implementation could bring kind of difficulties: now the company will take in consideration different categories of capital that could conflict with both stakeholders expectation and the environment in which the firm operates. For this reason, it is crucial to develop an understanding of interdependencies between financial and nonfinancial goals [75], to take in consideration stakeholder expectations on sustainability and social aspects when top management define strategic goals, defining and implementing measures in their approach to address them.

[75] The future of corporate reporting, PwC, May 2012

The third step can be defined as the process to adapt internal indicators to this new view. Obviously, analysing contemporary both financial and non-financial aspects need to create a solid structure of KPIs, which continuously measures sustainable business activities. Companies should identify proper KPIs, which should be aligned with their corporate strategy and which should focus management and stakeholders' attention on both financial matters and material issues for the business model, and also on the most relevant possible effects on social and environmental area.
Here, the problem could be to analyse and measure non-financial impacts through some performance indicator.

Therefore, it may be difficult to portrait a complex relationship system in one document, so companies may ask themselves which should be the best media to be used to publish an integrated report, that suits the various stakeholders in the best possible way, and that can be clearly and easily understood.
To answer this question, organizations may consider a general gap analysis: they could compare current reporting content and structure with the requirements of integrated reporting. In this way, it makes possible for the company to assess its level of integration, and to evaluate realistic opportunities and for the implementation of this level of integration.
Because integrated report needs to satisfy existing regulatory requirements, in particular if third-party verification is required, it could be problematic to integrate sustainability and financial report depicting all the information desired by stakeholders. In its paper *"The future of corporate reporting",* PwC analyse different stakeholders interviews: the research shows that *"the focus of the report and the availability of information are especially important* [76] *",* and companies "*are recommended to involve stakeholders' views in the process of determining the reporting structure and media"* [77].
Finally, once published, it is important to understand that the first integrated report will not be the end of something, but the starting point for the next steps of integration processes, such as improving data quality, or aligning other publications.

[76] The future of corporate reporting, PwC, May 2012
[77] The future of corporate reporting, PwC, May 2012

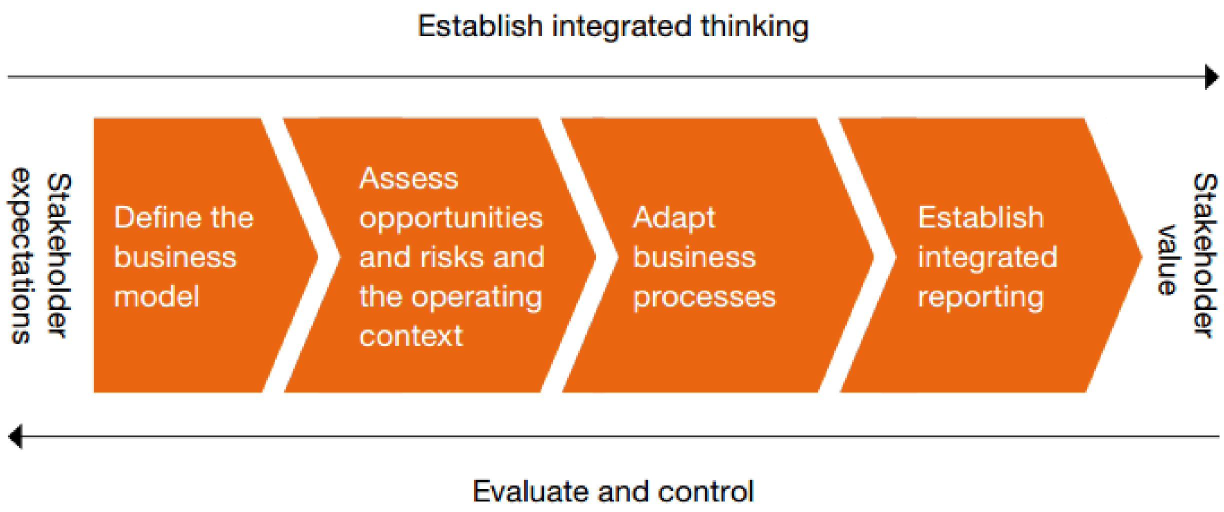

Figure 3: PwC integrated reporting principles [78]

3.4 Key concept elements and guiding principles

I have exposed a general roadmap to follow, starting from the idea to integrate sustainability and financial report, to the implementation of an integrated thinking within the company. Here, I'm going deeper on which should be the key contents and guiding principles companies should highlight to guarantee an efficient final output. According to Global Reporting Initiative, "*Sustainability reporting helps organizations to set goals, measure performance, and manage change in order to make their operations more sustainable. A sustainability report conveys disclosures on an organization's impacts – be they positive or negative – on the environment, society and the economy. In doing so, sustainability reporting makes abstract issues tangible and concrete, thereby assisting in understanding and managing the effects of sustainability developments on the organization's activities and strategy.* [79]"
First of all, it is important to define some key principles that will represent the basis upon the entire document stand up; than, companies have to integrate these guiding principles with their organizational overview, their business model, their operating

[78] The future of corporate reporting, PwC, May 2012
[79] Global Reporting Initiative Guidelines, 2014

context, with the strategic objectives they have fixed and the strategies to achieve those objectives, with their corporate governance, with their current performances and finally their future expectations and outlooks.

Briefly:

- Strategic focus: it corresponds to the starting point; through the integrated report, a company should provide insight into its strategic objectives, explaining how top management thinks to create and sustain value over time, which strategy will be choose, and resources the company will depend on;
- Connectivity of information: an integrated report underlines possible links between different components of a company's business model, external factor which influence the organization and different resources and relationships the firm and its performance are dependent upon;
- Future orientation: an integrated report should include the management's expectations for the future, as well as other information to help report readers understand and assess an organization's prospects and the uncertainties it faces;
- Responsiveness and stakeholder inclusiveness: an integrated report should provide insights into an organization's relationships with its key stakeholders, and to what extent the organizations understands, considers and responds to key stakeholders' needs;
- Conciseness, reliability and materiality: an integrated report should provides concise, reliable information that is material to assessing an organization's ability to create and sustain value in the short, medium and long term.

Then, Global Reporting Initiative provides firms a table of content resuming categories and aspects to analyse and report. In short:

- Economic Aspects, including economic performance, market presence, indirect economic impact and procurement practices;
- Environmental aspects, such as materials, energy and water consume, biodiversity, emissions, supplier environmental assessment and compliance;
- Social Aspects, divided in four different sub-categories:

a) Labour practices and decent work, including employment, labour management relations, occupational health and safety, training and education, diversity equal opportunities;
b) Human Rights, including investments, non-discrimination, child labour, forced or compulsory labour, security practices.
c) Society, including local communities, anti-corruption, public policies and anti-competitive behaviors;
d) Product responsibility such as customer health and safety, products and services labelling, marketing communication and customer privacy.

Therefore, GRI developed and analysis of the so-known Reporting Principles. Reporting Principles are fundamental to achieving transparency in sustainability reporting and therefore should be applied by all organizations when preparing a sustainability report. The *Implementation Manual* outlines the required process to be followed by an organization in making decisions consistent with the Reporting Principles. The Principles are divided into two groups: Principles for Defining Report Content and Principles for Defining Report Quality.
The Principles for Defining Report Content describe the process to be applied to identify what content the report should cover by considering the organization's activities, impacts, and the substantive expectations and interests of its stakeholders.
The Principles for Defining Report Quality guide choices on ensuring the quality of information in the sustainability report, including its proper presentation. The quality of the information is important to enable stakeholders to make sound and reasonable assessments of performance, and take appropriate actions.

The Principles for Defining Report Content are:

- *Stakeholder Inclusiveness*: The organization should identify its stakeholders, and explain how it has responded to their reasonable expectations and interests; stakeholders in this sense can include both who have invested in the company and those who have other kinds of relationships to the firm.
- *Sustainability Context*: The report should present the organization's performance in the wider context of sustainability. Information on

performance should be placed in context. The underlying question of sustainability reporting is how an organization contributes, or aims to contribute in the future, to the improvement or deterioration of economic, environmental and social conditions, developments, and trends at the local, regional or global level, and if a company reports on trends in individual performance, it fails to answer to the key driving question.

- *Materiality*: The report should cover Aspects that reflect the organization's significant economic, environmental and social impacts; or substantively influence the assessments and decisions of stakeholders.
- *Completeness*: The report should include coverage of material Aspects and their Boundaries, sufficient to reflect significant economic, environmental and social impacts, and to enable stakeholders to assess the organization's performance in the reporting period.

The Principles for Defining Report Quality are:

- *Balance*: The report should reflect positive and negative aspects of the organization's even economic performance to enable a reasoned assessment of overall performance. The overall presentation of the report's content should provide a clear picture of the organization's performance.
- *Comparability*: The organization should select, compile and report information consistently. In this way, it is possible to allow stakeholders analysing changes in the organization's performance over time, and that could support analysis relative to other organizations. Comparability is necessary for evaluating performance.
- *Accuracy*: The reported information should be sufficiently accurate and detailed for stakeholders to assess the organization's performance. Responses to economic, environmental and social DMA and Indicators can be expressed in many different ways, ranging from qualitative responses to detailed quantitative measurements. The characteristics that determine accuracy vary according to the nature of the information and the user of the information.
- *Timeliness*: The organization should report on a regular schedule so that information is available in time for stakeholders to make informed decisions. The usefulness of information is closely tied to whether the timing of its

disclosure to stakeholders enables them to effectively integrate it into their decision-making. The timing of release refers both to the regularity of reporting as well as its proximity to the actual events described in the report.

- *Clarity*: The organization should make information available in a manner that is understandable and accessible to stakeholders using the report. Information should be presented in a manner that is comprehensible to stakeholders who have a reasonable understanding of the organization and its activities.
- *Reliability*: The organization should gather, record, compile, analyse and disclose information and processes used in the preparation of a report in a way that they can be subject to examination and that establishes the quality and materiality of the information. Stakeholders should have confidence that a report can be checked to establish the veracity of its contents and the extent to which it has appropriately applied Reporting Principles.

Principles for Defining Report Content and Quality have to go hand-to-hand with General Standard Disclosures, which practically identify and define what a company should describe and report. Firms are obviously not obliged to touch the whole points identified by standard disclosures, but it could be useful both to give to stakeholders a complete and wide analysis of the firm, and for the company to comprehend its own strengths and weaknesses, evaluating social, environmental and economic trends.

The General Standard Disclosures are divided into seven parts: Strategy and Analysis, Organizational Profile, Identified Material Aspects and Boundaries, Stakeholder Engagement, Report Profile, Governance, and Ethics and Integrity.

- *Strategy and Analysis* should provide a general organizational strategic view, in order to provide context for subsequent more detailed reporting against other sections. It is intended to give information on strategic issues instead of simply summarize contents. An example is a statement from the most senior decision-maker of the organization (such as CEO, chair, or equivalent senior position) about the relevance of sustainability to the organization and the organization's strategy for addressing sustainability. **(Exhibit 1)**
- *Organizational Profile* basically provides a general overview of organizational characteristics, in order to give context for subsequent more

detailed reporting against other sections. Examples are to report the location of firms' headquarter, the nature of ownership and legal form, the total number of employees, net sales and revenues.

- *Identified Material Aspects and Boundaries* gives an overview of the processes that a company has followed to define the report's content. Examples are the list of all material aspects identified in the process for defining report content, and for each identified material issue, to report in which way this aspect is material for the organization.
- *Stakeholder Engagement* literally provides an overview of the organization's stakeholder engagement during the reporting period, such as the list of stakeholders' groups, or key topics and concerns that have been raised through stakeholder engagement, and how the organization has responded to those key topics and concerns, including through its reporting.
- *Report Profile* provides an overview of the basic information about the report, the GRI Content Index, and the approach to seeking external assurance. Firms are asked to list specific standard disclosures related to each identified material aspect, and indicates if the standard disclosure has been externally assured.
- *Governance* gives an overview of:
    a) The governance structure and its composition describe how the highest governance body is established and structured in support of the organization's purpose, and how this purpose relates to economic, environmental and social dimensions.
    b) The role of the highest governance body in setting the organization's purpose, values, and strategy sets the tone for the organization, and has a major role in defining its purpose, values and strategy.
    c) The competencies and performance evaluation of the highest governance body describe the highest governance bodies and senior executives' willingness and capability to understand, discuss, and effectively respond to economic, environmental and social impacts;

d) The role of the highest governance body in risk management describes whether the highest governance body is accountable for risk management process and its overall effectiveness. The highest governance body's and senior executives' consideration of longer term and broader-reaching risk elements and their integration into strategic planning are important governance disclosures.
e) The Role of the highest governance body in sustainability reporting show the extent of the highest governance body's involvement in developing and approving the organization's sustainability disclosures,
f) The role of the highest governance body in evaluating economic, environmental and social performance show how the highest governance body is involved in monitoring and reacting to the organization's performance for economic, environmental and social topics. Economic, environmental and social performance presents major risks and opportunities that the highest governance body ensures are monitored and addressed
g) Remuneration and incentives focus on the remuneration policies established to ensure that remuneration arrangements support the strategic aims of the organization, align with the interests of stakeholders, and enable the recruitment, motivation and retention of members of the highest governance body, senior executives, and employees.

- *Ethics and Integrity* provides provide an overview of the organization's values, principles, standards and norms. They also give information about firms' internal and external mechanisms for seeking advice on ethical and lawful behaviour and their internal and external mechanisms for reporting concerns about unethical or unlawful behaviour and matters of integrity.

An important example of good integrated thinking and reporting is Puma case, a famous sport and lifestyle company, which in 2011 published the first Environmental Profit and Loss Account, which was defined by The Guardian as "*a truly pioneering* *attempt to put a cost on the impact a business has on the environment, across its entire supply chain – providing lessons for the corporate world at large"*[80].

On the report, Puma's executive chairman Jochen Zeitz wrote "*I sincerely hope that the Puma EP&L and its results will open eyes in the corporate world and make the point that the current economic model, which originated in the industrial revolution some 100 years ago, must be radically changed. A new business paradigm is necessary and a transformation of corporate reporting will be central to this – one that works WITH nature and not AGAINST it*" [81].

To realize its vision, inspired by The Economics of Ecosystems and Biodiversity (TEEB) study on the economic benefits of biodiversity, Zeitz understood that if its company wanted to be really sustainable "*it needed to put a transparent cost on its impact on nature across the company's entire supply chain*" [82]**.** And it is what Puma did. They decided to analyse and give a direct monetary value to natural resources used by the company, such as water and clean air, and on negative consequences the company had on environment. Although these cost had no impact on company's earnings, it allowed the company managers and stakeholders to understand costs scale, and to identify *"where in the supply chain they were being incurred and, therefore, where action was needed to address them".*[83]

They started analysing greenhouse gas emission and water usage, and than implemented studying the impact of the supply chain on land use and air pollution.

The study revealed that €8m (£6.4m) or 6% of the costs lay with company's own direct operations, such as offices, warehouses and stores. A further 9% (€13m) lay with its firsts main suppliers, the companies responsible for manufacturing Puma shoes and clothing, and the remaining €124m – or 85% of the impacts – were distributed through its other suppliers going right back the actual sourcing of raw materials, such as leather, cotton and rubber.

[80] The Guardian, 30 may 2012 article by Simon Beavis *" Puma: business and the environment – counting the cost.*

[81] Cfr.58

[82] Cfr.58

[83] Cfr.58

In this way Puma was able to better understand the impacts it could easily work on, and those not only under its control where the company understood to need "*to work with other firms, sharing the same supply chain, to obtain results*" [84].

The company is now feeding this analysis directly into its sustainability strategy and targets, and it is having a great relevance because it allows the company to evaluate not only its current impacts, but also *"to price future risks they will face if natural resources and biodiversity decline"* [85].

However, it could be not so easy to adapt business processes: in fact, non-financial information have to be collected on a more frequent basis, in order to control and manage business through integrated reporting.
It means that business processes need to interact, and to be adapted in order to transversally fit for the entire organization: managers should implement all the essential processes to assemble robust data, to administrate all the material KPIs, and to establish a deeper level of control for data gathering, in order to align financial and non-financial reporting processes.

Finally, the most important part of this process it should be the implementation of integrated approach: it will require great awareness across the entire company, because both senior management and employees have to be *"involved from the beginning, and to be trained in the objective and use of integrated reporting"* [86]. This way of doing will help to align the processes and, most of all, to implement and establish a sustainable integrated thinking. The goal here need to be to create a system that is able to integrate relationships between an organization's strategy, performance and governance in both social, economical and environmental contexts.
A good integrated reporting should provide relevant information for each kind of stakeholders group, and it should give them the possibility to compare and evaluate sustainable activities acted by the company. To do this, it is important to appoint a concrete monetary value to non-financial KPIs, as well as Puma made for its first

[84] Cfr.58
[85] Cfr.58
[86] Cfr.58

environmental profit and loss account, and to evaluate their potential financial impact.

4.0 Corporate Socially Sustainable Strategies and Conclusions

It is clear that no company should ask itself if a corporate social responsibility strategy adds value to business. The reason is that sometimes it adds value, sometimes no but it depends on the strategy quality. The right question should be how a company should act to be sure that its CSR strategy creates business value. Think for a moment to marketing: no one is sure that its marketing strategy will add value for the company, because it depends on the marketing campaign quality. Here the problem is that CSR strategies are new compared marketing strategies, and companies have poorer understanding of the problems.
I have tried to build six "milestones" that should drive companies to develop the best possible Corporate Social Responsible strategy. It follows the example of what I described in the previous part speaking about the road map of the integrated reporting, because they are strictly correlated: if a company is not able to develop a winning CSR strategy, it will not be able to be completely transparent about it. And to provide a complete integrated report, it should be completely integrated in corporate strategy. In this sense, companies should carry out a detailed analysis of their business model, but the first idea that moves them should be to focus always on profitability. The final output should have a positive impact on business value, not philanthropy or to support social issues to get respect from who is fond of that cause. Firms should act thinking about how their CSR strategy can save their money or help them to make money meeting specific social challenges and creating shared value for their stakeholders, but always in their own interests. Companies "fight" against intangible profits, and their traditional business models poorly fit with CSR issues. Here, the guiding principle should be that the best corporate social responsible strategy helps firms to make money and not to give them away. In this sense, corporations will provide much more social wealth than with the traditional approach.

Therefore, secondly, organizations should link their CSR strategy to the firms' core fundamental purpose, because it is the key for finding a profitable CSR strategy. The first idea that comes in my mind is about Toms. This is a company founded by Blake Mycoskie in 2006, based in Playa Del Rey, California, and which design and sells shoes similar to Argentine typical “alpargata”, sunglasses and coffee. Mycoskie got the idea for this company when he visited Argentina, and noted that a lot of children were not wearing shoes, and that many people in the country were wearing those kinds of very simple shoes. He was captured from this social difficulty, and he decided to build a company adopting that shoe style, producing it in different colors and styles, with a clear and simple value proposition: for every pair of shoes customers bought, another pair would go to people in need. In the next years, he developed different lines of sunglasses advertising them with the same buy-one-give-one formula, and invested in coffee selling, the purchase of which helped to provide water where it is needed. After ten years of work, Moody’s estimated that 2015 revenues amounted to $392 million. In the meanwhile, through its business model Mycoskie’s company was able to donate 51 million new shoes, restored vision and clean water.

That is to say, if a company is able to match social and environmental positive impact with its core business, and to make money from “good citizenship”, it will be a good citizen. So basically, firms can meet social needs by doing what they do best, creating shared value for society and their business. Now, about the first point (focus on the profitability), it is important to point out that a good sustainability program is not an alternative for having a good product. Customers are not willing to sacrifice the main purpose of a product in exchange for sustainability; they expect a great sustainable product. Companies should not only adopt popular social causes, because it gives a positive image, but provides limited (almost nil) business value; their secret for winning should be to have a great product that integrates sustainability.

In this vision, it is crucial for firms to be able to understand customers. Companies struggle with a very simple question: how many people cares about CSR and how much it can influence the business? Many researches show the clear increase in attention for those issues in the last years. In the study “Global Warming’s 6 Americans” [87], the “Yale project on Climate Change” and “George Mason University

[87] Global Warming’s 6 Americans, Yale Project on Climate Change, George Mason University Center for Climate Change Communication, 2008.

Center for Climate Change Communication" researchers divided people in six different categories, the "Six Americans", basing on "the acceptance of anthropogenic global warming varies". The Alarmed (18 percent of the sample), are people who actively turn their climate change concern into market behaviors. Concerned and Cautious (52 percent), take care of environmental issues, but money is still an important way of acting: they want sustainable products and environmental care, but it has to be cheap and easy. The last two categories are disengaged and doubtful (23 percent), who do not care about the problem, and Dismissive (7 percent), who hate global warming concern, "but do care about other issues". Maybe people with this economic recession are not willing to pay a large premium price to have "greener" products, but the number of "Alarmed" is rapidly growing, and firms have to adapt in order to gain this (possible) large market size.
A 2012 research conducted by David Jerome and Rob Kleinbaum [88] showed the relevance of 20 CSR issues for people classified in Concerned and Cautious category (the largest one). They stated that, on a scale from 1 to 7 with 1 as "not relevant at all" and 7 as "Extremely Relevant", Energy cost and fuel price got a 6.1 rating, the use of alternative energy got 5.3, as more than Recycling and Water Conservation (5.2) and Reducing the outsourcing of job overseas (5.1), while for example Supporting global organization/charities got a 3.6. The problem is that charity is still where the larger part of companies focus their CSR efforts, not understanding that focusing on the right issues would allow them to gain a large market size and why not, money.
Another important issue firms could face and should overcome is that Top Management has to sustain and reinforce its CSR strategy in order to make it effective and profitable, protecting it in its early stages. A CSR fully integrated strategy leaves the traditional single department, and cuts across marketing, sales, legal, finance and communication departments, so it needs people involvement and a sufficient budget that has not to be cut for the first difficulty.
Concluding, a good CSR strategy develops employee engagement, drives for innovation and collaboration, and turns people's opinion of the company from a "them" to an "us". I have talked about Volkswagen "diesel gate", for which

[88] David Jerome and Rob Kleinbaum, Greenbiz, 2012

company's hypocrisy and mistakes turned people opinion for the firms, while companies as Toms makes people more involved into business process, and can be trusted showing they care about social problems, even earning large amount of money.

4.1 Conclusions

Thanks to this analysis, covering the evolving thoughts about Corporate Social Responsibility issues, mentioning different scholars opinions about the differences and the importance that socially responsible behaviours and strategies could have on business, we can identify three different scenario firms are currently experiencing. We have discussed about the central question of this topic, if a company may address business value through a good CSR strategy. It is important to remember that a firm strategy implies different divisions of the company such as involving marketing, finance, and communication, working together in philanthropic actions, supply chain modernization and strongly positive environmental actions.

Many firms focus on philanthropic actions, intended as any form of non-profit financing, community service organizations, charity donations or underserved populations' service providing. They consider these kinds of CSR actions as the soul of the firm, characterizing top management environmental and social priorities attention. Those actions do not provide a direct money return or benefit for the company, but want to be considered a spontaneous contribute to community needs from an integrated part of the society. Clearly, it aims to contribute to corporate business strategy enhancing firm's reputation to local communities, providing a possible insulation from unanticipated risks. At the same time, these actions could be reactive, caused by societal pressures: examples could be journalists or activists claiming against businesses unethical behaviours, or sanctions and penalizations for regulatory infractions.
Philanthropic actions are often provided by the company itself, or through different foundations that exist separately from the company. There are many examples of philanthropic giving, for different companies operating in different industries.

Microsoft donated around $300 million worth of software products to Non Governmental Organizations around the world, or The Coca-Cola Company that contributes annually with $88 million through its personal foundations, The Coca-Cola Foundation. Obviously, the larger is the corporate size, the more different will be the decisions managers have to take, and the more fragmented will be its philanthropic activity. Especially for large multinational, but also for national firms that are facing their first difficulty in internationalisation process, it could be very useful to fully integrate into the new cultural and socioeconomic environment, because they are responsible both for increasing shareholder value and interest into the corporation, and for the communities upon it depends. In this environment, it is easy to find companies that indirectly try to reflect these philanthropic activities in individual benefits, with the specification to not link socially responsible actions to their core business.
A couple of evidences could be the “10,000 women” initiative promoted by Goldman Sachs’ senior management, and “Grow Up Great” initiative promoted by PNC. The first one has been in keeping with the company’s ideas for global economic growth, and has been the culmination of top management efforts to motivate not just senior managers, already committed in philanthropy, but also the largest part of the staff. The firm has budgeted many resources for this plan implemented to provide management skills to unlucky women around the globe. The second case is about an initiative promoted by PNC, which budgeted around $100 million over a five-year period, to provide resources for critical schools to undeserved populations where PNC operates, helping to create stronger communities, brand loyalty and potential future local employees. For this purpose, PNC was integrated into managers’ training and staffs’ volunteer programs, creating a strong corporate commitment around the initiative.

All these cases demonstrate that many important companies use strategic corporate philanthropy to serve environmental and social purposes, involving management and employees, but these actions don’t clearly express the core business priorities, and this means that here the priority is to generate social or environmental value, but not necessarily creating a direct economic return for the company. Those efforts could turn back into indirect or intangible benefits such as brand awareness or improved social capital that could translate to business value, but it is only a consequence of the initiatives. In some ways we could state that this could be the "purest" form of corporate social responsibility, because it seems to tell us a part of the story in which firms propose CSR initiative on a voluntary basis and with good charitable intentions. As I have said before, many organizations engage socially responsible purposes because of pressures, under activists or civil society attacks for unethical behaviours or bad business practices that for example undermine diversity and employee freedom, any more than they have negative environmental impact through their business processes. Whether firms are culpable or not, it may use corporate philanthropy to anticipate potential reputational damages.

The second scenario companies could choose to aim through their socially responsible strategy is to increase business profitability while also creating environmental benefits by implementing an improved operational effectiveness throughout their value chain, both upstream in the supply chain side and downstream in the distribution side. This approach aims to create a "shared value" effect, in which companies and their customers attempt to co-create social and economic value. This kind of programs seems to be preferred in the U.S., where managers recognize the possible business value that may be added innovating with new solution that reduce operation costs meanwhile mitigating environmental damage. Clearly this strategy requires great collaboration between different departments, because it has to be co-managed by managers involved in the supply side, marketing managers involved in advertising and distribution on the demand side, and for example CSR managers could be helpful in overseeing supply chain initiative or assist marketing in cause marketing initiatives.
The difference with the first scenario is that now firms are not just investing in charitable activities to "clean" their image, but are trying to predicate their ability to improve social end environmental problems while simultaneously returning business value, in order to create shared value. Obviously, it could be a consequence of an aggressive negative publicity and protests. For example, Nike and Gap, two world leaders in wearable market, started aggressive supply chain improvement and

restatements because of negative advertising. Nike has established a code of conduct that serve in governing not only its supply chain, but also the supply chain of factories Nike contracts to manufacture and refine its products. Part of this code includes requirements that employees are fairly salaried, are not exposed to unhealthy and unsafe working environment, and that the factory respects diversity and provide ethical treatment in the workplace.

Meanwhile, Nike launched an awareness campaign to reduce negative impacts of its entire supply chain from material sourcing to distribution.

In the far 1999, Gap launched an innovative campaign to engage stakeholders in order to answer to the strong critics received after a report that publicized unethical labour practices in its manufacturing sites, many of which produced also Nike products. By the way, those initiatives will also benefit both companies improving productivity and employee awareness, reducing waste and energy and material usage.

An example of how a firm could improve employees' retention and productivity is Bimbo Bakery's Case. This corporation includes around one hundred thousand employees, and is leader in bakery global market: top management implemented a free-education service provisioning for employees' familiars, to allow them to complete their high school course of study. In addition, the company provided financial assistance for its dependents' medical care.

Furthermore, Bimbo Bakery had hundred of thousands small retailers: for this reason, the firm has implemented a microfinance program to help those retailers facing lack of working capital, or to finance their small capital when needed. In addition, Bimbo started using a biodegradable packaging for its product, to reduce footprint emissions and water and energy use.

In this way the firm has improved workforce performance and awareness through the provision of health care, has strengthened its value chain in the distribution side through microfinance programs, and has contributed to a general awareness and loyalty through its CSR initiatives. Additionally, it helped to reassess its production chain and its supply chain that supports company expansion.

Similarly, Wal-Mart has implemented a corporate supply chain reengineering in response to pressure from media and activists, but also in order to reduce operating costs in a profit-driven vision.
Unlike Nike, the firm has partnered with no profits organizations such as “World Wildlife Fund” on environmentally positive initiatives to source sustainable forests and fish products, or with “Sustainability Consortium”, an independent organization which aim to enforce environmental sustainability in all the products’ lifecycle stages. In addition, the company has helped Sustainability Consortium to create a sustainable products index, which allows manufacturers and retailers to evaluate the sustainability credentials of suppliers and their ingredients. This index is in an early adopters stage, but they are sure it will change and transform the entire supply chain. Wal-Mart has worked to eliminate by last year around twenty million metric tons of carbon [89] from its supply chain: in this way, they were able not only to reduce costs and emissions, but also to pressure retail competitors to adopt the same standards in their product sourcing and supply chain initiatives.
Unlike philanthropic CSR actions, here companies have the possibility to be much more pervasive on environmental and social benefits, because they are implemented directly through firms’ value chains. And moreover, CSR impacts on corporate results are much more intuitive using those kinds of strategies than on charitable actions: if a business improves working conditions in its manufacturing sites, or provides free healthcare for its employees, surely quality (and amount) of productivity will increase. In the same way, if a company reduces non-renewable resources usage, and is able to implement waste and pollution eliminating strategies in its daily operations, operating costs and material costs will dramatically decline.

The last scenario companies could take into consideration building their Corporate Social Responsible strategy is the one that requires transforming the entire corporate philosophy in order to improve the ecosystem. It means that firms should apply disruptive changes to their business model, adding importance and giving priorities to real solutions to environmental or societal problems, in order to gain long-run financial returns. Unlike evolving and adapting value chain to get immediate profits, here organizations try to create significant social value by strongly addressing an

[89] http://corporate.walmart.com/2016grr

environmental need that may not guarantee immediate profits. Another difference is that now firms are not adapting their core competencies to an environmental-oriented value chain reengineering, but they are required to change their business model and develop new skills, competencies and strategies.
In this sense, creating new ecosystem solutions may force firms to look outside their core interests, to disrupt their existing value chains, and for these reasons it could be most effective if undertaken by companies who have diversified product lines that could dilute the financial risk associated with those kind of operations, and large financial resources to absorb long-term financial payoff.
The exceptions may be small companies with innovative technologies, business processes or business models that may find disrupting the ecosystem as an alternative solution to differentiate from traditional companies, trying to differentiate from classical unique business offering.
Such initiatives could lead to successful rewards only if who take decisions within the firm has a strong management leadership, in order both to create solutions for environmental and social challenges, and to foster long term business opportunities within the new environment. Therefore, it is not enough for top management to passively passionate to an initiative, in particular for those kinds of initiatives that require cooperation between different business units and transform the entire business strategy.
The best example representing this scenario is Ray Anderson's "Interface Inc." case. Interface Inc. was the world's leading manufacturer of modular carpet, but in 1994 something in Ray Anderson mind changed (he defined an "epiphany"): after reading "Ishmael" by Daniel Queen, but above all "The ecology of Commerce" by Paul Hawken, that argues that the industrial system is destroying the planet and only industry leaders are powerful enough to stop it, he created a plan known as "seven fronts" to achieve sustainability goals. He decided to eliminate waste, achieve benign-emissions, use renewable energy, close the loop, use resource-efficient transportation, redesign commerce and sensitize stakeholders on this issue.
Without the assurance of the top hierarchical man in the company, Interface's employees would not have been really committed to engage Anderson's vision.

Furthermore, those kinds of initiatives recognize that traditional divisions between firms, Non Governmental Organizations and Governments are ineffective in solving environmental challenges, because they require collaboration to challenge common interests. At the same time large corporations (even more so those operating and selling products globally) may have the ability to develop all encompassing solutions influencing extensive market reach, both on the customer demand side and the supply chain side. Therefore, it could be useful to implement disruptive strategies partnering with a Non Governmental Organization, which has significant knowledge in issues area where the firm is trying to bring material changes.

Back to Interface's business transformation, it is important to remember that in 1994, when Ray Anderson decided to radically change its entire business model, the company had past more than twenty years growing and expanding through acquisition and had never thought about a CSR program.
What Interface wanted to do was to implement a new vision and mission referred to environment restoring, nature cherishing, and maximizing stakeholders' interest while making a world a better place. This perspective focuses on improving social welfare and the integrity of the world, adding profitability to the company. The company's leader understood that for a firm there is something more than just making profits, and investing on sustainability the whole investment will come back in form of dollars. Obviously, as a listed company should do, Interface primary objective should have been maximizing shareholder value. But it is precisely operating in this kind of situation, trying to implement sustainability strategy in a neoclassical world, that the company demonstrated that what sustainability is, mitigating socioeconomic structures incompatible with sustainability idea.
Interface also understood that the more waste could be eliminated, the more money they could save. Indeed, they have been able to save almost $300 million between 1997 and 2001, pursuing a strategy that included the key role of technology investments. The firm conceded that it could be sustainable only if the whole supply chain process was sustainable. The problem was that 90% of CO_2 emissions associated with their creation processes occurred outside the manufacturing process, because of raw material extraction and processing, product transportation,

installation and maintenance, and product return. Since the firm had little control over those kinds of emissions, they eliminated the problem at source. They focused on encouraging suppliers to be sustainable, creating a large number of global sustainability partnership to influence others to adopt sustainable practices. In addition, they redesigned their products in order to use renewable resources in the manufacturing process, and to eliminate waste and emissions. Interface developed for example a bio-based carpet that replaced the oil-based one because it was made by polydactyl acid, sourced from agricultural products. As a result, they were able to reduce greenhouse gas emission by around 50%, and waste to landfill by 65%.
About technology importance, the firm invested large amount of money in technological systems in order to reduce waste and pollution, and increased the usage of renewable resources and energy. They basically tried to replace old technology with "next industrial revolution" mechanisms, such as solar, cyclical, zero waste, but always focusing on resource productivity.
In this way, they had denied Schaefer and Crane [90]that, on 2005 stated that firms are unable to promote consumption-reducing initiatives because they require increasing material consumption to increase market share.
The larger innovative changes were applied on the way Interface's carpets were manufactured, distributed and claimed from customers. In this sense, the firm began producing carpet made as modular tiles instead of entire floor units, in order to have the possibility to replace or repair the product. Additionally, the company decided to lease instead of selling, its carpets to institutional customers, taking the responsibility to clean and repair products over their lifetime. At the end of the carpets' lifetime, for institutional customer under leasing program, Interface removed and recycled the carpets into new products, rather than just "end them up in the bin".
Even if this initiative faced initial difficulties to be accepted by customers, the company remained fully committed to this operation, considered essential in its zero-impact strategy. The results were that the company had increased sales by 65%, profits by 200% since the transformation began, and most importantly, reduced water usage by 75% and greenhouse gas emission by 92% [91].

[90] Anja Schaefer, Addressing Sustainability and Consumption, 2005, Open University, United Kingdom
[91] http://www.interfaceglobal.com/pdfs/InvestorPresentation_Sep2009.pdf

Clearly, despite Ray Anderson thoughts, I think it is impossible for a company to reach the Mission Zero results, involving a situation in which a firm is able to equal zero carbon emissions, be totally renewable energy dependent or reduce by 100% Greenhouse Gas emissions, but the results Interface was able to gain are incredible. The average carbon footprint of their carpet was down 31% since 2008, Energy efficiency at manufacturing sites has improved by 45% since 1996, 84% of energy used at manufacturing sites is now obtained from renewable sources, 50% of raw materials used are either recycled or bio-based, total water intake intensity at manufacturing sites went down 87% since 1996. Meanwhile, on the financial side, the firm was able to divert 26 million pounds of carpet and carpet scraps from landfills, to collect and ship 22 thousand pounds of fishing nets to its recycling partner. The company worked even to improve employees' safety, and the Total Accident Frequency Rate went down 71% from 1999 [92].

[92] http://www.interfaceglobal.com/Sustainability/Our-Progress/AllMetrics.aspx

NET INCOME EVOLVING BETWEEN 1998-2015 [93]

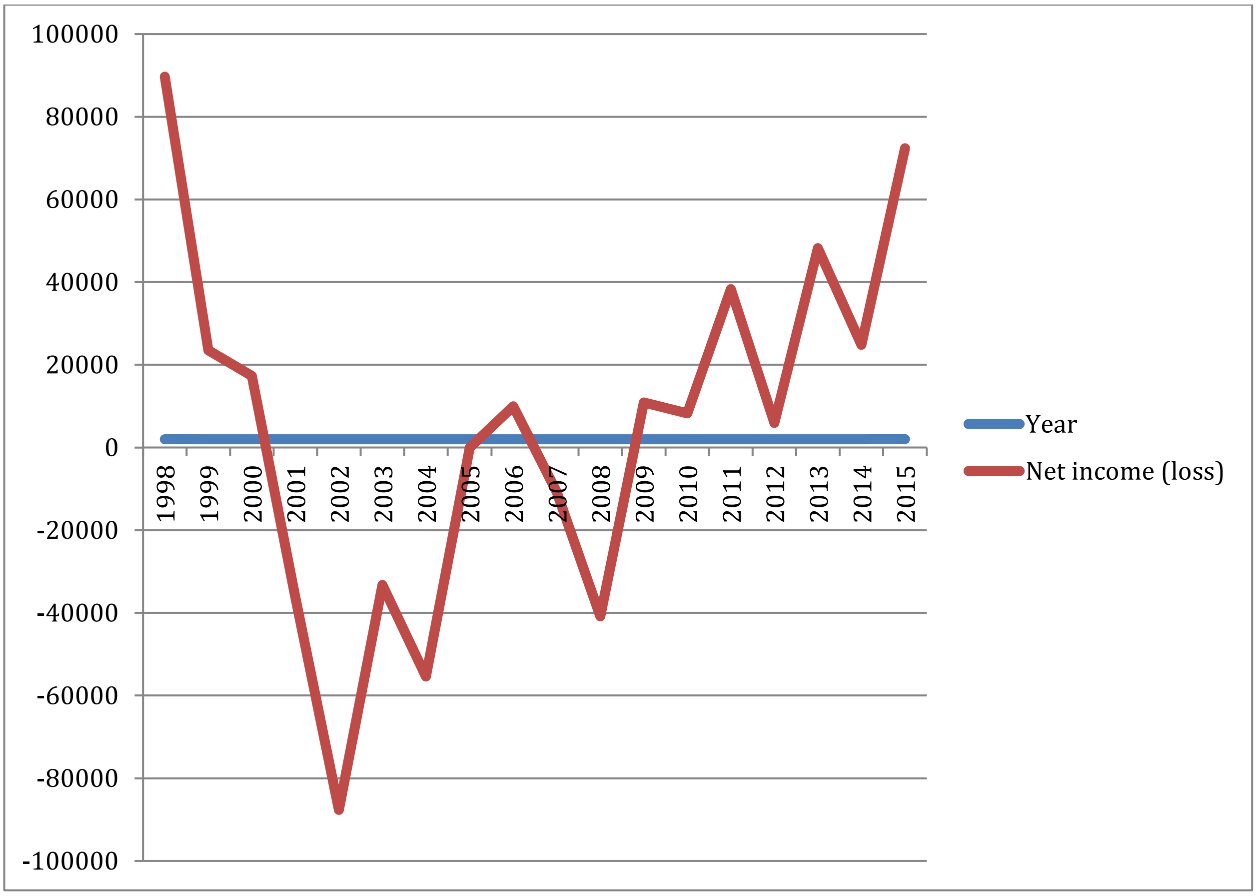

Figure 4

[93] Financial data are a revision of Interface's financial statements between 1998-2016

NET SALES EVOLVING BETWEEN 1998-2015 [94]

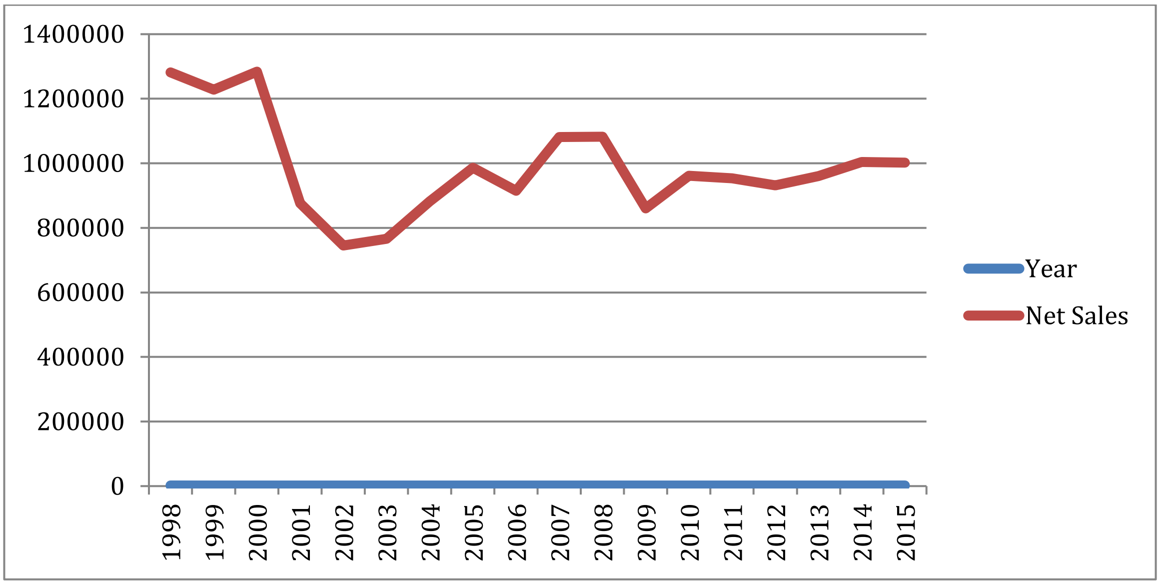

Figure 5

On the financial side, these two graphs underline that after an initial difficulty, due to the large investments with no short-term return, the amount of sales and net income generated by the company followed the market results. Net Sales amount, after a crisis between 2001 and 2002, remained quite stable, while Net Income generated by the company faced two moments of great difficulty, corresponding with two large global financial crises. The quality of Ray Anderson vision both on social, environmental and financial side is even underlined by the shares value across 2006 and 2011, the year of his death. As we can see on the graph below, I compared the Interface's stocks value in six different moments, with NASDAQ composite index, an index that includes the whole NASDAQ listed corporates stocks value [95].

[94] Financial data are a revision of Interface's financial statements between 1998-2016
[95] http://www.interfaceglobal.com/Sustainability/Our-Progress/AllMetrics.aspx

	01/01/06	31/12/06	30/07/06	28/12/08	03/01/10	02/01/11
Interface, Inc.	$100	$173	$201	$63	$104	$197
NASDAQ Composite Index	$100	$110	$123	$71	$107	$126

Figure 6

What emerges is that the company was able to carry out the real and core question firms are forced to answer: to create value for their shareholders. The brilliant idea here, has been to be able to create shareholders' and corporate's value through a disruptive and visionary sustainability strategy.

Interface launched its CSR program on its own, without the assistance and partnership of Non Governmental Organization: in this sense, they faced much more initial difficulties because voluntary corporate standards organizations provide an alternative solution to develop innovative or revolutionary programs to solve environmental and social issues, meeting shareholders' requirements. GRI as a reporting helpful organization, ISO for management standards requirements, and many others can provide now a great help and can powerfully influence corporate practices.

Business strategies based on increasing economic return and profitability bring, for necessity, to natural resources and energy consumption, whatever how efficiently a firm can execute them. However, Interface case and in such a way even Toms case are exemplifying attempts to achieve a higher standard of conduct, answering to societal demand; in those cases, a business model transformation in order to achieve triple bottom line results had helped those firms to reach, or to try to reach their goals. In the same way, an integrated reporting strategy is helpful not just to communicate to the world the firm situation, or to self-congratulate, but also to simultaneously monitor social, environmental and financial results and understand if a social responsible strategy is meeting the initial expectations, and where or in which way the firm can improve it. Likewise, many reports underline that sixty percent of consumers are willing to pay around 5-8 percent more for sustainable products sold by sustainable brands, up from 55% in 2014 and 50% in 2013 [96], showing that a strong Corporate Social Responsible initiatives focused on strong ethical relationship with customers can be the foundation on which a mutually beneficial strategy should be built. Additionally to subjective consumers' value for a corporate socially responsible program, which would lead to increased brand loyalty, companies can realize a clear and measurable financial reward as well [97].

However, as I continuously repeated in this paper, a powerful and profitable CSR strategy needs to incorporate the vision/mission of top management/CEO, in order to be able to communicate the importance of sustainability: only in this way the firm will move the organizational agenda around environmental and social issues. A strong leadership member driving the business to sustainable behaviours will drive the other member of the staff and employees to embrace the program and to embed it into business practices. To reach this aim education programs and relentless communication of sustainability concepts will help in getting employees' and other stakeholders' involvement and to transform daily business practices, because incorporating sustainability concepts into day-to-day business practices will have much more positive impact than just implement stand-alone sustainability strategies, which could be suspended if financial department suggest it [98].

Furthermore, technology is one of the most important factors in achieving positive and strong environmental results, particularly if a firm is able to transform its production model to a circular system that eliminate waste through recycling and, at the same time, reduce non-renewable pollutant resources and energy demand. The cases I have showed indicates that the more a firm is able to educate its employees

---

[96] Nielsen Sustainability Report, Nielsen Global, 2015
[97] An Ecological Modernist Interpretation of Sustainability, Wendy Stubbs* and Chris Cocklin, School of Geography and Environmental Science, Monash University, Australia, 2008

[98] An Ecological Modernist Interpretation of Sustainability, Wendy Stubbs* and Chris Cocklin, School of Geography and Environmental Science, Monash University, Australia, 2008

and its customers, understanding the importance of human resources involvement in the production system and the changing requirements customers expect from companies, the more they will be able to put in practice valuable environmental and social strategies and to financially benefit from those kind of initiatives, anticipating competition and indeed forcing competitors to accept and implement themselves similar strategies.

Exhibit 1

DISNEY'S CFO MESSAGE

"We believe that our efforts to be a good corporate citizen have a direct impact on our financial strength, as well as our reputation as one of the most trusted and admired companies in the world."

Dear Stakeholders:

As Disney's Chief Financial Officer, I'm often asked about the business case for Disney Citizenship. The answer is simple: we believe that our e orts to be a good corporate citizen have a direct impact on our financial strength, as well as our reputation as one of the most trusted and admired companies in the world.

At times, our Citizenship e orts may result in short-term financial sacrifices, like when we required products advertised on our family- oriented platforms to meet Disney's Nutrition Guidelines. yet we believe that choices like these will lead to greater benefits for our company and for future generations, and that having a long-term perspective is critical to our success.

With this view in mind, 2014 was another exceptional year for both our company and our citizenship e orts. Financially, we delivered the best results in the history of this company, and marked our fourth consecutive year of record performance. In Citizenship, we continued to work diligently toward our goals and sought opportunities to inspire even more families and communities who share our commitment to building a brighter tomorrow.

As a way to promote transparency and foster collaboration to improve working conditions around the globe, we published the list of facilities that manufacture Disney-branded products sold or distributed in our retail businesses.

To help kids and families make healthy choices, we significantly built on the success of our Nutrition Guidelines by expanding the number of menu options that meet these guidelines in our Parks and Resorts around the world. All of our businesses have increased their healthy living content and experiences, which now reach 100 million U.S. households each week.

To continue inspiring a passion for conservation and the environment, we connected more than 13 million kids and families with nature experiences, meeting our 2015 target ahead of schedule. We've also begun working towards the ambitious new long-term goals we set to reduce our emissions, waste, and water use.

As part of our e ort to bring positive, lasting change to this planet, we're using our storytelling to inspire others to volunteer their time and serve their communities. Our new *Star Wars*: Force for Change initiative has channelled the excitement around the next *Star Wars* lm and passionate fan base into a campaign to find solutions to some of our own galaxy's biggest challenges. This initiative has already raised more than $4.2 million to support innovative programs around the globe.

We believe that Disney, a company built on the power of imagination, can play a meaningful role in helping to build the most creative generation yet. We've already invested in programs that help nurture critical thinking and problem solving skills in young people, and we've been inspired by countless stories of kids who have realized their creative potential. As a result, we have some exciting plans in 2015 that involve doing even more to prepare kids for success in a future fuelled by ideas and innovation.

We are proud of our accomplishments during 2014 but also recognize that we are constantly challenged to focus our e orts on the citizenship areas of greatest impact to our business and society. With this in mind, we are in the midst of a formal citizenship issues prioritization process that will guide our future reporting e orts. We look forward to sharing the results of this analysis with you in our 2015 Citizenship Performance Summary.

In 2015 and beyond, we will continue to seek out opportunities that maximize our reach and impact. After all, while our own actions can better the world, the actions we inspire in others can profoundly change it. That is the true promise and potential of our e orts to be good citizens.

Sincerely,

Jay Rasulo

References

M. Friedman, The Social Responsibility of Business is to Increase its Profits, in G.D. Chrissides, J.H. Keler , An Introduction to Business Ethics, Chapman, London, 1993

Buhr N., 2007, in Sustainability Accounting and Accountability, Unerman,

Soderstrom N., 2013, Sustainability Reporting: past present and trend for the future, *University of Melbourne Insight.*

Paul Scott, Next Step Consulting, 2004.

Report of the World Commission on Environment and Development: Our Common Future

Deegan, C & Rankin, M 1997, 'The materiality of environmental information to users of annual reports', Accounting, Auditing, and Accountability Journal

Soderstrom, N. 2013, Sustainability Reporting: past present and trend for the future, *University of Melbourne Insight.*

Simnett, R, Vanstraelen, A & Chua, WF 2009, 'Assurance on sustainability reports: An international comparison', The Accounting Review.

Van der Laan Smith, J, Adhikari, A & Tondkar, R 2005, 'Exploring differences in social disclosures internationally: a stakeholder perspective', Journal of Accounting and Public Policy.

Li, Y & McConomy, B 1999, 'An empirical examination of factors affecting the timing of environmental accounting standard adoption and the impact on corporate valuation', Journal of Accounting Auditing and Finance

KPMG, International Survey of Corporate Responsibility Reporting, 2005

KPMG, International Survey of Corporate Responsibility Reporting, 2008

Directive 2014/95 EU, European Commission, April 15, 2014

Single Market Act – Twelve levers to boost growth and strengthen confidence, European Commission, 2012

European Commission, on corporate social responsibility: accountable, transparent and responsible business behaviour and sustainable growth, (2012/2098(INI))

J.J. Lambin, Changing Market Relationships in the Internet Age, UCL

R.E. Freeman; Strategic Management. A Stakeholder Approach, Pitman, Boston, 1984

Stanford Research Institute, 1963

F. Lèpinex, Stakeholder Theory, Society and Social Cohesion, Corporate Governance, 2005

B. Waxenberger, L. Spence, Reinterpretation of a Metaphor: from Stakes to Claims, Strategic Management, 2003

M. Attarca, T. Jacquot, La Représentation de la Responsabilité Sociale des Entreprises: une confrontation entre les approches théoriques et les vision managériales

E.M. Epstein, The corporate social policy process: beyond business ethics, corporate social responsibility and corporate social responsiveness, California Management Review, 1987

J.E. Post, L.E. Preston, S. Sachs, Redefining the corporation-Stakeholder Management and Organizational Wealth, Stanford University Press, Stanford, CA, 2002

M.B.E. Clarkson, A Stakeholder Framework for Analysing and Evaluating Corporate Social Performance, Academy of Management Review, 1995

T. Coombs, The Internet as a Potential Equalizer: New Leverage for Confronting Social Irresponsibility, Public Relations Review, 1998

J. Snider, R.P. Hill, D. Martin, Corporate Social Responsibility in the 21th Century: A View from the World's Most Successful Firms, Journal of Business Ethics, 2003

C. Handy, What's Business For, Harvard Business Review on Corporate Responsibility, Harvard Business School Publishing Corporation, USA, 2003

J. Jonker, D. Foster, Stakeholder Excellence: framing the evolution and complexity of a stakeholder perspective of the firm, Corporate Social Responsibility and Environmental Management, 2002.

D. Foster, J. Jonker, Stakeholder Relationships: The Dialogue of Engagement, Corporate Governance, 2005.

Clarkson, "A stakeholder framework for analysing and evaluating corporate social performance", 1995

R. Kaminska-Labbè, C. Thomas, W. Sachs, Dynamic Capabilities and Competence Building Process in Times of Environmental Turbulence, Sixth International Conference on "Enterprise in Transition", 2005

M.A. Hitt, D.R. Ireland, R.E. Hoskisson, Strategic Management. Competitiveness and Globalization, South-Western College Publishing, Cincinnati, 2001

R. Amit, P.J.H. Schoemaker, Strategic assets and organizational rent, Strategic Management Journal, 1993

M.A. Hitt, R.D. Ireland, H. Lee, Technological learning, knowledge management, firm growth and performance: An introductory essay, Journal of Engineering and Technology Management, 2000.

D.J. Teece, G. Pisano, A. Shuen, Dynamic capabilities and strategic management, Strategic Management Journal, 1997;

K. Eisenhardt, J. Martin, Dynamic Capabilities: What are they?, Strategic Management Journal, 2000.

R. Nelson, S. Winter, An Evolutionary Theory of Economic Change, Harvard University Press, Cambridge, MA, 1982.

E. Rancati, Il tempo nelle imprese orientate alla concorrenza, Torino, 2007)

M. Sciarelli, Resource-Based Theory e Market-Driven Management

S.M. Brondoni, Patrimonio di Marca e Risorse Immateriali d'Impresa, Torino, 2004)

A. Francis, The Concept of competitiveness, in A. Francis, The Competitiveness of European Industry, London, 1989.

European Competitiveness Report, Overview of the links between Corporate Social Responsibility and Competitiveness, 2008.

M. Porter, M. Kramer, Strategy and Society: the link between competitive advantage and corporate social responsibility, Harvard Business review, 2006

P.L. Cochran, The evolution of corporate social responsibility, Business Horizons, 2007.

D.B. Montgomery, C.A. Ramus, Corporate Social Responsibility Reputation Effects on MBA, Job Choise, Stanford Graduate School of Business Research, 2003

B. Turban, D.W. Greening, Corporate Social Performance and Organizational Attractiveness to Prospective Employees, Academy of Management Journal, 1997

Karen Higginbottom, Why HR Needs To Take A Leadership Role In CSR, Forbes, January 06, 2014

M.M. Meijer, T. Schuyt, Corporate Social Performance as a Bottom Line for Consumers, Business & Society, 2005.

I. Mandl, A. Dorr, CSR and Competitiveness. European SMEs' Goo Practice, Consolidated European report, Vienna, 2007.

K. Mendibil, J. Hernandez, X. Espinach, E. Garriga, S. Macgregor, How can CSR practices lead to successful innovation in SMEs?, Publication from the response Project, Strathclyde, 2007.

M. Kramer, M. Pfizer P. Lee, Competitive Social Responsibility: Uncovering the Economic Rationale for Corporate Social Responsibility among Danish small and medium-sized enterprises, Project report, Copenhagen, 2007.

P. Totterdill, Adaptability: Reuniting Competitiveness and Working Life in Europe, Nottingham, 2004.

P. Campayne, The Business Case for Diversity – Good Practice in the workplace, 2008.

London Business School, Innovative Potential: Men and Women in Teams, The Lehman Brothers Center for Women in business, London, 2008.

E.H. Bowman, A Risk/Return Paradox for Strategic Management, MIT Press, 1980.

G. Heal, Corporate Social Responsibility: An Economic and Financial frame work, The Geneva Papers on Risk and Insurance Issues and Practice, 2005.

Hayne E. Leland, Agency Costs, Risk Management and Capital Structure, The Journal of Finance, Chicago, 1998.

M. Orlitzky, J.D. Benjamin, Corporate Social Performance and Firm Risk: A Meta-Analytic Review, Business & Society, 2001.

Business Leaders Initiative On Human Rights And The Global Compact, A Guide Integrating Hights into Business Management, 2006.

G. Pohle, J. Hittner, Attaining sustainable Growth through Corporate Social Responsibility, IBM Institute for Business Value, IBM Global Business Services.

L'Italia volta pagina con la csr: aziende e dipendenti insieme per l'ambiente, Osservatorio Socialis

The Triple Bottom Line: What Is It and How Does It Work? Indiana Business Review, Timothy F. Slaper & Tanya J. Hall

The future of corporate reporting, PwC, May 2012

Global Reporting Initiative Guidelines, 2014

The Guardian, 30 may 2012 article by Simon Beavis " Puma: business and the environment – counting the cost.

Global Warming's 6 Americans, Yale Project on Climate Change, George Mason University Center for Climate Change Communication, 2008.

David Jerome and Rob Kleinbaum, Greenbiz, 201

Anja Schaefer, Addressing Sustainability and Consumption, 2005, Open University, United Kingdom

Nielsen Sustainability Report, Nielsen Global, 2015

An Ecological Modernist Interpretation of Sustainability, Wendy Stubbs* and Chris Cocklin, School of Geography and Environmental Science, Monash University, Australia, 2008

Summary

On 15.04.2014, European Parliament adopted the Directive on disclosure of non-financial and diversity information by large companies and groups. This directive implies that Large public-interest entities, such as listed companies, insurance undertaking, banks, and other companies designated by Member states, with more than 500 employees, should disclose their management report relevant and useful information on their policies, main risks and other outcomes relating to at least:

- Environmental matters;
- Social and employee aspects;
- Respect for human rights;
- Anticorruption and bribery issues;
- Diversity in their board of directors.

This directive leaves to companies the possibility to choose between an integrated report, which disclose both financial and non-financial information, and two separate reports; at the same time, companies are free to rely on international, European or national guidelines, such as UN Global Compact, Global Reporting Initiative, Organization for Economic Cooperation and Development, or ISO 26000.

The main problem here is that sustainability reporting until that moment was a voluntary tool, in which a companies could report the information they wanted (organizations choose the guidelines, but they are not obliged to report all the points asked in the guideline), and the largest part of the companies that decided to provide a sustainability report didn't ask for an auditor's opinion.

Financial and non-financial reporting provides shareholders and other stakeholders with a meaningful, comprehensive view of the position and performance of companies.

It's quite obvious that globalization changed the world we live in, and as a consequence, it has imposed new borders to competition between companies, in order to obtain competitive advantage.

Furthermore, globalization has become also a politic problem, and it has led companies to a higher awareness to social and environmental issues, and to a sustainable growth.
As I have said, from the mid-70s firms are required to not underestimate environmental issues, which are perceived form that moment as urgent and alarming, because related to the planet future. As a consequence, companies have tried to consider those issues as welcome opportunities to technological progress and to launch new environmentally sound products, implementing a proactive behaviour, in accordance with sustainable development principles.
Interchange between firms and environment is an inextricable aspect for an organization's survival and growth: indeed, environment in economical and social view, need to be conceived as the set of the entities in which the company operates, including employees, customers, and all the other stakeholders. The systematic approach highlights the evolving of business management through interactions with the framework the company works in: a firm that is put in a high competitive context is able to perceive framework changes, and to operate governance choices and changes, but is capable to survive.
What comes out is that a company is contingent by environmental issues, and it reacts trying to anticipate evolutions, or to direct them towards its needs, off so to determine a strong socially and environmentally oriented competitive advantage. To compete for this achievement, firms need a skilled management, which is able to predict how environmental externalities will evolve, and to adapt them in time to their needs, so as to satisfactorily conclude its operations.
Therefore, a company needs to maintain consolidated relationships with its stakeholders (their narrow definition reverted to the language of the Stanford Research Institute (1963), defining stakeholders as those groups "*on which the organization is dependent for its continued survival*") to obtain and keep its own success; it is crucial to meet the expectations of those subjects, which behaviours could influence business success. Even if they are not intended as business processes' input, "relational resources" act and can determine a competitive advantage in relation to competitors.

Stakeholder theory highlights how a company needs a strong, lasting and continuous commitment to its stakeholders; experience can help to understand that harmonic relations with surrounding environment and with subject related within it, facilitate the possibilities to generate wealth: a good reputational degree can help the company to create value. Reading stakeholder management as the process through which managers are able to combine both their objectives with stakeholders' expectations and requests, has become an important tool to convert ethical questions in business strategies.

Clarkson in its work distinguish society issues and stakeholder issues; Friedman has preferred to read social issues and social responsibilities as not pertain to the business. He made a distinction between the company and the society, claiming that *"business of business is business"*, as all the neoclassical economists. Claiming a clear separation between companies and society, Friedman has denied the validity and the need from which the concept of Corporate Social Responsibility stems, defining it even subversive, and stated that the only management should decide to take in consideration or through them away, because only the aspects directly related to stakeholders should be considered as relevant, unlike those related to social aspects.

These assumptions can not work in our time. The foundations of these article take their cues from the Directive on disclosure of non-financial and diversity information by large companies and groups by European Union, so it is clear that a regulation has been implemented, and now managers have to crucially consider both stakeholder issues and society issues.

This is because in the last years, more and more society issues has became stakeholder issues and companies have to engage directly with their stakeholders, meeting their expectation and trying to satisfy obligations stemming from the definition of socially responsible actions in their strategies. Organizations have to outline innovative and socially sustainable solutions, enabling to meet management priority and stakeholders' priority, in order to generate wealth and to increase competitive advantage compared to competitors.

In the current hypercompetitive scenario, firms reach and save competitive advantage with more difficulty than in the past, because they operate in dynamics markets characterized by frequent changes that could be managed only through the use of skills, which allows companies to adapt to those environmental changes. In this respect, Corporate Social Responsibility has to be viewed as a real managerial instrument, which is useful to legitimate firms' work and to implement corporate image.

The idea is that a company has to develop unique resources and business-related skills to gain an over time sustainable competitive advantage, but also it has to develop the ability to rearrange its own resources considering any possible environmental change, according to Resource-Based View.

Investments to develop employees' skills and knowledge are an important aspect that could have positive implications for the company in terms of workforce growth and maintenance, in order to guarantee global competitiveness. Therefore, CSR can help business performance innovation, and it might improve even international competitiveness. Some firms could be able to increase their attractiveness to incentivize local investments through by developing a good reputation; it is clear the positive relation between CSR and competitiveness.

Every company operates within a competitive context, which significantly influences firms' ability to follow its strategy, especially in the long run, and social conditions are for sure key elements in those conditions. Competitive context get less attention compared with value chain effects, but it might a greater strategic relevance, both for companies and society.

Companies obviously can not solve all problems affecting society by their own, and sustaining related costs. Therefore, every organization should choose which issue has to be considered, evaluating interactions with its business, leaving other numerous issues not linked to its activity to other firms or Non Governmental Organizations. The essential aspect to consider in CSR implementation is the existence of a real opportunity to create value to share, which is the most relevant benefit for the whole society. Kramer and Porter in 2006 proposed a model that suggests classifying corporate social issues in three different categories: Generic Social Issues, Value Chain Social Impacts, and Social Dimensions of Competitive Context, which refers to external factors that significantly refer to crucial competitiveness drivers related to the contexts in which the company operates.

Within each category, the social dimension will change from business unit to business unit, from sector to sector, etc. It is essential to categorize social issues because it is the only way to efficiently achieve the final goal: to create an explicit, clear and profitable CSR strategy.
Managers of each single business unit may use value chain as an instrument to systematically identify social impacts of every single activity, in every situation and environment. Besides being reactive, CSR might be strategic: company has to face with best practices, but also its goal is to achieve a unique position and to implement innovative actions compared to competitors, in order to reduce costs and to meet better emerging customers' needs. For this reason, CSR strategy includes both inside-out and outside-in approaches, and drives to adopt both contemporary because it creates a symbiotic relation between business success and positive results for community. In this way, strategic activities under value chain could be implemented so as to improve social dimension's results. At the same time, investments in competitive environment have the potential to mitigate negative effects deriving from the externalities of business value chain activities.
It is interesting to measure CSR social impacts. Managers should understand the importance of outside-in influences on competitive environment, while people leading socially responsible initiatives have to develop a clear view of each value chain activity. Corporations that make the right choices and are able to integrate social actions within their core strategies probably will increase their competitive advantage.
When companies provide jobs, invest money, produce goods and develop business strategies they constantly have a deep and positive influence on society. All attempts to find a shared value in operations practices, and social dimension of competitive environment have the potential both to protect social and economic development and to change way of thinking to firms and society. CSR should be perceived as a positive shared value instead of damage or an advertising campaign, and it requires a dramatically different way of thinking business. However, researchers are convinced that CSR (in a Corporate Social Integration point of view) will become a more and more important issue for competitive success.

In the mid-1990s, John Elkington, co-founder of the business consultancy SustainAbility, coined the term 'triple bottom line' (Elkington 1994). In common business language, “bottom line” is referred to profit or loss, which is usually recorded at the bottom line of the financial report. The basic principle behind it is that financial results do not provide a comprehensive vision of company’s performance. For example, if a company shows high monetary profits, but its activity with dangerous chemicals cause water pollution and many health problems for people using that aquifer, how do we perform a cost-benefit analysis? Elkington suggests that in addition to financial information, corporations should also report on social and environmental performance, the other two “bottom lines”; arguing that, as all of these aspects of performance are essential to future market success, so they should be reported.

Integrated report should describe the way the company applied its sustainability strategies, and the positive and negative consequences that will influence stakeholders in economic, social and environmental terms.

Sustainability report parameters are not standardized, instead of financial report; however, Global Reporting Initiative guidelines could be a useful benchmark, and could allow reaching certain uniformity of approach between companies. Furthermore, basing on the importance and the emphasis that GRI guidelines give to the most relevant themes in term of sustainability development and corporate strategy, the integrated report should be not only a simple indicator collection, but also the representation of the sustainability governance process.

Companies should provide its own sustainability indicators system, which should be integrated with GRI system, in order to represent the link between the impact on stakeholders and net profits; the firm should systematically issue those indicators, in order to guarantee the higher possible level of transparency.

Another important point is about the so-called “ethics fund”: integrate reporting should allow investors to take conscious investment decisions, even considering the business sustainability degree.

Therefore, an integrated report should tell the story of the company, including both financial information and other information explaining the company’s strategic view and direction, analysing targets, risks and potential opportunities.

First of all, it could be important to describe the process that a company should implement creating its integrated report. Indeed, we recognize a dual value to this tool: on the one hand, it provides appropriate information to company's stakeholders and shareholders, but on the other hand it could be important to internally define and understand the whole company's corporate strategy, analysing internal purposes. To guarantee a concrete output, company needs a clear pool of data from which the firm can choose the most relevant and congruous information, and it means that the "heart" of the company should be organized in a way it can provide those kinds of data as quickly as possible, and on a regular and reliable basis. To get there, it is important to have a high degree of cooperation across the various area involved in this process, creating communication channels between different business units, because the final result will simply reflect those internal processes.

Thus, the first important point is to clearly define the business model, with the intent to offer a more extensive description of performance, which means to consider all the relevant capital on which a company depends, explaining their role in how the company seeks to create and sustain value. In this case capitals can be defined as the resources (economic and non economic) and the relationships that are consumed by the company, influence it or are influenced by it.

The second point is directly linked to the first: once the firm have understood its own business model, and categorized its capital, it is the moment to assess the opportunity and risks that could arise from the integrated view. Indeed, it is clear that if a company uses to evaluate itself and develop business strategies basing on its current business model, an implementation could bring kind of difficulties: now the company will take in consideration different categories of capital that could conflict with both stakeholders expectation and the environment in which the firm operates. For this reason, it is crucial to develop an understanding of interdependencies between financial and nonfinancial goals, to take in consideration stakeholder expectations on sustainability and social aspects when top management define strategic goals, defining and implementing measures in their approach to address them.

The third step can be defined as the process to adapt internal indicators to this new view. Obviously, analysing contemporary both financial and non-financial aspects need to create a solid structure of KPIs, which continuously measures sustainable business activities. Companies should identify proper KPIs, which should be aligned with their corporate strategy and which should focus management and stakeholders' attention on both financial matters and material issues for the business model, and also on the most relevant possible effects on social and environmental area.

Therefore, it may be difficult to portrait a complex relationship system in one document, so companies may ask themselves which should be the best media to be used to publish an integrated report, that suits the various stakeholders in the best possible way, and that can be clearly and easily understood.

To answer this question, organizations may consider a general gap analysis: they could compare current reporting content and structure with the requirements of integrated reporting. In this way, it makes possible for the company to assess its level of integration, and to evaluate realistic opportunities and for the implementation of this level of integration.

Finally, once published, it is important to understand that the first integrated report will not be the end of something, but the starting point for the next steps of integration processes, such as improving data quality, or aligning other publications.

it is important to define some key principles that will represent the basis upon the entire document stand up; than, companies have to integrate these guiding principles with their organizational overview, their business model, their operating context, with the strategic objectives they have fixed and the strategies to achieve those objectives, with their corporate governance, with their current performances and finally their future expectations and outlooks.

Briefly:

- Strategic focus: it corresponds to the starting point; through the integrated report, a company should provide insight into its strategic objectives, explaining how top management thinks to create and sustain value over time, which strategy will be choose, and resources the company will depend on;
- Connectivity of information: an integrated report underlines possible links between different components of a company's business model, external factor

which influence the organization and different resources and relationships the firm and its performance are dependent upon;

- Future orientation: an integrated report should include the management's expectations for the future, as well as other information to help report readers understand and assess an organization's prospects and the uncertainties it faces;
- Responsiveness and stakeholder inclusiveness: an integrated report should provide insights into an organization's relationships with its key stakeholders, and to what extent the organizations understands, considers and responds to key stakeholders' needs;
- Conciseness, reliability and materiality: an integrated report should provides concise, reliable information that is material to assessing an organization's ability to create and sustain value in the short, medium and long term.

I have tried to build six "milestones" that should drive companies to develop the best possible Corporate Social Responsible strategy. Companies should carry out a detailed analysis of their business model, but the first idea that moves them should be <u>to focus always on profitability</u>. The final output should have a positive impact on business value, not philanthropy or to support social issues to get respect from who is fond of that cause. Firms should act thinking about how their CSR strategy can save their money or help them to make money meeting specific social challenges and creating shared value for their stakeholders, but always in their own interests. Companies "fight" against intangible profits, and their traditional business models poorly fit with CSR issues. Here, the guiding principle should be that the best corporate social responsible strategy helps firms to make money and not to give them away. In this sense, corporations will provide much more social wealth than with the traditional approach.

Therefore, secondly, organizations should <u>link their CSR strategy to the firms' core fundamental purpose</u>, because it is the key for finding a profitable CSR strategy. The first idea that comes in my mind is about Toms. This is a company founded by Blake Mycoskie in 2006, based in Playa Del Rey, California, and which design and sells shoes similar to Argentine typical "alpargata", sunglasses and coffee. Mycoskie got the idea for this company when he visited Argentina, and noted that a lot of children were not wearing shoes, and that many people in the country were wearing those kinds of very simple shoes. He was captured from this social difficulty, and he decided to build a company adopting that shoe style, producing it in different colors and styles, with a clear and simple value proposition: for every pair of shoes customers bought, another pair would go to people in need. In the next years, he developed different lines of sunglasses advertising them with the same buy-one-give-one formula, and invested in coffee selling, the purchase of which helped to provide water where it is needed. After ten years of work, Moody's estimated that 2015 revenues amounted to $392 million. In the meanwhile, through its business model Mycoskie's company was able to donate 51 million new shoes, restored vision and clean water.

That is to say, if a company is able to match social and environmental positive impact with its core business, and to make money from "good citizenship", it will be a good citizen. So basically, firms can meet social needs by doing what they do best, creating shared value for society and their business. Now, about the first point (focus on the profitability), it is important to point out that a good sustainability program is not an alternative for having a good product. Customers are not willing to sacrifice the main purpose of a product in exchange for sustainability; they expect a great sustainable product. Companies should not only adopt popular social causes, because it gives a positive image, but provides limited (almost nil) business value; their secret for winning should be to have a great product that integrates sustainability.

In this vision, it is crucial for firms to be able to understand customers. Companies struggle with a very simple question: how many people cares about CSR and how much it can influence the business?

A 2012 research conducted by David Jerome and Rob Kleinbaum showed the relevance of 20 CSR issues for people classified in Concerned and Cautious category (the largest one). They stated that, on a scale from 1 to 7 with 1 as "not relevant at all" and 7 as "Extremely Relevant", Energy cost and fuel price got a 6.1 rating, the use of alternative energy got 5.3, as more than Recycling and Water Conservation (5.2) and Reducing the outsourcing of job overseas (5.1), while for example Supporting global organization/charities got a 3.6. The problem is that charity is still

where the larger part of companies focus their CSR efforts, not understanding that focusing on the right issues would allow them to gain a large market size and why not, money.
Another important issue firms could face and should overcome is that Top Management has to sustain and reinforce its CSR strategy in order to make it effective and profitable, protecting it in its early stages. A CSR fully integrated strategy leaves the traditional single department, and cuts across marketing, sales, legal, finance and communication departments, so it needs people involvement and a sufficient budget that has not to be cut for the first difficulty.
Concluding, a good CSR strategy develops employee engagement, drives for innovation and collaboration, and turns people's opinion of the company from a "them" to an "us". I have talked about Volkswagen "diesel gate", for which company's hypocrisy and mistakes turned people opinion for the firms, while companies as Toms makes people more involved into business process, and can be trusted showing they care about social problems, even earning large amount of money. Thanks to this analysis, covering the evolving thoughts about Corporate Social Responsibility issues, mentioning different scholars opinions about the differences and the importance that socially responsible behaviours and strategies could have on business, we can identify three different scenario firms are currently experiencing. We have discussed about the central question of this topic, if a company may address business value through a good CSR strategy. It is important to remember that a firm strategy implies different divisions of the company such as involving marketing, finance, and communication, working together in philanthropic actions, supply chain modernization and strongly positive environmental actions. Many firms focus on philanthropic actions, intended as any form of non-profit financing, community service organizations, charity donations or underserved populations' service providing. Those actions do not provide a direct money return or benefit for the company, but want to be considered a spontaneous contribute to community needs from an integrated part of the society. Clearly, it aims to contribute to corporate business strategy enhancing firm's reputation to local communities, providing a possible insulation from unanticipated risks. At the same time, these actions could be reactive, caused by societal pressures: examples could be journalists

or activists claiming against businesses unethical behaviours, or sanctions and penalizations for regulatory infractions.
Philanthropic actions are often provided by the company itself, or through different foundations that exist separately from the company. There are many examples of philanthropic giving, for different companies operating in different industries. Microsoft donated around $300 million worth of software products to Non Governmental Organizations around the world, or The Coca-Cola Company that contributes annually with $88 million through its personal foundations, The Coca-Cola Foundation. Obviously, the larger is the corporate size, the more different will be the decisions managers have to take, and the more fragmented will be its philanthropic activity. Especially for large multinational, but also for national firms that are facing their first difficulty in internationalisation process, it could be very useful to fully integrate into the new cultural and socioeconomic environment, because they are responsible both for increasing shareholder value and interest into the corporation, and for the communities upon it depends. In this environment, it is easy to find companies that indirectly try to reflect these philanthropic activities in individual benefits, with the specification to not link socially responsible actions to their core business.
An evidence can be an initiative promoted by PNC, which budgeted around $100 million over a five-year period, to provide resources for critical schools to undeserved populations where PNC operates, helping to create stronger communities, brand loyalty and potential future local employees. For this purpose, PNC was integrated into managers' training and staffs' volunteer programs, creating a strong corporate commitment around the initiative.
These cases demonstrate that many important companies use strategic corporate philanthropy to serve environmental and social purposes, involving management and employees, but these actions don't clearly express the core business priorities, and this means that here the priority is to generate social or environmental value, but not necessarily creating a direct economic return for the company. Those efforts could turn back into indirect or intangible benefits such as brand awareness or improved social capital that could translate to business value, but it is only a consequence of the initiatives. In some ways we could state that this could be the "purest" form of

corporate social responsibility, because it seems to tell us a part of the story in which firms propose CSR initiative on a voluntary basis and with good charitable intentions. As I have said before, many organizations engage socially responsible purposes because of pressures, under activists or civil society attacks for unethical behaviours or bad business practices that for example undermine diversity and employee freedom, any more than they have negative environmental impact through their business processes. Whether firms are culpable or not, it may use corporate philanthropy to anticipate potential reputational damages.

The second scenario companies could choose to aim through their socially responsible strategy is to increase business profitability while also creating environmental benefits by implementing an improved operational effectiveness throughout their value chain, both upstream in the supply chain side and downstream in the distribution side. This approach aims to create a "shared value" effect, in which companies and their customers attempt to co-create social and economic value. Clearly this strategy requires great collaboration between different departments, because it has to be co-managed by managers involved in the supply side, marketing managers involved in advertising and distribution on the demand side, and for example CSR managers could be helpful in overseeing supply chain initiative or assist marketing in cause marketing initiatives.

The difference with the first scenario is that now firms are not just investing in charitable activities to "clean" their image, but are trying to predicate their ability to improve social end environmental problems while simultaneously returning business value, in order to create shared value. Obviously, it could be a consequence of an aggressive negative publicity and protests. For example, Nike and Gap, two world leader firms in wearable market, started aggressive supply chain improvement and restatements because of negative advertising. Nike has established a code of conduct that serve in governing not only its supply chain, but also the supply chain of factories Nike contracts to manufacture and refine its products. Part of this code includes requirements that employees are fairly salaried, are not exposed to unhealthy and unsafe working environment, and that the factory respects diversity and provide ethical treatment in the workplace. Meanwhile, Nike launched an awareness campaign to reduce negative impacts of its entire supply chain from material sourcing to distribution.

In the far 1999, Gap launched an innovative campaign to engage stakeholders in order to answer to the strong critics received after a report that publicized unethical labour practices in its manufacturing sites, many of which produced also Nike products. By the way, those initiatives will also benefit both companies improving productivity and employee awareness, reducing waste and energy and material usage.

Similarly, Wal-Mart has implemented a corporate supply chain reengineering in response to pressure from media and activists, but also in order to reduce operating costs in a profit-driven vision.

Unlike Nike, the firm has partnered with no profits organizations such as “World Wildlife Fund” on environmentally positive initiatives to source sustainable forests and fish products, or with “Sustainability Consortium”, an independent organization which aim to enforce environmental sustainability in all the products’ lifecycle stages. In addition, the company has helped Sustainability Consortium to create a sustainable products index, which allows manufacturers and retailers to evaluate the sustainability credentials of suppliers and their ingredients.

Unlike philanthropic CSR actions, here CSR impacts on corporate results are much more intuitive using those kinds of strategies than on charitable actions: if a business improves working conditions in its manufacturing sites, or provides free healthcare for its employees, surely quality (and amount) of productivity will increase. In the same way, if a company reduces non-renewable resources usage, and is able to implement waste and pollution eliminating strategies in its daily operations, operating costs and material costs will dramatically decline.

The last scenario companies could take into consideration building their Corporate Social Responsible strategy is the one that requires transforming the entire corporate philosophy in order to improve the ecosystem. It means that firms should apply disruptive changes to their business model, adding importance and giving priorities to real solutions to environmental or societal problems, in order to gain long-run financial returns. Unlike evolving and adapting value chain to get immediate profits, here organizations try to create significant social value by strongly addressing an environmental need that may not guarantee immediate profits. Another difference is that now firms are not adapting their core competencies to an environmental-oriented value chain reengineering, but they are required to change their business model and develop new skills, competencies and strategies.

In this sense, creating new ecosystem solutions may force firms to look outside their core interests, to disrupt their existing value chains, and for these reasons it could be most effective if undertaken by companies who have diversified product lines that could dilute the financial risk associated with those kind of operations, and large financial resources to absorb long-term financial payoff.

The exceptions may be small companies with innovative technologies, business processes or business models that may find disrupting the ecosystem as an alternative solution to differentiate from traditional companies, trying to differentiate from classical unique business offering.

Such initiatives could lead to successful rewards only if who take decisions within the firm has a strong management leadership, in order both to create solutions for environmental and social challenges, and to foster long term business opportunities within the new environment. Therefore, it is not enough for top management to passively passionate to an initiative, in particular for those kinds of initiatives that require cooperation between different business units and transform the entire business strategy.

The best example representing this scenario is Ray Anderson's "Interface Inc." case. Interface Inc. was the world's leading manufacturer of modular carpet, but in 1994 something in Ray Anderson mind changed (he defined an "epiphany"): after reading "Ishmael" by Daniel Queen, but above all "The ecology of Commerce" by Paul Hawken, that argues that the industrial system is destroying the planet and only industry leaders are powerful enough to stop it, he created a plan known as "seven fronts" to achieve sustainability goals. He decided to eliminate waste, achieve benign-emissions, use renewable energy, close the loop, use resource-efficient transportation, redesign commerce and sensitize stakeholders on this issue.

Without the assurance of the top hierarchical man in the company, Interface's employees would not have been really committed to engage Anderson's vision.

It is important to remember that in 1994, when Ray Anderson decided to radically change its entire business model, the company had past more than twenty years growing and expanding through acquisition and had never thought about a CSR program.
What Interface wanted to do was to implement a new vision and mission referred to environment restoring, nature cherishing, and maximizing stakeholders' interest while making a world a better place. This perspective focuses on improving social welfare and the integrity of the world, adding profitability to the company. The company's leader understood that for a firm there is something more than just making profits, and investing on sustainability the whole investment will come back in form of dollars. Obviously, as a listed company should do, Interface primary objective should have been maximizing shareholder value. But it is precisely operating in this kind of situation, trying to implement sustainability strategy in a neoclassical world, that the company demonstrated that what sustainability is, mitigating socioeconomic structures incompatible with sustainability idea.
Interface also understood that the more waste could be eliminated, the more money they could save. Indeed, they have been able to save almost $300 million between 1997 and 2001, pursuing a strategy that included the key role of technology investments. The firm conceded that it could be sustainable only if the whole supply chain process was sustainable. The problem was that 90% of CO_2 emissions associated with their creation processes occurred outside the manufacturing process, because of raw material extraction and processing, product transportation, installation and maintenance, and product return. They focused on encouraging suppliers to be sustainable, creating a large number of global sustainability partnership to influence others to adopt sustainable practices. In addition, they redesigned their products in order to use renewable resources in the manufacturing process, and to eliminate waste and emissions. Interface developed for example a bio-based carpet that replaced the oil-based one because it was made by polydactyl acid, sourced from agricultural products. As a result, they were able to reduce greenhouse gas emission by around 50%, and waste to landfill by 65%.
About technology importance, the firm invested large amount of money in technological systems in order to reduce waste and pollution, and increased the usage

of renewable resources and energy. They basically tried to replace old technology with “next industrial revolution” mechanisms, such as solar, cyclical, zero waste, but always focusing on resource productivity.
The larger innovative changes were applied on the way Interface’s carpets were manufactured, distributed and claimed from customers. In this sense, the firm began producing carpet made as modular tiles instead of entire floor units, in order to have the possibility to replace or repair the product. Additionally, the company decided to lease instead of selling, its carpets to institutional customers, taking the responsibility to clean and repair products over their lifetime. At the end of the carpets’ lifetime, for institutional customer under leasing program, Interface removed and recycled the carpets into new products, rather than just “end them up in the bin”.
Even if this initiative faced initial difficulties to be accepted by customers, the company remained fully committed to this operation, considered essential in its zero-impact strategy. The results were that the company had increased sales by 65%, profits by 200% since the transformation began, and most importantly, reduced water usage by 75% and greenhouse gas emission by 92%.
Clearly, despite Ray Anderson thoughts, I think it is impossible for a company to reach the Mission Zero results, involving a situation in which a firm is able to equal zero carbon emissions, be totally renewable energy dependent or reduce by 100% Greenhouse Gas emissions, but the results Interface was able to gain are incredible. The average carbon footprint of their carpet was down 31% since 2008, Energy efficiency at manufacturing sites has improved by 45% since 1996, 84% of energy used at manufacturing sites is now obtained from renewable sources, 50% of raw materials used are either recycled or bio-based, total water intake intensity at manufacturing sites went down 87% since 1996. Meanwhile, on the financial side, the firm was able to divert 26 million pounds of carpet and carpet scraps from landfills, to collect and ship 22 thousand pounds of fishing nets to its recycling partner. The company worked even to improve employees’ safety, and the Total Accident Frequency Rate went down 71% from 1999.On the financial side, after an initial difficulty, due to the large investments with no short-term return, the amount of sales and net income generated by the company followed the market results. Net Sales amount, after a crisis between 2001 and 2002, remained quite stable, while Net

Income generated by the company faced two moments of great difficulty, corresponding with two large global financial crises. The quality of Ray Anderson vision both on social, environmental and financial side is even underlined by the shares value across 2006 and 2011, the year of his death. I compared the Interface's stocks value in six different moments, with NASDAQ composite index, an index that includes the whole NASDAQ listed corporates stocks value. What emerges is that the company was able to carry out the real and core question firms are forced to answer: to create value for their shareholders. The brilliant idea here, has been to be able to create shareholders' and corporate's value through a disruptive and visionary sustainability strategy.

Business strategies based on increasing economic return and profitability, bring for necessity to natural resources and energy consumption, whatever how efficiently a firm can execute them. However, Interface case and in such a way even Toms case are exemplifying attempts to achieve a higher standard of conduct, answering to societal demand; in those cases, a business model transformation in order to achieve triple bottom line results had helped those firms to reach, or to try to reach their goals. In the same way, an integrated reporting strategy is helpful not just to communicate to the world the firm situation, or to self-congratulate, but also to simultaneously monitor social, environmental and financial results and understand if a social responsible strategy is meeting the initial expectations, and where or in which way the firm can improve it. Likewise, many reports underline that sixty percent of consumers are willing to pay around 5-8 percent more for sustainable products sold by sustainable brands, up from 55% in 2014 and 50% in 2013, showing that a strong Corporate Social Responsible initiatives focused on strong ethical relationship with customers can be the foundation on which a mutually beneficial strategy should be built. Additionally to subjective consumers' value for a corporate socially responsible program, which would lead to increased brand loyalty, companies can realize a clear and measurable financial reward as well.

However, a powerful and profitable CSR strategy needs to incorporate the vision/mission of top management/CEO, in order to be able to communicate the importance of sustainability: only in this way the firm will move the organizational agenda around environmental and social issues. A strong leadership member driving the business to sustainable behaviours will drive the other member of the staff and employees to embrace the program and to embed it into business practices. To reach this aim education programs and relentless communication of sustainability concepts will help in getting employees' and other stakeholders' involvement and to transform daily business practices, because incorporating sustainability concepts into day-to-day business practices will have much more positive impact than just implement stand-alone sustainability strategies, which could be suspended if financial department suggest it.

Furthermore, technology is one of the most important factors in achieving positive and strong environmental results, particularly if a firm is able to transform its production model to a circular system that eliminate waste through recycling and, at the same time, reduce non-renewable pollutant resources and energy demand. The cases I have showed indicates that the more a firm is able to educate its employees and its customers, understanding the importance of human resources involvement in the production system and the changing requirements customers expect from companies, the more it will be able to put in practice valuable environmental and social strategies and to financially benefit from those kind of initiatives, anticipating competition and indeed forcing competitors to accept and implement themselves similar strategies.