



*Edited by*

Walter Wehrmeyer · Stéphanie Looser ·  
Mara Del Baldo

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# **Intrinsic CSR and Competition**

Doing well amongst  
European SMEs

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*Editors*

Walter Wehrmeyer  
Centre for Environment and Sustainability  
University of Surrey  
Guildford, Surrey, UK

Stéphanie Looser  
University of Surrey  
Guildford, UK

Mara Del Baldo  
Department of Economics, Society  
and Politics  
University of Urbino Carlo Bo  
Urbino, Italy

ISBN 978-3-030-21036-6      ISBN 978-3-030-21037-3 (eBook)  
<https://doi.org/10.1007/978-3-030-21037-3>

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# Foreword

This is the kind of research that we need more in the field of Business, Ethics and Society. It is based on good theoretical ideas, and these ideas are developed through case analysis and illustration. The study of CSR has been the province of large corporations for far too long, and this volume, focusing on Central-European SMEs and family firms, develops and extends the idea of intrinsic CSR to smaller enterprises. From the historical analysis of the Honorable Merchants to more contemporary firms we see the relevance and development of key CSR ideas. The essays cover the territory both broadly and deeply.

There is a new story of business that is emerging all over the world. “Business as solely concerned with profits” is an idea whose time has come and gone. As research and practice move forward we will see many more frameworks, arguments and analyses of business that do not separate “economic” from “social”. This book is a welcomed addition to this burgeoning literature.

April 2019

Edward R. Freeman  
Darden School of Business  
The University of Virginia  
Charlottesville, VA, US

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## Notes on Contributors

**Maria-Gabriella Baldarelli, Ph.D., CPA** is associate professor of Accounting, at the University of Bologna, Department of Management. Full professor availability, CAST board member, SIDREA board member until 2018. Visiting Professor: University of Elbassan (2018); State University of Tirana (2017) Albania; La Trobe University Melbourne (Campus Badora) (2015) Australia; University of Pula-Hroatia on May 2006; University of Vlore (Albania) from 12 to 15 May 2009; Visiting professor—Teaching staff mobility at the New Bulgarian University of Sofia—Bulgaria from 22 to 27 November 2010; University of Sao Paulo—Brazil at the end of May–1st June 2011; University of Diocese of Buia (UDEB)—Camerun—from 4 to 8 February 2012. Partner of Editorial Board international Review “Economic Research” (UDK 338; ISSN 1331-677X). Research interests includes: accountability and gambling enterprises; corporate social responsibility; ethical, social and environmental accounting and accountability, sustainability in tourist enterprises; responsible and accessible tourism for blind people, economy of communion enterprises; gender accounting; accounting history.

**Tyler Brûlé** is the editor-in-chief of Monocle magazine. He first visited Switzerland as a teen. Now he is running his media empire from a new

office in Zurich. Though his love affair with Switzerland continues, he sees the need for some tweaks. “The Swiss can’t help themselves from constantly renovating and rebuilding, when sometimes I think they should just restore and preserve,” finds Brûlé.

**Philip Evans Clark** currently works at the Faculty of Business, Management and Services, University of Applied Sciences and Arts Western Switzerland. Philip does research in Financial Economics, Entrepreneurial Economics and Business Administration. Their current project is ‘The Role and Dynamics of CSR in Swiss SMEs’.

**Dr. Mihaela Constantinescu** is currently a postdoctoral research fellow of the Research Institute of the University of Bucharest (ICUB). Her research interests include organizational ethics, virtue ethics and corporate responsibility, approached within the philosophical framework of the Aristotelian moral thought. Mihaela co-authored the Romanian volume on *Institutionalising Ethics: Mechanisms and Instruments* and is author and co-author of articles published in international volumes and scientific journals such as the *Journal of Business Ethics*. She is a member of the Research Centre in Applied Ethics ([www.ccea.ro](http://www.ccea.ro)), Faculty of Philosophy, University of Bucharest and has theoretical and practical expertise in the fields of ethics management, corporate social responsibility and public relations. With an academic background in both philosophy and communication, Mihaela has previously worked as a public relations consultant in the private, nongovernmental and public sectors, while also offering ethics counselling to the latter.

**Mara Del Baldo** is Associate Professor (of Financial Accounting; Economics of Sustainability and Accountability) at the University of Urbino (Italy), Department of Economics, Society and Politics. She was a visiting professor to the University of Vigo (Spain), the Juri Dobrila University of Pula (Croatia), the New Bulgarian University of Sofia (Bulgaria), the Corvinus University in Budapest (Hungary) and the University of Craiova (Romania). Her main research interests include: Entrepreneurship and small businesses management; Corporate Social Responsibility, Sustainability and entrepreneurial business ethics; SMEs strategies of qualitative development and networking strategies;

financial reporting; ethical, social and environmental accounting and accountability (SEAR); integrated reporting and accounting and gender. She is a member of the European Council for Small Business, the Centre for Social and Environmental Accounting Research (CSEAR), the AFECA-ILPA (Association des Formations Européennes à la Comptabilité et à l'Audit), the SPES Institute and the European Business Ethics Network (EBEN) Italia, the Global Corporate Governance Institute (USA), as well as several Italian scientific associations. She serves as editorial board member and a reviewer of a number of scientific journals. She has published in several Italian and foreign journals as well as in national and international conference proceedings and books, included the Springer's Series *CSR, Sustainability, Ethics & Governance*.

**Josh Wei-Jun Hsueh** is an assistant professor at the University of St. Gallen, Switzerland. He obtained his Ph.D. in Business Administration and Management at Bocconi University in 2017. He was a visiting scholar at IE Business school in 2016. He had Research Fellowship at Bocconi University 2016–2017 and a Research scholarship at Bocconi University 2012–2016. His research focuses on family businesses' identities and image based on their corporate social responsibility (CSR) strategy and performance. His publications can be found in international journals, such as *Entrepreneurship Theory and Practice* and *Journal of Business Ethics*. Currently, he is working on the management of identities and image of family businesses. Further fields of research include entrepreneurship, social identity and corporate image.

**Prof. Muel Kaptein** is a professor of business ethics and integrity management at the RSM Erasmus University Rotterdam, The Netherlands. He is also equity partner at KPMG where he supports clients in auditing and improving their integrity and compliance. He cofounded KPMG Integrity in 1996, which was the first consultancy service in this field among the Big-6. Muel is author of various books including *Ethics Management* (Springer, 1998), *The Balanced Company* (Oxford University Press, 2002), *The Six Principles for Managing with Integrity* (Articulate Press, 2005), *Workplace Morality* (Emerald, 2013), *The Servant of the People* (Amazon, 2018) and *Ethicisms and Their Risks*

(Amazon, 2018). He has published about 50 peer-reviewed articles in international journals such as *Journal of Management Studies*, *Journal of Organizational Behavior*, *Organization Studies*, *Journal of Management* and *Human Relations and Academy of Management Review*. See for more information: [www.muellkaptein.com](http://www.muellkaptein.com).

**Giuseppe Lentini** is a junior consultant with great interest in integrated reporting. After completing his bachelor's degree at LUMSA University in economics he began to study corporate social responsibility (CSR) with a focus on benefit corporations and their committed forms of CSR. His master's thesis was dedicated to this new paradigm and he collaborated with a research team in the field before moving onto his corporate career. His research interests lie in the area of corporate social responsibility, sustainability reporting, and integrated reporting. Giuseppe is also a dedicated sportsman. He is an official soccer referee and his free time is dedicated to soccer games.

**Stéphanie Looser** obtained her Ph.D. in Environmental Strategy at the University of Surrey's Centre for Environment and Sustainability, focusing on Small and Medium-sized Enterprises (SMEs) and their at times unconventional, but sophisticated approach to Corporate Social Responsibility (CSR). She published about 40 peer-reviewed papers and several book chapters in English, German and French. Moreover, she frequently presents her results at state-of-the-art conferences in Europe and Asia. Currently, she holds a Chair in "Sustainable Tourism & Mobility" at Lucerne University of Applied Sciences and Arts, Institute of Tourism ITW, as well as a Research Fellowship at the University of Surrey. By combining these far-reaching networks, she is promoting the design and establishment of state-of-the-art courses to educate and foster prospective change makers/leaders of the tourism and mobility sector. Thus, she guides individuals and institutions towards a sustainable and intergenerational just future.

**Seraina Mohr** lectures and researches at the Lucerne University of Applied Sciences at the Institute of Communication and Marketing, where she heads the Competence Center for Communication Management. She studied German language and literature and history at the University of Zurich and completed a postgraduate course in

service management. She has many years of professional experience as a journalist and in the management of Internet portals.

**Giorgia Nigri** is a Ph.D. Student at LUMSA Università Maria SS. Assunta di Roma in Rome, Italy, regarding Sustainability, Environmental Impact Assessment, Sustainable Development, Society and Environment Corporate Social Responsibility, Social Impact Assessment, Benefit Corporations Economics.

**Simonetta Recchi** was born in 1990. She has done classical studies. She has a bachelor's degree in Philosophy and a master's degree in Philosophical Sciences.

She has obtained her Ph.D. working both with Macerata University and with Loccioni Group, in the People Team which deals with Human Resources. Loccioni is an Italian Company in the province of Ancona. It is an industrial automation company where engineering solutions are developed.

The Ph.D. programme was an industrial Ph.D. and it was about Innovation and Corporate Social Responsibility with a focus on the role of active ageing, employability and workplace challenges in the enterprises. The area of the research was Psychology, Communication and Social Sciences.

During her Ph.D. Simonetta worked also as a Visiting Student in the Department of Economics and Business Administration of the Vrije University of Amsterdam.

She is engaged in collaboration with "LavoroPerLaPersona Foundation" which is based in Offida, her hometown. For this Foundation the world is an open, intercultural, and welcoming community where if the work can fully express itself, it can be enhanced in all its tools, components and dimensions.

Simonetta has a Music Theory Degree obtained at G.B. Pergolesi Conservatory of Music of Fermo, and another Degree in Piano at Luisa D'Annunzio Conservatory of Pescara. She plays the violin and the clarinet as well.

Now she is working as Human Resources Specialist at Giocamondo, a Tour Operator focused on the organization of summer trips in Italy

and study trips for young people in European and Extra-European destinations (UK, Ireland, Scotland, Russia, Spain, Malta, USA).

**Mathias Schüz** studied Physics, Philosophy and Educational Theory at the Johannes Gutenberg University of Mainz in Germany. It was in his Ph.D. thesis on the philosophical consequences of quantum physics that he first addressed the subject of responsibility and ethics. After finishing his postgraduate degree, he was initially employed by IBM as a trainee and then moved on to become a key account manager at the company. Together with insurance entrepreneur Rolf Gerling, he later co-initiated the Gerling Akademie für Risikoforschung (Gerling Academy for Risk Research) in Zurich, Switzerland, where he worked for 16 years as a member of the management board, as well as taught and conducted research. He is lecturer and professor at the School of Management and Law at Zurich University of Applied Sciences (ZHAW) in Winterthur ever since 2006, where he teaches and researches the subject of business ethics and responsible leadership. He has published numerous articles and books on these areas.

**Joachim Schwalbach** is Professor emeritus of International Management at Humboldt-Universität zu Berlin, Germany. From 2004 to 2006 he was the Dean of the School of Business and Economics. He was a visiting professor at various universities like Harvard, Santa Barbara, Stanford GSB, and Toulouse; and is visiting regularly Peking University—Guanghua School of Management and Sun Yat-sen Business School in Guangzhou. His research and consulting fields are: corporate social responsibility, corporate governance, responsible leadership, and executive pay, effective boards of directors, corporate and CEO reputation management and international market entry. He is editor and associate editor for various academic book series and journals, and has published books and many articles in leading academic journals. Joachim Schwalbach organizes the world's premier international conference on corporate sustainability and responsibility. Every two years, leading experts from around the world have been meeting in Berlin for exploring the global themes of CSR (see: [www.csr-hu-berlin.org](http://www.csr-hu-berlin.org)).

**Elisa Tamagnini** born in Bologna (Italy) in 1982 and has a degree in business and economics (Università Bocconi—Milan—Italy). Since 2010, he has been head of corporate social responsibility at SGR Group, charged with drawing up and proposing guidelines for corporate social responsibility, preparing the sustainability report and overseeing the educational programme for school and welfare system.

She has also been on the SGR Groups' ethics committee since 2010.

**Dr. Walter Wehrmeyer** is Reader at the Centre for Environmental Strategy at the University of Surrey, with over 20 years of experience developing sustainable development strategies of public and private organisations, including design of stakeholder engagement and policy deliberation. He is a trained facilitator, having designed engagement and risk communication strategies for the public and private sector. As such he has been involved with relevant grants from EPSRC, EU & national governments worth over £3m, covering topics such as risk communication on contaminated land, developing sustainability indicators for industry, foresighting and backcasting for long-term sustainable pathways, fighting organised crime through better engagement strategies, identifying barriers and drivers for successful upscaling of local smart energy systems.



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# Part I

## Introduction: CSR Beyond Formal System

The definition of Corporate Social responsibility (CSR) seems to be unsettled and some argue that it has been diluted from its original aims as numerous definitions can lead to confusion and misperception. Dahlsrud (2008) analysed 37 definitions of CSR and identified five overarching dimensions:

- the environmental,
- the social,
- the economic,
- the stakeholder and
- the voluntariness dimensions.

In light of this diversity, which led to CSR seen as “a jungle” and to criticism of the concept in general, this section adopts the European Commission’s (2011) definition of CSR as “the responsibility of enterprises for their impacts on society”.

Thus, this introduction’s aim is—despite the term has been used very frequently and across all sorts of domains and areas and applications and sectors—to start with a fresh look of what might be meant by CSR today. This is coercive since the book looks then at a specific

difference that seems to be identified having a closer look at CSR as a concept itself:

To start with, as already mentioned, loads of definitions exist, most seem to focus on CSR being a structured approach to discharge an organisation's social effects. Therefore, this introduction started with the most detailed analyses of CSR known till today. Its focus was not on ranking companies or the 37 expressions of CSR it was just a situation analysis comparable to this book's approach:

Firstly, by discussing companies and organisations and whether the social aspect is of any interest for them. More generally, this book comes up with facts whether CSR indeed plays a role in companies and to which extent.

As responsibility, as a concept, seems to be, beyond any doubt, the book scrutinises the reasons why. Further it takes the opportunity to have a closer look at the origin of "responsibility"; further, why this part seems to be established and/or how it is justified.

Not to go too deep into trailblazing arguments discussed later, CSR as an enactment of the founder's ethics, or as an enactment of personal (ethical or religious) beliefs may work as well as CSR as an enactment of cultural values—companies "giving back" to societies or their specific neighbourhoods. (although whenever we talk about "giving back", the question of what companies have "taken away" in the first place remains as unanswered as the question whether "giving back" is driven by guilt or the perceived value of what has been taken in the first place—likewise: What would Friedman (1970) say about "giving back"...? Or, CSR is just seen as a duty to act, given specific health or safety standards that an organisation needs to follow, be this Health and Safety standards for workers, unionisation, pay and conditions, etc.

This is the point, where the book starts to focus on the dichotomy of CSR regarding intrinsic and extrinsic motivation. As the next section, many company cases, as well as Section 6 keep very close looks at all facets of this potential duality the Introduction Section keeps this part short and simple. Aspects regarding owner-leaders of Small and Medium-Sized Companies, in particular their (often close and strong) ties to their employees, their role as community members, etc.

This has implications regarding their relationship to all the other stakeholder groups as they could be distorted by legal standards or by the “ugly” or even “bad” part of social capital (i.e., the expectations of the counterpart regarding “service in return”, obligations, etc.). Further, they are influenced by markets, trade bodies, competitors and any fraud that might be combined with such tied relationships.

Thus, the book completely accepts stakeholder theory as an inherent contributor to CSR—stakeholders provide the inputs to that agenda, be this government (legal standards), local residents (neighbourhood influence), the whole range of stakeholders. Interestingly, it is frequently convenient but often misleading to attribute specific social concerns with specific stakeholders, yet this representativeness hides a more multifaceted and multilayered agenda).

In sum the book also doubts the implication companies pursue extrinsic CSR primarily in support of the wider organisational objectives CSR becomes less an overarching design feature but an operational tool in support of the wider economic and strategic success of an organisation. In other words, the intrinsic–extrinsic dichotomy CSR comes from only slightly different understandings of “responsibility”, but lead to very different day-to-day practices.

To research or find a generally accepted proof or definition of intrinsic CSR is on the one hand less challenging if you are an employee of a company that is intrinsically motivated, however follows an implicit approach, which means that the company does not proclaim their daily business set-up (following CSR rules). This is exactly the point where it is sometimes impossible to identify intrinsic CSR—why should CEOs talk about something they do because it’s the right thing to do—that argument does not promote its product, does not gain new customers, does not profile itself as beneficial or special. It simply is one of the things companies do.

However, CSR needs also be looked at in terms of what are its targets, what are its purposes and what it does. In terms of its purpose or scope, we can imagine CSR to operate on three concentric circles:

- Own staff
- Local community
- Society at large

It is also crucial to explore what CSR actually does, indicating the different dimensions of CSR in an organisation:

Firstly, CSR can be a set of Principles that aid decision-making, support strategy implementation, provide an overall long-term (or strategic) compass. Intrinsic CSR is dominant here. Secondly, CSR can be a set of Policies, a formalised agenda

Thirdly, to talk about what CSR does not reveal, which part the company fills by which reason.

- Obviously, CSR needs a clear-cut definition, in beforehand of any discussion about the conceptualisation.
- Thus, this book defines CSR as Principles, Policies and/or Practices of organisations to define, manage and finally discharge their defined social impact. The implications of this are:
- CSR has a huge range of applications and implications, and can differ by scope, purpose, shape and anticipated impact (for society as well as the business)
- The majority of CSR is invisible, unreported, often opaque to the outside owners, making it difficult to research the scale and motivations.
- The role of corporate culture in understanding CSR inside an organisation is central
- Chronologically, CSR starts with the owners' beliefs, so it seems intrinsic CSR precedes extrinsic CSR in the vast majority of cases
- The interaction between CSR and corporate success can be in these permutations
- Therefore, the interdependence between innovation, strategy, intrinsic dynamics and success needs to be looked at—hence this book.
- Lastly, this book gives voice to the CSR engagement that is not being advertised, not just to correct the picture that most CSR is about a set of prescribed practices by predominantly large companies, but also to develop a more apt understanding of how the role of corporations is within their societies (and from their own perspectives).



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# 1

## Overview: Formal Management Systems, Intrinsic CSR, and the Role of Culture in Management

Stéphanie Looser

### 1 The Jungle of CSR Definitions

A key part of this new story is renewed interest and revitalised research on the idea of corporate social responsibility. In the light of numerous well-publicised problems and scandals involving large corporations whose highly formalised CSR systems failed to prevent anti-social and illegal behaviour, there is growing interest in informal processes and relationships that foster organisational cultures that embed and exemplify CSR. It is proposed that detailed section of Small and Medium-sized Enterprises (SMEs) with informal and non-systematic approaches to CSR can shed light on these issues of cultural embedding of CSR values. This section focuses on the one hand on Germany and the principles of Honourable Merchants, a thousand-year tradition, that has been reinforced and revitalised after economic crises in the private and public sector. Further, case studies of Swiss SMEs investigate the

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S. Looser (✉)  
University of Surrey, Guildford, UK  
e-mail: s.looser@surrey.ac.uk

processes, values, and relationships that make up informal CSR oriented organisational cultures. Thus, it aims at identifying key drivers and dynamics of different management systems as well as business models.

To maximise shareholder value within the rules of law that address specific social and environmental issues is the primary purpose of companies in market economies (Katsoulakos and Katsoulakos 2007). For this, companies pursue competitive strategies, which focus, inter alia, on ties to various internal and external stakeholders (Katsoulakos and Katsoulakos 2007). According to Katsoulakos and Katsoulakos (2007) company motives were previously closer related to social aspects rather than to economic reasons. Following the etymology of the word “company” leads to “breaking bread together” (based on two Latin words, “cum” and “panis”). This reflects the responsibilities companies have towards society within which they are based and operate. In the political and business debate that started in the early 1990s, corporate responsibility issues have gained importance driven by the insight that a development only focused on economic growth paradigms is unsustainable (Katsoulakos and Katsoulakos 2007). Therefore, for a developmental process targeting balancing economic growth with social cohesion as well as environmental sustainability, more proactive roles of companies, governments, and communities are needed (Katsoulakos and Katsoulakos 2007).

## 2 CSR in Swiss SMEs

Accordingly, CSR as a concept should not just outline what companies should not do, but, more constructively, should outline positive behaviour as well as incentives to support companies towards this (Looser and Wehrmeyer 2014). Especially in small companies, which constitute the backbone of the socio-economic system in most countries the presence of values and beliefs, evolving in their business model, represents a substantial driving force in the adoption of CSR. Many lead actors indeed see a moral duty their business should fulfil and strive to serve society in a broader ethical, socially sensitive, and, notably, in an intrinsically motivated way. This less utilitarian perspective on CSR sees companies not

exclusively profit-driven, but also as agents that enact, perpetuate, and somewhat reinforce wider societal values (European Commission 2011).

SMEs seem to have a long tradition of realising public goals beyond compliance to mandatory, legal requirements (Gentile and Lorenz 2012). In other words, the CSR agenda SMEs enact is coming from culture and ethics. Such features were also reported from other cultural backgrounds, e.g., by MacGregor and Fontrodona (2013), or Del Baldo (2010). Formal, explicit CSR, espoused by “big business”, on the other hand (Dahlsrud 2008: 10f.) is often aligned with formal standards and management systems precisely because they are external and steered by outside pressure, manifesting in external indicators, such as profit, market share, image, etc.

Different concepts tried to consider these various claims and to outline the aspects CSR may include. Some authors, for instance, organised his four-part definition of CSR as hierarchy (i.e., as pyramid), which for it has been criticised. More criticism arose from his attempt to mix various associated concepts such as business ethics, corporate citizenship, and stakeholder management (Nkiko 2013). Others sees complex companies as open systems in which businesses are connected to their larger environments. From these interactions benefits and harms can arise (Del Baldo 2010).

Hemingway and Maclagan (2004) see two dimensions, the “locus of responsibility” and the “motives for CSR”, as crucial.

The latter explores the motivational aspect of whether CSR is a commercial instrument (comparable to the aforementioned “business case”) or based on an idealistic or even altruistic impetus (or “moral activity”). The authors are convinced that individual managers’ company decisions are driven by a variety of personal values (based on philanthropy, religion, etc.) in addition to official corporate objective.

Obviously, this depends largely on the level of autonomy associated with the individuals’ roles in the company and the amount of influence. This seems to fit the organisational context of SMEs where many studies (Quazi 2003) found lead actors “to be” the company, endowed with a large amount of autonomy and freedom to decide. This different frame leads to a different manifestation of CSR in SMEs than, for instance, in Multinational Enterprises (MNEs).

CSR is at heart an ethical stance that needs to be aligned with the business, whereas it might be detached from the bottom-line and from a financial motive, which seems to be especially true in the context of SMEs according to, e.g., Jenkins (2006) or Fassin (2008). Many studies indeed point to the high CSR engagement of small businesses steered by personal, trust-based values, and a regional anchor effectively punishing irresponsible practices making SMEs crucial actors within CSR (Fassin 2008; Vidaver-Cohen and Simcic Broon 2013). Since such idiosyncrasies are reported from Switzerland (e.g., Baumann-Pauly et al. 2013; Looser and Wehrmeyer 2014) but also from ample other countries (e.g., Vidaver-Cohen and Simcic Broon 2013, etc.) this situation should be investigated to better understand the SME–CSR nexus. Thus, the next section tries to explore what role CSR might play for a role together with NazisSMEs.

As said, the “business case” for CSR is driven by the assumed win-win relationship between CSR and financial success. It often focuses on an increase of legitimacy by improving image, market share, or profit and on using a certified management system. Extrinsic CSR does rarely support societal needs for its own sake it rather reflects pure corporate discretion (Arend 2013: 18). Thus, in a system of extrinsic CSR, CSR is formalised and aimed at external recognition has a strategic purpose and goal, and a commercial pursuit. Accordingly, CSR should improve a company’s efficiency, service orientation, as well as reputation in the consumer market and differentiate companies from competitors with the aim to increase profit or market share. In other words, if customers ask for the respect of human rights, less packaging, fair remuneration of employees, suppliers, etc., then a company has to fill these demands to survive in competition. Though the CSR agenda is not to impose conditions external to the company and/or to meet or exceed externally set expectation especially MNEs are aware of business opportunities brought to them by such consumer movements (Graafland and van de Ven 2006: 117f.). Overall, there are ample reasons to believe that “ethics pays” (Graafland and van de Ven 2006: 115) or that companies can “do well” by “doing good”.

### 3 Historical Background

One of the first modern corporations that applied the “business case” for CSR was the Body Shop, founded by Anita Roddick in 1976. The company espoused a value-rich philosophy committing itself to making life better, which should prove that capitalism and ethical practices could go together (Skapinker 2008). However, notwithstanding the huge number of studies showing such a positive relationship this win-win outcome is not beyond any doubt. Some researchers found either mixed results (Wagner et al. 2001: 101) or even a negative relation (McWilliams and Siegel 2000: 604). This is especially true for the environmental dimension (Filbeck and Gorman 2004: 145).

Others (Telle 2006: 217) found that having an environmental management system (including certifications and reports) has only a positive impact on market values of polluting companies that are widely known as “irresponsible”. Arguably, if CSR is a market-driven exercise, seen from a perspective of economic rationality, CSR expenditures can be optimised if companies spend least for a given level of CSR profile or maximise their CSR profile for a given investment. This invite greenwashing as a possible side effect (Looser and Wehrmeyer 2014).

### 4 Intrinsic CSR and Their Merger with Swiss SMEs

However, improving the bottom-line by the “business case” is not the only possible reason for CSR. Many companies and their leaders, indeed, have a business culture making CSR a moral duty to them driven primarily by an intrinsic motive (Graafland and Mazereeuw-Van der Duijn Schouten 2012: 379). Here, CSR has the power to evolve “social goods” (Osuji 2011: 45). Mintzberg (1983: 8f.) sees this strain as the purest form of CSR as it is ethical and supports CSR “for its own sake” because that is “the noble way for corporations to behave”. Thus, intrinsic or the moral view of CSR manifests in the form of ethical

values, virtues (such as temperance, prudence, or courage), and in corporate culture, but it is rarely mentioned as technical term.

## 5 Conclusion and Further Research Steps

Some argue that the moral motive is more important within CSR than the economic view (Hansla et al. 2008: 8) because intrinsic motivation induces a stronger involvement in CSR (Graafland and van de Ven 2006: 116) and increases perceived sincerity (Brammer et al. 2007: 1715; Hansla et al. 2008: 8). Others (e.g., Spence 2007: 548ff.) outlined that the moral view is more significant in inducing a positive relationship with employees (Chou 2014: 442ff.) and customers (Graafland and van de Ven 2006: 114; Kilbourne and Pickett 2008: 890). This highlights how important the underlying motivation is for the effectiveness of CSR frameworks. However, it is difficult to fully understand whether current trends of CSR are financially or ethically motivated. The difference between the two lines is both, banal and profound: banal because, given the way described above, the difference is whether scholars think social responsibility is purely defined and governed by regulators, or whether there are non-regulatory forces that shape CSR programmes.

The distinction is also profound and difficult to bridge because it is still not clear what the limit, purpose, and legitimacy of CSR in the position of “moral activity” are, but the way (especially) legitimacy is justified, redefines and repositions the “raison d’être” of companies. Thus, this differentiation might also be part of the discussion on the effects CSR has on businesses. This discussion raises four questions:

- Are the two approaches different?
- If so, in which dimensions?
- If they are different, how do they relate to each other? Are they co-dependent, mutually exclusive, incompatible, or just substantially different?
- Which one is better and by what yardstick? These questions should be explored below.

Notably, as research here is inherently qualitative, it is difficult to offer quantitative measures for such distinctions. Some studies support, for instance, that extrinsic CSR in Europe is mainly a topic for large companies and MNEs (Steurer 2010: 67f.) and SMEs are intrinsically motivated by their tradition/family capitalism and rely on their longstanding informal networks rather than on formal, extrinsic policies (Matten and Moon 2004: 22; Steurer et al. 2012: 217f.; Brammer et al. 2012: 430). The local church, the “Stammtisch”, membership in Chambers of Industry and Commerce (Matten and Moon 2004), and the traditions of the dual education system (Hansla et al. 2008: 12; Looser and Wehrmeyer 2014) are, among others, the driving forces within SMEs.

In sum, what this section will show and numerous researchers and practitioners (e.g., Midttun et al. 2006: 380) agree on is that, due to different stakeholder demands, the nature and manifestation of CSR vary by company size and by ownership structure (often aligned with size). Hence, it is crucial to conduct comparative studies on CSR motives because the financially extrinsic and the morally intrinsic motive for CSR should each evolve a unique approach to CSR with different performances (Midttun et al. 2006: 380). Although different countries (e.g., Germany, Italy, Switzerland, etc.) are home to many MNEs that often follow extrinsic CSR they have, as shown so far, also a prosperous majority of SMEs, which were found to have a literally unconventional and intrinsically motivated approach to CSR. Consequently, they are the perfect playground to conduct research on divergent motives for CSR.

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# 2

## Honourable Merchants as a Role Model for Responsible Leadership: History and Perspectives

Joachim Schwalbach

### 1 Introduction

In 2017, the Assembly of an Honourable Merchant to Hamburg<sup>1</sup> celebrated its 500th anniversary as the largest and oldest association of ethical businessmen in Germany. It follows the tradition of the role model of “Honourable Merchants” and actively spreads the guiding principles of Honourable Merchants amongst member companies and in wider business and society.

The principles of Honourable Merchants have, as will be argued, a thousand-year tradition and in fact, economic crises like the bursting of the dotcom bubble 2000/2001, the financial market crisis in 2007/2008 and numerous subsequent business scandals (Enron, etc.) have reinforced and revitalised the leitmotif Honourable Merchant. For instance, because of economic crises, a return to the virtues of

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<sup>1</sup>[www.veck-hamburg.de](http://www.veck-hamburg.de).

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J. Schwalbach (✉)  
Humboldt-Universität zu Berlin, Berlin, Germany

Honourable Merchants was demanded across the board. For instance, the German Chambers of Commerce (DIHK), the former German President, Horst Köhler, many large family entrepreneurs and top managers, and even the Protestant church have supported the guiding principles of the Honourable Merchant as a result.<sup>2</sup>

In fact, as late as 2017, the principles of the Honourable Merchant entered the German Corporate Governance Code (DCGK) which “highlights the obligation of Management and Supervisory Boards to ensure the continued existence of the company and its sustainable value creation in line with the principles of the social market economy. These principles not only require compliance with law, but also ethically sound and responsible behaviour (as stated by the “reputable business person” concept)”.<sup>3</sup>

In economics, the principles of Honourable Merchants are embedded in the wider research area of Corporate Social Responsibility (CSR) (Devinney et al. 2013) which focuses on the relationship between current economic and social policy as well as business and it promotes measures to oblige companies to develop their own responses towards such policy as well as to regularly communicate (positive as well as negative) impacts of their business activity on the economy, the environment and society.

For the understanding of the principles of Honourable Merchants and for the assessment of the transferability to modern entrepreneurship, the historical genesis and evolution of the *Principles* are of central importance. The following chapter explores the millennium of the *Principles of Honourable Merchants* and transforms these into a contemporary model of corporate responsibility towards society. The paper concludes with the observation that responsible leadership as prescribed by the *Principles* will continue to be a successful recipe for sustainably promoting and assuring economic and social progress.

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<sup>2</sup>See Driftmann (2010), Köhler (2008a, b), Council of the Evangelical Church in Germany (2008).

<sup>3</sup>*Leitbild des Ehrbaren Kaufmanns*, cf. German Corporate Governance Code, Forword (2017).

## 2 History of Honourable Merchants

The concept of honour is the focus of the leitmotif *Honourable Merchant*. The term “Merchant” is used as a substitute for the individuals that self-employed, entrepreneur, and/or manager.

The concept of honour is not an absolute concept. It is strongly subject to historical change. Honour is often defined in two dimensions: **external honour** as the evaluation of the individual shaped by the environment and social context and the **inner honour** as the sense of honour perceived by the individual himself. The duality of the term is part of the stability of the concept. In fact, this concept can be traced back usefully to ancient times with Aristotle suggesting in “Nicomachean Ethics”: “Honour is the triumph of virtue and is given only to the good” (Aristoteles 2005: 85). Considering honour as a reward of virtue, proposes external honour to be dependent on the inner. Virtue is understood by Aristotle as a behaviour “between two wickedness; excess and deficiency” (ibid.: 42). Honour is not a single virtue of many; it is the result of the applied virtues of the individual and it becomes an expression of its value, which in turn resonates with the values of the epoch. Hence an honourable person is tied to virtues: If the practiced values of the individual are recognised externally by the community, it can be said to represent external honour. If an individual recognises and enacts his or her own values from inside, the person has an inner sense of self-worth which is described as inner honour. This understanding of honour is the most useful as a basis for the consideration of the Honourable Merchants, as merchants always directly relate to the community whose members measure them in their conduct. Honour changes and represents itself in a dialectic process between the individual and the community.

The close relationship between personal honour and economic reputation is also important. Both represent high social and individual values, which, however, is dynamic as they are based on freedom of opinion and expression. Especially in the market economy the economic reputation is very important for the individual company

(Schwalbach 2015). The title “Honourable” is, therefore, the most useful among those mentioned in various historical sources. It points to the ideal merchants of the social group concerned.

## 2.1 Antiquity

“Whoever is fair and true in the market, Zeus will give him wealth” says Hesiod of Askra in the Greek Boeotia already about 700 BC (Baloglou and Peukert 1996: 23). This is one of the oldest testimonies for Honourable Merchants in European history and illustrates that the behaviour of economic actors in markets has always been the subject of normative expressions. Particularly noteworthy is the combination of the desirable behavioural standard (fair, true) with the success (wealth).

Comparable statements exist throughout European history and are an expression of a deep-rooted culture of entitlement to entrepreneurial decency, which does not mean that European merchants have always lived up to this claim. Many negative examples speak a different language to this day, and doubts about reaching this ideal have also existed since ancient times.

Demosthenes, a Greek speaker and son of a manufacturer (Fellmeth 2008: 43), who, in the years 384–322 BC, for example, found it difficult to find a man who did business and at the same time was industrious and Honourable (cf. Baloglou and Constantinides 1993: 61). He also observed that “in the business world and on the money market, it is admirable when the same man proves to be honest and diligent at the same time” (according to Fellmeth 2008: 42). Of course, this also means that there were always merchants who aspired to the ideal of honest merchants. One of the first to make a name for himself in this context was the banker Pasion (from 400–370 BC) from Athens, who was “apparently very efficient and honest” (ibid.: 40) and was highly regarded in Athens. Economising with the goal of winning, as is typical for merchants, had already become sociable at Hesiod’s time. But, as Demokrit (Greek philosopher, 460–370 BC) makes clear, “the acquisition of money is not useless, but unjustly it is worse than anything” (according to Baloglou and Constantinides 1993: 26).

It was well known to the Greeks that Honourable Merchants unite economy and ethics. A statement from the work “Oikonomíka”, presumed to be written by a disciple of Aristotle in the third century BC, confirms however, the systematic linking of business skills and virtue, which is the basis of the success:

Those who want to do business in a dignified manner (oiknomein) must be aware of the places where they operate, and must be naturally endowed, as well as to spare no effort and justice on their own initiative. If something is missing from these qualities, he will make many mistakes in the projects he takes. (according to Fellmeth 2008: 8)

This view has also continued in the Roman Republic. Frequently, honorary or grave inscriptions intended for wealthy merchants (Fellmeth 2008: 84) are indications for such behaviour but are certainly also part of the self-projecting of wealth by wealthy families. The historian Plutarch already had a clear idea of entrepreneurial responsibility, when he criticised Marcus Porcius Cato the Elder (234–149 BC): “For living beings cannot be treated as with shoes and equipment which, if they are shattered or worn out by use, ...” (ibid.: 90).

Cato was a statesman as well as merchant, and here he was a profit maximiser for whom cost reduction could also be at the expense of the workers (see section on Cato in Fellmeth 2008: 86–92). This exploitative mode of economy, characterised by robbery and blackmail, was typical of the senatorial elite of Rome, who were thus representing “the public” but also behaved in a society-damaging way. Nevertheless, there were also many positive examples, e.g. Quintus Candidus Benignus, owner of a large company from Arles (today southern France) in the second century AD. On his gravestone his wife and daughter wrote about him:

He possessed the highest skill in the profession, zeal, scholarship, and modest behavior; great artists / craftsmen always called him master. Teacher than he was no one could surpass him, who knew how to make water-pipes and guide the course of the water. He was always a pleasant participant at the banquet and was able to please his friends; as far as



talent and zeal are concerned, he was docile and benevolent in his sense.  
(see Fellmeth 2008: 148)

Even distributors were highly respected, prosperous and influential. In inscriptions and reliefs, they proudly referred to their social position in the communities (ibid.: 149). Even if these inscriptions were protestations and projections more than they were accounts, they point at the known and publicly appreciated desirability of ethical, honourable, behaviour in doing manufacture and trade, and that such behaviour covers workers as well as trading partners. In fact, the concepts of Honourable Merchants were characterised from very early on by the acceptance of profit-making and economic performance criteria, but these had to be in harmony with its societal context of virtuous behaviour, so that the merchants could call themselves Honourable. Rome's decline and the time of the migration of the peoples led to a long period of European reorganisation and transition across very different societies, national and productive strictures where the principles of Honourable Merchants survived with few changes although Hesiod's godfather Zeus was replaced by the Christian faith in the European Middle Ages.

## 2.2 Middle Ages

Since the ancient approaches for a conceptual image of Honourable Merchants can be compared with accounts of Honourable commercial behaviour from the Middle Ages, we can derive a better understanding of the concept and its context across times.

A guide to honourable trade of the merchants for the early centuries of the Middle Ages has not been found (Kaufer 1998: 49). The earliest source of Honourable Merchants in the Middle Ages can be traced back into the famous Italian handbook "Pratica della Mercatura", published around 1340. There, Francesco Balducci Pegolotti reproduces in his introduction the verses of Dino Compagni (see Le Goff 1993: 85):

The merchant, who wants to enjoy respect, must  
always to act fairly, have great farsightedness  
and always keep his promises.

If possible, he should look amiable,  
as the Honourable profession which he has chosen corresponds  
sincerely to the sale, be attentive to the purchase,  
he should thank him and keep distance from complaints. His  
prestige will be even greater when he visits the Church, for love of  
God, without haggling;  
concludes his transactions and strictly refuses to operate usury.  
After all, he should keep his accounts and not make mistakes.  
Amen.

The verses are like the statements from antiquity in that they contain three elements that have proved constant until modern times: the basic commercial skills, the virtuous behaviour, and the relationship to God, which bridges and defines the relationship of the individual to society in the Middle Ages.

Basic commercial skills are indispensable for commercial activity. Therefore, fourteenth-century merchant manuals are mainly characterised by information on the practical training of the merchants' occupation (see Dotson 2002: 83). They were used to pass on mathematical knowledge, rules of correspondence, legal principles, geographic information and the knowledge about spices and other commodities (ibid.: 78). Luca Pacioli (1445–1517), who is the inventor of double bookkeeping, writes in 1494, in the first chapter of his book “*Summa de arithmetica, geometrica, proportioni et proportionità*”, that the three conditions of true merchants are, first, the money; second, a good calculator, and, third, a proper accounting of the debt and the receivables (see Pacioli 1494). The merchants' manuals and Pacioli itself can be seen today as a precursor of management science and management textbooks. For example, double-entry bookkeeping still belongs to the basic knowledge of every student of economics, management and accounting, yet it is a system of calculation and record-keeping designed by merchants for their own control and for the assurance of the honest merchant's practice.

The virtuous behaviour complements the professional abilities of the merchants. The clerks of the merchant manuals were aware that ethical behaviour and the good name of merchants were assets that had to be protected as well (Pacioli 1494: 84). The first truly detailed handbook

is the “Zibaldone da Canal”, of Venetian origin, dated around 1320 (ibid.: 77). The Zibaldone expresses the consequences of smuggling as follows: “... you lose faith and honour by it, so that they will never trust you as before your crime was found out” (Zibaldone da Canal ca. 1320, after Dotson 2002: 84). By criminal machinations, merchants lost the trust and honour they placed in them and the long-term loss of reputation was a loss of such severity that criminal machinations were, literally, not worth it.

As Christians, the merchants also appealed to God in all their actions. Most accounts start with: “In the name of our Lord Jesus Christ and the Holy Virgin Mary, His Mother, and all the Saints of Paradise, by their holy grace and mercy, health and gain are given to us both in the country and at sea, and thanks to our spiritual and physical salvation, our riches and our children may multiply. Amen” (see Le Goff 1993: 84–85).

The Middle Ages already recognised the economic significance of the activity of the merchants. In fact, they had a great influence on the development of cities. Benedetto of Ragusa wrote in his handbook “Trade and the Ideal Merchant” in the fifteenth century: “The progress, the common good, and the prosperity of the States depend to a large extent on the merchants; [...]. The work of the merchants is arranged for the benefit of humanity” (see Benedetto, fifteenth century, according to Le Goff 1993: 80–81). In turn, merchants knew it was in their interest when they maintained social peace through charity (Le Goff 1993: 106). The city was the basis of its success, its business and its power and took the highest place in their reflections and considerations (cf. ibid.: 120). The merchants, as patrons, supported the literature and art within their city and regarded culture as indication of the city’s success and their sponsorship as indication of their status in the success of the city.

The surviving literature mainly refer to Italian merchants, but also in northern Europe, to the *Hanse* a similar idea about Honourable Merchants that in time led to “The Assembly of an Honourable Merchant to Hamburg” in 1517, as stated above. In the Middle Ages, the bundle of virtues and behaviours aimed at reconciling the advantages of merchants with the Christian community across generations was decisive.

### 2.3 Early Modern Period

In the early modern period, religion largely disappeared as a source of understanding, interpretation and of guidance for individuals within communities (Le Goff 1993: 96). Throughout the Enlightenment, the bourgeois honesty of the citizens and of the merchants became blurred (see Burkhart 2006: 93). The kind of honourability remained relatively stable in this respect and passed to the bourgeoisie and the bourgeois merchants (see Sombart 1920). Sombart has described the bourgeois Honourable Merchants in detail (see Chapter 137, 160–163, Chapter 12, with a focus on the relationship to the community). It identifies the bourgeois economic rules, such as the principle of keeping the revenue larger than the expenditures (ibid.: 137–139). In addition, economic arguments about ethical behaviour increasingly defined the relationship between merchants and the outside world (ibid.: 160) where the litmus test for economic activities and their ethical justification became “commercial soundness”, i.e. the reliability in keeping promises, “real” service and the accuracy in meeting obligations. For Sombart, this is the “morality of the treaty”, since the relations among merchants were not necessarily personal, but were rules based and related to the business as an organisation. The morality of the treaty as a virtue contains the principles of simplicity, truthfulness, loyalty, and honesty (ibid.: 161). In Europe, these principles had to internalise every person who wanted to become a merchant until the eighteenth century (cf. ibid.: 162).

In England, the handbook “The Complete English Tradesman” was widely used since 1726 (Defoe 1839), with the French equivalent, the “Le Parfait Négociant” by Jaques Savary was established since 1675. In the balance between business and the well-being of the community, it was very important for bourgeois merchants to recognise that seeing only their own advantage was ethically wrong (see Sombart 1920: 207). “To supply good and genuine goods” (ibid.) was self-evident. The image of early time Honourable Merchants reveals the consistent continuation of the ideals of the ancient and middle-aged Honourable Merchants just before the dawn of modernity.

## 2.4 Modern

Throughout the modern age, there were many efforts by entrepreneurs (they often called themselves merchants) to preserve or even develop the image of the Honourable Merchants. One of them was Oswald Bauer. His “The Honourable Merchant and his Reputation”, based on personal experience (Bauer 1906), marks a milestone, as it deals in depth with everyday commercial life of its time and explicitly illuminates how commercial activity should be carried out honestly and honourably. Analysing and structuring the text, the core structure of the Honourable Merchant, who had to have general, specialised knowledge, and advanced training, would be able to demonstrate the necessary skills that are essential for economic success. This “proficient merchant” becomes Honourable if he (still most likely to be male than female. There were no female merchants of note in recorded history before the twentieth century) is also of good character and good manners, which also enable him to think in the long-term (cf. *ibid.*: 135). Bauer has thus already addressed aspects of sustainability in commercial activity more than a hundred years ago. The epochal change of industrialisation, which defines the entrepreneur as the dominant economic subject, is also reflected in Bauer’s Honourable Merchants, who behave honestly towards employees, customers, suppliers, and competitors. Towards the end of his book, which even considers international trade in detail, Bauer focuses on the relationship of the merchants to “his” community suggesting that merchants should feel obliged to support the common good, which reflects ancient political positions, and are continuations of the activity of bourgeois Honourable Merchants. Through his work, Bauer creates perspectives which are transformed into a management science theory that was still in its infancy, but which also involved an awareness of the respectable commercial behaviour.

Likewise, one of the best-known handbook for merchants was entitled “Handbook of Merchant Science and Production technology” by Maier-Rothchild which was sold since 1878 more than 150,000 times and has developed the reputation of being the classic manual of the merchant (see Schär 1923: VII). This book represents a transition

between old merchant knowledge and new management science and the self-assuredness with which, under the leadership of Johann Friedrich Schär, the **principle of utmost good faith** is described as the ethical and moral foundation of merchants. Schär emphasises repeatedly the educational task of the “Maier-Rothschild”, which for the first-time combined business-related elements (business technics) with the commercial work processes (see *ibid.*: VI–VII) and ethical constructs that underpin behaviour as well as guide it. Schär, as well as other merchants’ manuals, prepares young merchants for their societal role and significance. The merchant who takes this book to heart is reminded “to look at his profession from a higher standpoint than that of money-earning”, and to consider his purpose as to discharge “the duties which he has to fulfill as a servant of the economy” (cf. *ibid.*: VIII).

The purpose of trade, according to Schär, is to produce wealth, not to accumulate wealth. Schär also recognises the challenges of world trade and the increased demands on the “real merchant”. He therefore demands that “the true merchant must possess a high degree of education” because he has “a high(er) responsibility towards himself and society” (cf. *ibid.*: IX). With this statement, Schär marks the transition from emphasising the concept of honour as a dialectic relationship between internal values and their external appreciation and valuing to the notion of responsibility arising from commercial activity. Honourable Merchants are therefore, in the modern age, responsible business leaders who must satisfy different interest groups, which contemporaneously are called stakeholders.

### 3 Responsibility of Honourable Merchants

The historical outline of the guiding principles of Honourable Merchants shows that the concept of honour or the attribute honourable is highly suitable for the normative description of economic entities founded by, and operating within, societies. Today, Honourable Merchants are business leaders responsible towards its business and its stakeholders, including society.

### 3.1 Corporate Responsibility

Heidbrink summarises and defines various definitions of the concept of responsibility (see Heidbrink 2011). Accordingly, responsibility is “at least three-dimensional concept, based on normative and descriptive attributions that can be distinguished in moral, legal and social terms. The concept of responsibility includes apodictic (necessary) basic principles, assertorical (actual) obligations and problematic (possible) meritorious acts. Where actors take responsibility or are attributed to them, not only do not injuries (negative responsibility) come into play, but also pro-social attitudes and well-being obligations (positive responsibility)” (cf. *ibid.*: 193).

Responsibility is therefore very complex and multifaceted, but it is precisely for this reason that it is very suitable for the consideration of economic processes (see Heidbrink 2008: 17–18). With respect to Honourable Merchants, the relational aspect of responsibility is particularly important as self-responsibility substitutes for inner honour, and corporate or corporate responsibility reflects external honour, as various stakeholders evaluate the actions of the economic entity in a similar way as society evaluated the ethical stance and practices of the inner honour. This is in interaction with its environment. Its behaviour has practical implications and interpretations on several different levels. Combining the summarised historical ideas about the economic practices of Honourable Merchants with the concept of responsibility, a multilayered responsibility model Honourable Merchant is created which offers a guideline for today’s executives for their everyday business.

### 3.2 The Principles of Honourable Merchants

The historical analysis has shown that the ideal of Honourable Merchants with their ancient predecessors has hardly changed since the Middle Ages. The guiding principle has always been part of the training of merchants and consciously educated. The socio-historical analysis shows that society at any time determines by and large what is “honourable” for merchants, or more contemporary, what is “responsible”.



**Fig. 1** Responsibility model honourable merchant (*Source* Own representation)

The responsibility model Honourable Merchant rests on three pillars (see Fig. 1): self-responsibility, corporate responsibility, and responsibility towards the economy and society.

### 3.2.1 Self-Responsibility

The basis for self-responsibility is humanistic education. On this basis, Honourable Merchants need a comprehensive economic expertise and a solid character, oriented towards virtues that promote economic efficiency. The virtues do not serve primarily to accomplish good deeds, they serve their own credibility, which creates trust, which in turn is essential for good business relations. The sound character also protects the merchant from ill-considered acts, for example, of obtaining other advantages at short notice. For Honourable Merchants, business and ethics cannot be separated from one another, they have merged into a unity with the aim of successfully managing its business as a way of discharging the individual's duty. Honourable Merchants develop a sense of responsibility for the things that determine their business success.



### **3.2.2 Corporate Responsibility**

The sense of responsibility of Honourable Merchants at the company level is characterised by their relationship with their employees. The satisfaction of the employees causes, and not just contributes to, commercial success. Employees are to be treated fair and humane but are also expected to perform. Secondly, business customers and their suppliers follow which Honourable Merchants apply their principles with the aim of establishing and maintaining good relations with them in the long-term. Personal ties strengthen the company, and this extends to relations with investors who should place long-term trust in the company.

### **3.2.3 Responsibility Towards Business and Society**

The responsibility does not end at the factory gate. Honourable Merchants know that the society in which they run their company is decisive for the success of the company. However, members of society are not always aware that they can only prosper when an economy creates and promotes responsible entrepreneurship. On the part of business, however, the basic understanding is more likely to be that companies and society are dependent on one another if they want to increase their respective prosperity.

To this extent, Honourable Merchants have a strong sense of responsibility regarding the corporate as well as the society level. The latter can be seen, for example, by social engagement at the company's location, public, and political information about the company's activities and objectives, the defense of the market economy, and sustainable environmental protection in all company decisions.

## **4 Concluding Remarks and Outlook**

Especially since the financial market crisis, the call for responsible corporate management has become louder. Citizens in many countries fear that existing control mechanisms might not be enough to put a stop to

financial gamblers in an ethics-void context in the future. To this extent, the financial crisis revealed both societal and corporate deficiencies in the basic understanding of responsible, sustainable, honourable, and thus successful, corporate leadership.

Most of the public is likely to agree that only those who are economically successful are also able to act efficiently in the interest of society and the environment. And this in turn means that the economic viability of companies and the willingness to assume responsible management are inseparable.

At this point, the principles of Honourable Merchants come into play. As has been shown, the guiding principles assume that responsible behaviour enacted by those in leadership position is the basis for sustainable economic success and social peace in society.

Modern Honourable Merchants have a strong sense of responsibility on the corporate as well as the societal level. This includes fair behaviour towards employees, customers and business partners, as well as the development and supply of innovative products and services, social commitment at the company's location, transparency of company's policy towards the public, defense of the market economy, and sustainable environmental protection in all company decisions.

In this context, it is encouraging to see that most of companies have long recognised the benefits of sustainable business and have included responsibility into their corporate strategy. In this respect, one cannot transfer the misconduct of a few to judge all managers or even all entrepreneurs. After all, not every (financial) manager exercises short-term interests to the expense of the long-term and sustainable economic success, namely the traditional entrepreneurial principle of Honourable Merchants.

It should also be noted that frequent controls by auditors and regulatory authorities, of the supervisory boards, as well as the greed of small and large investors, have made possible the rally to higher returns while neglecting business risks. The recent financial market crisis certainly had numerous causes. But, as the argument above has shown the misconduct of their actors was primarily individual and not institutional, and many examples of "dishonourable" merchants and their criticism by society exist throughout history as well.

Arguably, economic crises create opportunities to learn and to stimulate a discourse on the relationship between business and society. Economy and society are mutually and interdependent with companies prospering mainly in modern societies with a high level of education for their citizens, well-functioning markets and strong legal certainty. On the other hand, modern societies depend on successful companies, as only these can increase the prosperity of a society through market success. Companies and society are therefore interdependent and the value systems that guide both are mutually reinforcing.

Responsible leadership based on the guiding principles of Honourable Merchants will continue to be the success formula to ensure economic and social progress in the long-term.

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# 3

## Company Case Study 1: To (Crafts)Man Up—How Swiss SMEs Cope with CSR in Harsh Times

Stéphanie Looser, Philip Evans Clark  
and Walter Wehrmeyer

### 1 Introduction

Corporate Social Responsibility (CSR) is usually associated with the integration of ecological and social issues into corporate activities (Mayr 2015). The question of why firms should be interested in CSR—based on stakeholder, social, shareholder, or philanthropic reasons—is a matter of ongoing debate (e.g., McWilliams and Siegel 2001). Whereas for Godfrey (2005) philanthropy is the marriage between CSR as strategy and CSR in terms of legitimacy, so that companies declaring strategic

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S. Looser (✉) · W. Wehrmeyer  
University of Surrey, Guildford, UK  
e-mail: s.looser@surrey.ac.uk

W. Wehrmeyer  
e-mail: w.wehrmeyer@surrey.ac.uk

P. E. Clark  
Business School Lausanne, Chavannes, Switzerland

philanthropy have CSR in their managing portfolio (Vveinhardt and Zygmantaite 2015).

This study defines CSR as: “In general, corporate sustainability and CSR refer to company activities – voluntary by stakeholder definition – demonstrating the inclusion of social and environmental concerns in business operations and in interactions with stakeholders” (van Marrewijk 2003).

CSR is also often discussed within the triple bottom-line framework—in the tradition of Friedman’s (1962) neoclassical theory—with the aim to add social and environmental issues to the bottom line of profit-maximisation (Elkington 1998).

As L’EPOQuE is a business model derived from companies deeply embedded in their communions and communities, to combine van Marrewijk’s (2003) with Carrol’s (1979) quite broad definition provides an adequate foundation from which to test the consistency of a business model during crises.

Social responsibility as a concept is not easily assessed as it pits individual against community (Orlitzki et al. 2003) business against society (Richter 2010), and economic goals versus ethical inclination (Wang and Juslin 2009; Lorenzo-Molo and Siloran Udani 2013). This study pays a closer look at a business model that advocates a more applied, habitual, inherent, heuristic, and practical approach to CSR as it goes back to the essence of social responsibility, which occurs at tight interfaces between business, employees, and communities.

## 1.1 CSR for Its Own Sake

Academics assume that companies would be generally more willing to do some CSR if there exists a win-win outcome between “good business” (McWilliams and Siegel 2000; Epstein and Roy 2003) and enhanced financial performance (Margolis and Walsh 2003)—evolving “the business case for CSR” (Filbeck and Gorman 2004; Nelling and Webb 2009).

However, extrinsic motives for improving the bottom line by the “business case for CSR” are not the only possible reasons to engage in responsibility issues (Wagner et al. 2001; Wagner 2005). On the contrary, many companies and their leaders developed a corporate culture driven primarily by a social and intrinsic motive where CSR is a moral duty (Polonsky and Wood 2001; Graafland and Mazereeuw-Van der Duijn Schouten 2012). Mintzberg (1983) calls this strain “the noble way for corporations to behave”, thus as the purest form of CSR. In this case, an ethical approach drives CSR “for its own sake” (Mintzberg 1983).

There is evidence of a significant number of small firms trailblazing this path of intrinsically motivated and ethics-driven CSR (Jenkins 2006). These companies are often led by their owner or the owner family, operating his/her business according to personal, family values (Del Baldo 2010a; El Baz et al. 2014; Looser and Wehrmeyer 2015b). Evidently, this has the power to evolve CSR as “social good” (Osuji 2011).

Such idiosyncrasies were also found in Switzerland where Small and Medium-sized Enterprises (SMEs) have highly sophisticated CSR agendas embedded in corporate cultures that nurture an implicit, intrinsic “raison d’être” beyond external pressure often resulting in extreme formalisation (Looser and Wehrmeyer 2015a). Previous research culminated in the characterisation of this core logic as **L’EPOQuE**, the overarching Swiss small business model, making Switzerland, arguably, a hidden champion in CSR (Looser and Wehrmeyer 2015b). This model is determined by several features that will be outlined in more detail in Sect. 2.5. It underlines the particularly important roles, for instance, the owner, the concept of “Swissness” as a general orientation towards quality, niche products, and networks play.

This paper further explores the consistency and steadiness of this *modus operandi* in times of crises.

In particular, it asks: How did the global 2008/2009 financial crisis influence Swiss SMEs in terms of their CSR business model? What was in comparison the effect of the local abolition of the minimum price for the Euro by the Swiss National Bank in early 2015? Did SMEs change any key or sub-features of their business model? Did they sacrifice any

of their values? Or to what extent helped their model and approach to CSR in surviving the downturns? And if so, did it help to have strong ties with employees, customers, suppliers, and other SMEs, not only in Switzerland but on a worldwide scale? Did it lead to innovative solutions? How did it affect their actions? Did they reduce their investments? Or, if they had to lay-off people, did they do it in a responsible manner? What were the impacts, in the short-, mid- and/or long-term? Has commitment to CSR declined or increased since 2008/2009? Are there differences between Swiss German-, French-, Italian-, or Romansh-speaking regions?

To answer these questions, the remainder of this paper is structured in a theoretical section (Sect. 2) outlining the concepts applied, followed by the data gathering methodology (Sect. 3), by the presentation of results (in Sect. 4), and by a discussion and according to conclusions in the final Sect. 5.

## 2 Theoretical Framework

Porter and Kramer (2006) argued that “successful corporations need a healthy society and at the same time a healthy society needs successful companies”. Empirical findings indicate evolutionary changes in companies as they move from superficial CSR to culturally embedded CSR (i.e., in a business model) and the application of relative business practices (Høgevold et al. 2014). Other researchers found different companies having different motives for CSR based on their sensitivity to outside pressure ranging from passive conformity, active resistance (Zheng et al. 2014) to voluntary, unintended deployment.

### 2.1 The Convergence of CSR and Business Models

Given the growing recognition of the critical role companies play in the overall health and functioning of societies, the practices of CSR principles are key indicators for measuring society’s expectations (Asif et al. 2013). However, what became evident is that to shift the focus



from theory to practice requires paying attention to SMEs, their business practices (Brown and King 1982), their social capital (Spence et al. 2003; Russo and Perrini 2010) and their linking of CSR to innovation (Telle 2006; MacGregor and Fontrodonda 2008; Ferauge 2013) through craftsman- and stewardship.

Currently the conviction is growing that if CSR is to have a meaningful impact it should be a matter of corporate culture and core logic (Osuji 2011; Du and Vieira 2012) not of formalised processes or regulatory strategy (Buhmann 2015), etc. To help address this demand a closer look should be paid at intrinsic, morally motivated, and informal processes and relationships fostering organisational cultures that embed and drive CSR (Lorenzo-Molo and Siloran Udani 2013).

Though academics and practitioners have recognised this need (Margolis and Walsh 2003; Zadek 2004; Jamali 2008, Gond et al. 2012) there is still a dearth of deeper knowledge about CSR implemented in culture or in business models as its manifestation (Asif et al. 2013). While there exist research on top-down processes, starting at the strategic level and implementing extrinsic CSR through various management systems (Pondeville et al. 2013) there is a knowledge gap on the evolutionary, traditional, historically grown business models with little or no formalisation resulting in unintentional but state-of-the-art CSR agendas. This research analyses the stability of such informal business models that are built on CSR values (and not on a strategic decision or commercial pursuit) under external (financial) pressure. This study examines the importance the businesses' core logic, and/or motives have on the perception, and thus, the design and effectiveness of CSR frameworks (Looser and Wehrmeyer 2015a).

A recent shift in the CSR debate emphasises a move from strategic processes to organisations that maintain CSR because it is a part of their culture (Lorenzo-Molo and Siloran Udani 2013; Asif et al. 2013; Looser and Wehrmeyer 2015a). In the case of Switzerland, most of these companies are small ones with informal and unsystematic CSR agendas (Morsing and Perrini 2009; Del Baldo 2010b; Nkiko 2013) but with business models based on the traditional values of craftsmanship, stewardship, and its concern to contribute to society, build and maintain a "proper" business involving the community, and including close

relationships with employees, customers, suppliers, and other small firms (Looser and Wehrmeyer 2014; Il Park and Ghauri 2015).

In return, these business practices are highly valued by communities and meaningful stakeholders. This recalls the bottom-up approach proposed by Asif et al. (2013). Furthermore, it compromises institutional dynamics of CSR as “soft law” (e.g., Nolan 2013; Zeyen et al. 2014) aligned with concepts of legitimacy (Zheng et al. 2014), virtue ethics, and morale.

At the same time, there is an overall attempt and trend in the business world to conceptualise day-to-day operations in models (Arjaliès and Mundy 2013). Such models are called “business models”, which in turn are regarded as tool kits to improve performance and increase revenues (Kalakou and Mácario 2013). This study defines a business model as “the rationale of how an organization creates, delivers and captures value” (Osterwalder and Pigneur 2010).

Above all, how business is organised mirrors what values, processes, or systems drive a company and which bricks it is built on (Jenkins 2006; Del Baldo 2010a). This intersection, in turn, is closely linked to the motivation and set-up of CSR for a given company (Newman and Sheikh 2012; Schultz 2013).

In times of crises, the business model plays an important role in how companies cope with external challenges (Cordeiro and Sarkis 1997; Jones and Wicks 1999; Neron and Norman 2008); how able it is to react to unpredictable, inexplicable, and/or uncontrollable events (McWilliams and Siegel 2000; Hassel et al. 2005). Yet, there is little information how or if business models and their key features sustain rough situations. It is not yet clear how consistent they remain when faced with external pressure in terms of values and attitudes. It is reported from other contexts (Wagner et al. 2001; Wagner 2005; Høgevold et al. 2014) that such developments led in many cases—especially in Multinational Enterprises (MNEs)—to significantly less responsibility, which is in the long-run somewhat myopic (Fassin 2008).

Crises are not homogenous and can be classified. The next section describes some well-known typologies in order to assess whether different types of crises have different consequences on the Swiss SMEs’ business model for CSR.

## 2.2 The Nature of Crises

With regard to crises, much attention is devoted to the management of accidental events that perturb ongoing activities and puts a company's brand or organisation at risk (Bowen 1953; Wartick and Cochran 1985; Martinet and Reynaud 2001). And indeed, CSR has been at times used or rather misused in these instances to explain or diffuse their effects. Critical voices underline the fact that "strategic giving may be used to the detriment of consumers and society" (Polonsky and Wood 2001) and relative CSR or sustainability reports, largely applied by MNEs, may serve as "veils hiding activities" (Deegan 2002) with the primary purpose to reconstruct an eroded legitimacy (Banerjee 2008; Gond et al. 2012).

For example Lindblom (1994) mentions four possible strategies that companies have adopted in the context of crises: (1) inform stakeholders about performance improvement planned by the organisation to manage the event; (2) modify stakeholders' perception on the facts themselves; (3) distract stakeholders from the issue at hand; or (4) change external expectations vis a vis the performance of the organisation. These are well-honed techniques that competent public relations offices can master and apply in the event of accidents or untimely revelations (i.e., information leaks). On deeper and more ethical grounds, protecting the environment, managing human resources, health and security in the workplace, relations with local communities and relations with suppliers are complex issues that CSR can and does address.

There is evidence that responses to crisis will vary dependent on the commitment of organisations to CSR. For example, Martinet and Payaud (2008) describe four levels of CSR strategies, which will predict firm behaviour in times of turmoil.

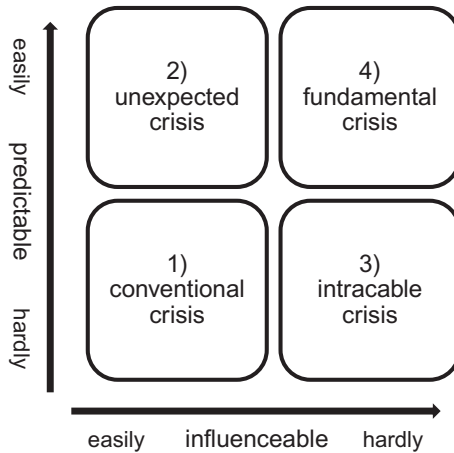
Wartick and Cochran (1985) also detail four categories based on the reactivity of firms, pointing to their level of social performance. Enterprises can either be: (1) reactive; (2) defensive; (3) resigned; or (4) proactive. Reactive firms are in denial of their responsibilities. Defensive enterprises recognise them but do not accept them. Resigned enterprises acknowledge their accountability and address the concerns of their stakeholders. Finally, proactive enterprises not only accept their

responsibilities but forecast them, thus going beyond stakeholders' expectations. But these frameworks do not tell us much about the type of crisis. Thus, there must be a difference between the 2008 financial meltdown, the hurricane Katrina, and variations in exchange rates (two of them apart from the hurricane Katrina were looked at here).

Before exploring the impact of crises on CSR of Swiss SMEs, it might help to anchor the term in a typology. Jönsson et al. (1978) for example classified crisis in relation to the decision process they trigger. Westphalen (1992) arranged them in terms of their character (objective or subjective), their nature (technical or political) and their origin (endogenous or exogenous). Same insights were found by Lagadec (1993), Rosenthal and Kouzmin (1993) and more recently by Roux-Dufort (2003) who classified crisis along two dimensions: their origin which can be either technical/economic (such as boycotts or industrial accident) or social/human (such as terrorist actions or social conflicts) leading to either external or internal effects on organisations. Sartre (2003) added legal crisis (i.e., frauds, white collar crimes, etc.) and informational crisis (e.g., confidential leaks).

Gundel (2005) on the other hand proposed a typology based on the crises' predictability and the capacity of organisations to influence them (see Fig. 1). Predictability is straightforward (Gundel 2005). Influence is the ability of a firm to manage and reduce the crises' effect. As a consequence, Gundel (2005) identifies four types of crisis: (1) conventional crisis are predictable and influenceable; (2) unexpected crisis are unpredictable but influenceable; (3) intractable crisis are predictable but uncontrollable; (4) fundamental crisis are unpredictable and uncontrollable.

The advantage of this typology is its basement not only on the level of responsiveness but at the same time on the efficiency of the response as well. Predictability is crucial for the capacity to plan and run routines, which are core to production. When planning is not possible, then it is important to assess resilience. As outlined in the following, the quality of resilience that defines Swiss SMEs CSR is crucial. Of these types, two are of special interest herein: fundamentally global crisis like the financial collapse of 2008 and intractable crisis, such as the free floating of exchange rates decided by the central bank of



**Fig. 1** Crisis matrix (Source Adapted from Gundel [2005])

Switzerland—or even climate change—because they represent the most acute kind of crisis in times of extreme volatility. Being one of the severest kind of crisis, it is assumed that it will affect CSR strategies especially considered in the “business case” approach expandable.

In order to analyse to what extent and how crises can effect countries and their firms’ business models, it is crucial to understand the social, political, economic, and environmental situation. Thus, the next section sheds light on theses circumstances in Switzerland.

## 2.3 Swiss Idiosyncrasies

Switzerland, officially known as the Swiss Confederation, is a federal parliamentary republic. Federalism is one of the most important features of the Swiss state. The central government must pay respect to 26 individual cantons, with regard to their budgets, languages, unique geographies, social practices, etc. (Linder 2005). Switzerland is characterised by a form of direct democracy where society retains the civic rights to challenge any law passed by parliament (by referendum) and introduce supplements to the federal constitution (by initiatives) (Kriesi 1980).

Although predominantly German-speaking (the other linguistic and cultural regions are French-, Italian-, and Romansh-speaking), Switzerland is not bound by a sense of common ethnic or linguistic identity. Instead, the strong sense of identity and community evolves from a common historical background, traditionally common values, its direct democracy and federalist system, and from “Alpine symbolism” (Federal Administration 2008).

Principles of subsidiarity and liberalism determine the relationship between state, the economy, and the third sector (mostly professional associations). As the state is traditionally weak, there is a strong incentive for the other sectors to organise themselves.

Switzerland has a strong third sector and a deep philosophical, economic, political, and social sense of independencies (Helmig et al. 2010). The Red Cross, founded in 1863 in Geneva illustrates this long tradition in third sector movements (Helmig et al. 2010). Switzerland also has a long history of “armed neutrality”. Having avoided two World Wars, it was able to rely on traditional businesses based on family capitalism and “Mittelstand”/small business culture (Linder 2005). As an independent and neutral state, Switzerland is not a member of the European Union (EU) or the European Economic Area, and business is mainly embedded in local value chains (Federal Administration 2008).

Switzerland has a stable and prosperous economy based on high-tech products and services. Its wealth is mainly borne by SMEs as the economic backbone (State Secretariat for Economic Affairs (SECO) 2012a, b). Indeed, the majority (i.e., 99.8%) of all companies are SMEs, which employ about 70% of Swiss labour (Federal Statistical Office [FSO] 2013), contribute 20% of export value (Credit Suisse 2014), and 60% of Swiss Gross Domestic Product (GDP) (Schweizer Radio und Fernsehen [SRF] 2013). The Federal Statistics Office (FSO 2003) defines SMEs as having less than 250 employees, their turnover or balance sheet total is below Euro 50 Mio or Euro 43 Mio respectively.

Tough Switzerland is home to several large multinational corporations (e.g., Glencore, Nestlé, Novartis, ABB, and Adecco), its predominant economic sectors are manufacturing (FSO 2003), largely of specialist chemicals, health and pharmaceutical goods, and scientific and precision instruments (Federal Administration 2008).

These goods are mainly produced by Swiss SMEs which are often niche actors, highly specialised, and, although not widely known, in many cases world, or at least, Swiss market leaders (SECO 2011, 2012c, d, e). Small companies may have international business operations but their location, strategic and organisational orientation remains regionally focused (Gabler 2015). However, size does not fully define companies; it is only one way to categorise them.

Hence, Switzerland is regarded as the land of the “hidden champions”, not only in an economic sense, as it relates to its highly specialised and quality-oriented SMEs (e.g., Brûlé 2005), but also with respect to CSR, as shown by the Swiss Corporate Sustainability Report (Berger et al. 2012) or Enderle (2004).

According to Berger et al. (2012) responsible values are widespread, anchored in tradition, and sometimes also in “mission statements”. And yet CSR activities are still not often openly communicated, not connected with markets, and not used as differentiation strategy. This might be related to the cultural context of direct democracy and federalism, where the community counts and not the individual.

Due to a (so far) balanced Federal State, which implies a certain capacity to absorb financial volatility, the Swiss economy—largely made of SMEs—was not as badly affected than most other Western countries by the financial crises in 2008/2009. There was in particular not a real credit crunch. Admittedly, the country’s growth rate diminished in 2009 but, as the next section will show the character of Swiss SMEs as stakeholders, does not change much under such external impacts. Swiss business leaders are both stubborn and reluctant to abandon their beliefs and habits. They trust the quality of their products and uphold the way they do business and lead their life.

Although decency characterises Swiss business, Berger et al. (2012) found some trends towards more reporting (e.g., Code of Conducts, CSR or sustainability reports), which could be traced back to the need to increase stakeholder engagement and dialogue in order to sustain competitive advantage. Yet Gentile and Lorenz (2012), Gentile (2012), Samuel et al. (2012), and Lorenz and Spescha (2012) showed in a set of comparative studies, that Swiss CSR seems to be mainly driven by traditional values and ethics.

Considering the significant role of SMEs on Switzerland's economic development, their collective "grandness", and cumulative impact, an in-depth understanding of SME CSR practices seems necessary (SECO 2012e, f, g, h). In particular, it would help to trace the effect of crises on local society as well as on SMEs themselves. Given the importance of lead actors especially in small companies (as elaborated in the previous sections) this cannot be achieved without looking at the values, beliefs, and ethics of Swiss small firm owner-managers.

## 2.4 SMEs as Stakeholder in Swiss CSR

SMEs, unlike large companies and Multinational Enterprises (MNEs), are often unfamiliar with the scientific or technical term "CSR"; consequently, they do not usually pursue formalised programmes to manage CSR, nor issue external reports (Looser and Wehrmeyer 2015a). Nevertheless, SMEs are very active in the field of CSR in ways somewhat subtle and different from MNEs. This is confirmed by primary research with owner-managers of SMEs. For more details on the quoted owner-managers see Table 1.

[...] A report does not prove the embeddedness of CSR in corporate culture or values [...] (SME 5)

[...] We all can issue nice reports but what matters is the substance [...] (SME 1)

Thus, SMEs do not engage in CSR for strategic reasons or in a systematic way; instead they want to "give something back to society"—the "mantra" of their family tradition and/or the owner-manager's personal values and community-embeddedness.

[...] It is just standard to help poor or jobless people in the village [...] (SME 2)

This is unconventional because, although a clear-cut system or strategy towards CSR might be missing; there is clear evidence that SMEs are very active and engaged in CSR. Examples of this strong CSR practice



**Table 1** Sample description

Attribute		Companies	
		Count	Code ID
Gender	Male	5	1, 3, 4, 5, 7
	Female	2	2, 6
Number of years in business	Less than 3	–	–
	3–5	–	–
	6–10	–	–
	More than 10	7	1–7
Position or title in company	Owner and manager	7	1–7
	Employed manager	–	–
Level of education	National level certificate	6	2–7
	Bachelor's degree	1	1
	Master's degree or higher	–	–
Legal form of enterprise	Limited company	1	4
	Incorporated company	6	1–3, 5–7
	Cooperative	–	–
Sector	Finance	–	–
	Manufacturing	2	2, 5
	Service	1	1
	Agriculture	1	3
	Construction	2	4, 6
	Food	1	7
Number of employees	Less than 10	1	2
	10–50	1	3
	51–100	1	5
	101–200	3	1, 4, 7
	201–250	1	6
	251–300	–	–
	301–500	–	–
	501–1000	–	–
	More than 1000	–	–
	Language region	German-speaking	3
French-speaking		2	1, 4
Italian-speaking		1	3
Romansh-speaking		–	–
Annual turnover in Euro Mio.	Less than 10	1	2
	10–20	3	1, 3, 5
	21–50	1	6
	51–100	–	–
	101–500	–	–
	501–1000	–	–
	More than 1000	–	–
	Missing system	2	4, 7

Source Authors' elaboration

beyond formal systems include handshake instead of formal contracts with customers, employees, suppliers, etc., democracy and transparency, commitment to quality, altruistic and philanthropic values, and visionary instead of instrumental goals. By this core logic or “raison d’être” they save on transaction costs (e.g., for lawyers setting-up contracts), establish a certain ground level of trustworthiness among entities, and induce incentives to imitate such practices.

These peculiarities are strongly supported for instance by SME 6’s and 7’s owner-managers who stated:

[...] I work physically among my employees on our various construction sites in order to personally take care of my staff’s health and safety [...] we provide apples and water and in the summer sun cream for free [...] (SME 7)

[...] we try to teach them how to integrate into Swiss society, that’s not easy since most of our employees are coming from countries that are currently or were recently in war against each other [...] thus, we try to establish peace between them [...] (SME 6)

Looser and Wehrmeyer (2015a) found many SME offices literally without an executive floor and CEOs sitting among their employees, clearly indicating that owner-managers see themselves more as co-workers than as bosses.

[...] Ultimately, our performance depends on people. And that is the reason why CSR is a good thing to do [...] (SME 3)

[...] Our employees are working for my company and we have the responsibility for their safety. That’s my aim and goal since they are my success factor. [...] (SME 4)

SME 1, for example, has publicly communicated core elements of their CSR that include equal treatment of all employees, transparency in all respects (especially performance indicators, salaries, and bonuses), and majority votes where every employee has the option to veto management decisions. For example, the staff jointly decided against entering global markets—despite perfectly valid economic arguments—because

they feared that they would no longer enjoy the kind of transparency and democratic procedures if exposed to worldwide competition (Looser and Wehrmeyer 2014, 2015a).

The existence of such idiosyncrasies is confirmed by the statements of many stakeholders, first and foremost by the Swiss government (SECO 2012b, g, h) which recognises that SMEs are led by an “Unternehmer” (in contrast to MNEs’ managers). To hire disabled people is an ordinary practice of Swiss SMEs as Baumgartner et al. (2004), Schur et al. (2005), and CDI (2011) confirm. This orientation of taking responsibility for others goes definitely beyond CSR as “façade” (Castelló and Lozano 2011) and the “business case” approach particularly targeting at shareholder value.

[...] since I remember we always employed handicapped or socially weak and infortune people [...] (SME 4)

Swiss SMEs support the Swiss apprenticeship system by hiring about 200,000 apprentices per year (FSO 2012a, b). By doing so, responsible business practices are rooted at the beginning of careers and expressions of personal ethics at work deeply embedded during the process of work socialisation.

[...] We have always educated apprentices; by this we secure our own staff and the level of education that is needed to fill this very complicate production process. Furthermore, I try to implement in these young people the seeds of trust, quality, ethics and a sense of responsibility for themselves but also for society and environment [...] (SME 2)

The development of an ethical groundwork by experience points to the guidance by virtues, or moral. Publicly available reports, e.g., Swiss Corporate Sustainability Report (Berger et al. 2012) and research, e.g., Baumann-Pauly et al. (2013) or Looser and Wehrmeyer (2015a, c, d) suggest that running a SME is more a lifestyle decision to chase innovation based on visions rather than primarily a wealth-maximising strategy. In many cases, SME owner-managers are envied for this libertarian lifestyle, even though they sacrifice security to pursue their

ideal. Responsibility and altruism are often important elements of their upbringing and ethical behaviour a habit of doing business.

[...] Since I am aware, my parents taught me to take care of others because we as business owners have a life-long responsibility for our region [...] (SME 4)

Many SMEs' children go to private schools that focus on fostering the pupils' strengths and not trying to fix their weaknesses.

These schools teach social responsibility for instance by letting the pupils clean the school house, organise and cook lunch, and look after the younger pupils during school breaks. Later, children of family business owner-managers encourage pursuing trainings in other companies. They often travel and work in companies that belong to their network (e.g., in China, India, USA) in order to learn about cultural differences that may serve their later role as leader of the family business.

[...] I established an education because there is no adequate education supplied by the public system [...] (SME 6)

This explains the relative ease with which SME owner-managers set-up often highly developed and far-reaching CSR programmes disengaged at the "bottom-line" perspective, often informal and not publicly shared. Swiss SMEs also experience extensive social support due to their philanthropic profile, their function as societal pillars, and their long-term continuity passing the business down to their children.

Overall, SMEs show high investment in social capital, backed by strong regional networks of customers, who mutually rely on the SMEs' traditional image. Due to regional supply chains, SMEs are often more sustainable for the same product as a result of shorter transportation distances. Further, their business strongly relies on reciprocal, trust-based deals.

[...] I personally take care of all our suppliers and customers in the market hall in order to foster relationships; however this is very informal mostly leading to a coffee break or a beer after closing time [...] (SME 3)

Many SMEs emphasised that they only do business within the family business network and would rather sacrifice a deal, contract or opportunity to increase their profit if business partners ask for costly contractual formalisation or do not rely on the handshake between them. International trade partners (SMEs, e.g., from China, India, or Thailand) often rely on this trust-based business practice. In other words, traditional, SME specific values determine their global business operations as well.

[...] All our international trade partners from China, India, or Thailand rely on business sealed by handshake [...] (SME 7)

Such corporate cultures built on trust and ethics result in very low staff turnover rates (3% or less) and in lost lasting employee relationships that can span several generations.

Moreover, due to their limited size, SMEs are very innovative and capable of adapting new trends very quickly, accounting for the Swiss market leadership of many SMEs.

[...] We are world market leader and solely developed this production process [...] (SME 1)

To conclude, SMEs are important actors of Swiss CSR and their approach, or well, business model, and their idiosyncratic features should be looked at further. Therefore, the next section analysis this model in more detail.

## 2.5 An Emerging Template for CSR in Switzerland

The Swiss model is the manifestation of informal, horizontal, and trust-based business approaches; their proximity to and involvement in local environments, by, e.g., recruiting from the local community, and their willingness to pace their growth while avoiding atomic markets. It often mirrors the commitment to quality and efficiency borne by the strict and, in some cases, almost conservative value-set of their leaders (Looser and Wehrmeyer 2015a).

These aspects can be aggregated and visualised as in the **L'EPOQuE** model (see Fig. 2), which consists of six key features (Looser and Wehrmeyer 2015b):

- L*: a liberalistic, visionary leader- and ownership-driven approach, where the **Leader** “is” the business and vice versa,
- E*: a focus on tight, long-term, trust- and democracy-based relations to **Employees**,
- P*: a preference for niche **Products** (specialised, small-scale production with high entry barriers),
- O*: driven by networks and informal, flat **Organisations** (therefore agility),
- Qu*: relying on “Swiss” **Quality** (i.e., Swissness and efficiency).
- E*: giving priority to **Education**, e.g., the apprenticeship system, as part of a commitment to “give something back” and establish their ethics during the process of work socialisation.

It is worth noting that concrete environmental actions like recycling and circular economy initiatives, buying organic and fair trade food/textiles, or at least local products, are standard practices in Switzerland. Organic products, for instance, make 7.7% of total food sales with a turnover in 2015 of CHF 2'323 Mia. 12.8% of total available surface is used for organic production. Within the 6031 organic food producers, all are Swiss SMEs (Bio Suisse 2016). They are driven by voluntarism, not by regulation (Baumann-Pauly et al. 2013). Thus, environmental key drivers can remain understated since they are deeply embedded in the DNA of Swiss society.

L'EPOQuE represents a valuable business model gained through extensive research (interviews and Delphi process) (Looser and Wehrmeyer 2015b).

At this stage, it is not clear how or if the business model and its key features could be affected by crises. This research explores this question by looking at two crises: (1) the 2008/2009 global financial crisis and (2) the local crisis caused by the abolition of the minimum price for the Euro by the Swiss National Bank.

This might serve as a test of the Swiss business model “L'EPOQuE”, eventually strengthening its overall model and, more importantly, examining the resistance as a template for CSR-driven businesses—see also Looser and Wehrmeyer (2015d).



**Fig. 2** L'EPOQuE—An emerging template of CSR in Switzerland (Source Looser and Wehrmeyer [2015b])

### 3 Methodology

The aim of the empirical part is to identify possible influences financial crises might have on the key features of the Swiss SMEs business model. To look at the global 2008/2009 crisis and at the influence of the local Swiss Franc-Euro crisis the method of focus group discussion in combination with the method of case study (see Sect. 3.2) were chosen. The former is specifically useful for the analysis of inherent concepts,

heterogeneity, and consistency for CSR among companies belonging to different sectors, language regions, etc.

Combining information from focus groups with case studies is especially useful since information from different sources is triangulated, which increases data reliability and internal validity; whereas the use of a set of different theories and research topics enhances external validity.

### 3.1 Focus Group Discussion

In general, the method of focus group discussion is applied in the context of different institutional logics and foundations (Lounsbury 2008). It is heuristic since it examines how ideas develop and operate within a given cultural background (Kitzinger 1994). The data gathered is interpersonal, negotiated, challenged, and to some extent validated (Kitzinger 1994) since this method “investigates what participants think, but it excels at uncovering why participants think they do” (Morgan 1988).

This study particularly seeks to learn how the group’s attitudes towards CSR and especially their business model for CSR is affected by external pressure in the form of global as well as local financial crises. Although the analysis is based on individual statements, the unit of analysis remains the group, so as to provide a shared understanding of the participants’ views (Morgan 1996). This approach allows a qualitative exploration emerging from intensive, personal discussions about the stability of CSR patterns in Switzerland. Arguably, the cross-sectorial approach limits the degree to which the results can be generalised.

An initial sample of two companies (SMEs 1 and 2) was randomly selected from the online telephone book *tel.search.ch* (2015) that allows for sectorial and/or corporate search, which secured that only companies were reached. The businesses were contacted by phone to seek their participation and to confirm their expertise in the topic of CSR. By looking up Zefix (2014), the commercial register, as well as the company websites the size was verified.

The initial contact by phone was further applied for snowballing, i.e., to gather contacts to other, somehow aligned, companies, and to have a viral sample distribution.



Some companies asked for anonymity (by an ID as stated in the fourth column) thus, it was decided to anonymise the whole sample.

The group discussion questions underwent a pretest. The meeting, with an average duration of one hour, took place in October 2015. It was recorded digitally, subsequently transcribed and qualitatively analysed. Some authors (Gephard 2004) strongly recommend the use of software for the qualitative analysis of text since this allows a systematic, category based examination of individual statements. The decision here fell in favour of MAXQDA. Firstly, the transcript was coded *in vivo*; the second coding looked more at the steadiness and consistency of theoretical constructs of CSR according to L'EPOQuE. By doing so, each code represents “a particular system of beliefs, values, and images of the ideal” (Philipsen 1987).

## 3.2 Case Study

A case study often refers to published reports about companies while they were studied over a period of time (Creswell 2007). This is the approach followed here. In general, the “case” examined can be either an individual, organisation, an event, action, existing in a specific time and place (Atteslander 2010).

Based on that, certain patterns of behaviour and attitudes could be identified. Often informal research methods lead to such case studies that are unlikely to appear in formal research venues, journals and professional conferences, rather in popular works, such as the news, newspapers, etc. (Creswell 2007).

## 4 Findings

The focus group discussion and case studies showed surprisingly strong business attitudes and confirmed the existence and application of business features as predicted by L'EPOQuE (see Fig. 1) even during serious global (Sect. 4.1) and local (Sect. 4.2) crises.

## 4.1 Effects of the 2008/2009 Global Financial Crisis on Business Model

There are many reasons that explain why confronted with a fundamental crisis like the one of 2008 Swiss SMEs did not recant on their CSR commitments. One reason is that Switzerland, unlike other countries, has not outsourced manufacturing and agriculture. Safeguarding both the first and second sector might explain why the Swiss economy managed to circumvent the disastrous effects of the financial crisis. Instead of lowering quality, switching to mass production or delocalising, Swiss SMEs have streamlined their production processes. This included the integration of services into solutions.

[...] smaller companies have in the long run no other choice than to rely on high-quality products, thus, our survival is determined by our ability to be as efficient as possible with the world's best products [...] (SME 7)

[...] On a worldwide scale, we are the only one having this knowledge and thus we are the only supplier of such a combination of product and service [...] (SME 3)

Another reason was found in the simple, direct way of doing business that Swiss SMEs adopt, which saves expensive transaction costs.

[...] this is about our wish to be as efficient as possible [...] (SME 1)

Swiss SME's are often world leaders in niche products. To survive they have developed strategies of resilience, reinforced their agility, in a word adapted to strong market demands.

[...] Since 30 years we are Swiss market leaders, but in the next year I have to put all my effort in finding new niches [...] (SME 5)

Their life is a permanent struggle for survival, which have made them somewhat immune to strong swings in market conditions, so crises are "usual" to them, lowering the effect of surprise of negative externalities

[...] My life is dedicated to risk, insecurity, abandonment, and loneliness, however, you cannot imagine how much envy I daily experience for my libertarian lifestyle [...] (SME 6)

Swiss SMEs, some of them quite “old” and well-established, have survived all type of crises: conventional, unexpected, intractable, and fundamental (compare with Sect. 2.2). In general, they favour a pragmatic approach, and view crisis like a storm that comes and goes away with time. Many of these companies are more than 100 years old, they survived two world wars, black Tuesdays, the rise of oil price and all kind of other financial hardships.

[...] I once decided to run this company though I was aware of sacrificing a lot of comfort, money and adopt a lot of stress, sweat, and blood running this company [...] (SME 4)

This is not to say, that they are generally just used to crises, but that they see them from a more neutral point of view and with some “ease”. Likewise, they have their product, their customers, and as long as this system works, a crisis is [...] *much ado about nothing* [...]—as the owner-manager of SME 2 stated.

Furthermore, as most of them are owners and managers of their company, they are self-funded, self-financed, and only partially dependent on financial markets. This might be the most important reason for the Swiss SMEs’ sustainable business approach as found in this study. A characteristic of Swiss SMEs is that they are often clients of small regional and in many cases cooperatively organised banks with little ties to international finance. The consequences are that in downturns such as the 2008 meltdown, the Swiss market was not hit as badly as others. Above all, this explains why Swiss SMEs have little need to measure and or exhibit their CSR performance.

As demonstrated in their stakeholder analysis (Looser and Wehrmeyer 2015a), the response of NGOs, consumers, trade unions, and the Swiss government’s to SMEs and their business model during the 2008/2009 financial crises validated their high levels of legitimacy,

power, and urgency emphasising solidarity, their approach of stewardship, and their “friendship in the case of hardship”.

Nevertheless, given the unbroken popularity of formal CSR, the Swiss SME culture may experience pressure to move to a more utilitarian model if they grow to a significant size or if they are included in global market systems where major trade partners (B2B) or customers (B2C) require CSR standards, certifications, and reports in respect to their formal CSR systems. Yet it is important to point out that growth patterns are probably as diverse as business models and that we must beware of generalisation.

As most SMEs in this study stated, it is possible to do business on a worldwide scale without sacrificing informality, provided trade partners belong to the SME or family business network and share, within their own tradition, the same moral idiosyncrasies and ethical standards (e.g., handshake quality). In other words, the SME culture can be somewhat stronger than formal processes as long as they exhibit similar patterns across cultural boundaries and paragon the traditional values fostered by their owner-managers.

To conclude the 2008/2009 crisis, although unpredictable and uncontrollable, had only little effect on the Swiss SMEs’ business model and/or values as stated by the SMEs that participated in the focus group discussion. This conclusion is supported by a very significant example of sustaining values in the case of Bobst.

Bobst (2015) is a leading packaging company based in the canton de Vaud with a deeply embedded culture of ethical CSR that found a surprising solution during and in the aftermath of the 2008/2009 financial crisis.

#### 4.1.1 The Case of Bobst

In 2009, the business of Bobst (2015) was in a rut. Orders had dropped significantly while little could be done in terms of process optimisation or productivity boosts. Bobst was looking at the dire prospect of having to fire 150 employees. Working together with trade unions, which see themselves as social partners rather than enemies of management—resulting in teams on both sides sat down to find an alternative.

While it was obvious that Bobst had severe problems, they found that other companies, like Scheuchzer (2015), which specialises in train construction and the maintenance of railways lines, were flooded by orders, mostly international, that they had problem fulfilling. In other words, the reality was that while some companies were losing business, others were striving. This led to a meeting between Bobst and Scheuchzer employees committees (not only management). It did not take long for them to realise that they shared the same kind competences in machine assembling and tooling.

Thus, it was decided that for a certain period Scheuchzer take over Bobst's employees while remunerating Bobst for this "loan". Bobst employees went to work for Scheuchzer for a period of six months after which they would be reintegrated into their "original" company. The whole "exchange-action" saved 150 jobs, which would not have happened without a deep commitment to the well-being of employees, excellent relations between social partners, and deeply embedded regional networks. This solution was so successful that it became a model for the entire canton of Vaud, which, in sum, helped to save hundreds of jobs (RTS 2015).

In a study made by the Eidgenössische Technische Hochschule (ETH) in 2008–2009 on 2000 companies, 95% of respondents stated that they would maintain or increase their commitment to CSR. This study confirms that most CSR activities are the result of personal engagement without any economic counterpart. Moreover, it underlines the modesty and indifference to publicising accomplishments in that field, as 25% of companies admitted not advertising their social engagement.

## 4.2 Effects of the 2015 Local Crisis on Business Model

The shock caused by the rise of Swiss franc following the Swiss National Bank decision (from 15 January 2015) to abandon a fixed rate between the Euro and Swiss franc was both predictable and controllable crisis (see Sect. 2.2) In other words, Swiss SMEs were aware of the possibility and to some extent prepared, but only to a certain extent.

In the aftermath, for a short time, there was parity between the Euro and Swiss franc, which then changed to a disadvantageous exchange rate for the Swiss economy. In one single swoop, the Swiss franc went from .83 Euro to 1.02 Euro (Travail Suisse 2015) losing 20% of its value. This was a sharp measure especially for exporting companies: margins fell by 15–20%, competitiveness dropped, and so did foreign investments.

According to the interviewees, the genuine problem was not that this happened, since it was to some extent predictable as the Federal Bank's decision of 2011 to fix the exchange rate to 1.20 Swiss francs for 1 Euro was *per definition* a temporary measure. However, what the SMEs resented most was the manner in which the Federal Bank acted, namely, without involving SMEs though they count for 99% of all Swiss companies and despite the fact that Switzerland was not hit as badly as others by the 2008/2009 crisis thanks to Swiss SMEs outstanding effort during that rough period (KMU Portal 2012).

Beyond the obvious stress this decision imposed on the Swiss economy, what upset Swiss SMEs the most was the rupture of their culture of dialogue and consensus, where alternatives are examined and risk minimised. In this instance, the Federal Bank had acted univocally and undemocratically, arbitrarily by-passing the opinion of the country's main stakeholders. It was a break of trust.

Swiss people are disciplined and hard-working with a strong sense of continuity. Values such as dialogue, discussion, collaborative decision making (i.e., social capital) are the key to Switzerland's success (as outlined in Sects. 2.3 and 2.4). Any infringement of these values are deeply felt and rejected. As a consequence, the break of trust and the non-consulting was from the SMEs' point of view less predictable and more shocking than the 2008/2009 crisis.

Whether this in total will induce an abolishment of any of the SMEs' key values or a change in their business model is not clear yet. What is confirmed is that responsibility must be felt and acted as something mutual that works on the basis of trust. It is yet to be analysed in forthcoming studies how Swiss SMEs adjust their culturally embedded CSR practices to this "break of trust" and if they have the strength, will, and ability to cope with the situation to the same extent as they did in the

2008/2009 crisis. According to several experts (e.g., KMU Portal 2015) by the beginning of 2016 Swiss economy seems to recover thanks to innovative solutions of Swiss SMEs particularly in the second sector as described in Sect. 2.4 and in the “Bobst case”.

## 5 Discussion and Conclusions

Qualitative research methods (literature research, focus group discussions, and case studies) have clear limitations in respect to objectivity, reliability and validity, because they involve interpretation and selection. The reliance on experts’ statements in this study is substantial, which may be a source of partiality if they were made insincerely and/or incorrectly. In addition, the vast majority of interviewees were male, which, again, may have created a systematic bias towards male leadership attributes (word given, handshakes, etc.).

Other limits to reliability and internal validity may stem from the relatively small size of the sample used in these case studies. However, qualitative methods abide to different rules regarding sample generation and size. Utmost care was given to secure correct data.

Thus, samples were randomly picked from the Swiss online telephone book, and the conduct of interviews and the research methodologies grounded on the rules for sample generation within qualitative research were strictly followed (Atteslander 2010).

It is doubtful that more meaningful results would have been achieved by questioning larger samples (e.g., by a quantitative survey) because the intent of this research was not geared towards quantitative results, but rather driven by a qualitative exploration of CSR (e.g., open-ended questions) in the context of Switzerland and Swiss SMEs, as a first step towards further investigations. The responses gathered with regard to the six research questions never implied nor suggested that more people would have given a substantially different perspective.

The broad definition of CSR adopted in this study could possibly be a drawback especially with regard to internal validity: the use of more specific terms might have yielded different outcomes. However, Carroll’s and van Marrewijk’s definitions enabled the identification of patterns

and key drivers, the various motives and manifestations at play in CSR within SME's. This research does not intend to provide a new definition for CSR since this would have added to "the jungle".

Data was gathered in all three linguistics regions (i.e., German, Italian, and French-speaking parts) of Switzerland and no difference in values and attitudes of SME owner-managers were found albeit different languages and cultural contexts. More insights into overarching SME attributes were brought about by the comparative analysis.

This book chapter is based primarily on a quantitative definition of SMEs violating qualitative aspects, such as property situation, personal management by the owner, etc., as suggested by Curran and Blackburn (1994), although such data was gathered and examined at each step in our research. The organisations and companies under review were randomly selected, however, their willingness to participate may have created a self-selection bias (Atteslander 2010). Their consent to participate in this study may in part rely on their awareness of their somewhat sophisticated approach to CSR thus tilting the results towards best-in-class examples. However, none of the participating organisations used this study to promote their company, nor advertise their participation in their marketing material.

To summarise, the validity of this research rests on chronological and easily traceable data collection, the hermeneutical integration of new data, rival theories, and research findings from multiple sources, transcribed and coded using the MAXQDA process.

To avoid falsification of data or biases resulting from single-expert answers various methods—i.e., focus groups discussion, secondary data analysis, and case studies—and different means of analysis were used.

Finally, this field of research is both relatively new and admittedly complex. However, the insights gained in this research allow for a unique opportunity to peer at the various modalities used by SME's in their approach to CSR (as proposed in the next section) and can contribute to practitioners as well as public institutions, the scientific community, and to society at large.

SMEs in Switzerland often have highly sophisticated CSR agendas. In many cases they are unintended, informal as they are coming from corporate cultures that nurture a "raison d'être" beyond



profit-maximisation. Previous research aggregated this core logic to an overarching SME business model making Swiss SMEs, arguably, hidden CSR champions with regard to social, economic, and environmental responsibility. This model is borne by a set of key features: i.e., the process of work socialisation, soft assets, proximity and informality, agility, the nexus of company ownership and government, a particular focus on education, and long-range planning.

By the methods of focus group discussion with seven SME owner-managers and of case studies this research looked at the influence a financially rough situation might have on such a CSR business model. The results show that there is no substantial leverage. This research also found no significant differences in the stability and sustainability of business values during crises between three of the four language regions (currently neglecting Romansh-speaking SMEs).

The same can be said with regard to investments: measured in absolute figures, cuts were made, since earnings dropped during both crises. However, the SMEs considered in this research paper, did not diminish their relative investments (measured in percentage of earnings)—on the contrary, in the first and second sector, SMEs invested in streamlining of their production processes, in product innovation, and in the customisation of their products from pure “hardware” to systems including services and solutions. This helped Swiss SMEs to build up high entry barriers to their specific markets making it very difficult for competitors to enter those markets. Currently, many of the very successful companies have become suppliers of complete business solutions. These comprehensive packages are the result of constant innovation driven not by basic research but coming from their philosophy of stewardship and their aspiration and ambition to provide excellent craftsmanship that surprisingly work best under pressure caused by crises.

Since the Swiss model is culturally embedded and driven by intrinsic and implicit motives, it is not exposed to often expensive CSR activities and therefore not influenced by harsh economic situations. On the contrary, its features and values—especially the focus on high-quality in niche products and the resulting avoidance of atomic markets—are responsible for the survival of their moral commitments. The psychological and sociological tradition of stewardship coupled with an ambition

towards excellent craftsmanship is a method that sustains morale and ethical behaviours despite economic downturns.

Evolving from a moral standpoint, it prevents the potential sacrifice of ethics in the face of financial scarcity. At the same time, it mirrors a highly competitive business approach that has the potential to be generalised to other unconventional, “non-standard” milieus where money might be short (e.g., in start-up companies). Thus, it fills what is needed when asking for new templates that are working best in such a convergence of mission, ethics, culture, economic rationale, innovation and, most importantly, under external pressure.

The way SMEs combine the psychological and economic features of their trust-based business model, L'EPOQuE, provides a couple of advantages not only to them but also to societies they have “a social contract with”. It establishes a certain ground level of trustworthiness among entities and induces incentives to imitate those practices (Bhattacharya et al. 1998).

Seeing trust as an integrated part of business makes the concept of trust more tangible for standard economic analysis and approaches (e.g., the business case for CSR) without losing any of its facets or without making unrealistic or too idealistic assumptions (Bhattacharya et al. 1998).

Formal CSR, on the contrary, focuses on the satisfaction of diffuse stakeholder interests and on profit-maximisation, consequently an arduous task in financially difficult times. Considering the economic, political, and social competitiveness of Swiss SMEs and their relevance to CSR, this study demonstrates the power of the small business approach as it works detached from economic situations. This questions the primacy of the profit motive and formalisation to support CSR.

[...] this report (as expression of formal CSR, note of the authors) have the sole aim “to cover my ass” and, honestly, after one year the only thing we actually did related to CSR was writing this superficial piece of paper [...] (SME 5)

The results imply that policymakers, public institutions, the scientific community, etc., should be careful when establishing systems that favour financial returns from CSR engagement (Looser and Wehrmeyer,

2015d). Furthermore, not consulting, or well consciously neglecting SMEs in decision processes is inappropriate in light of the social and economic role they play especially in Switzerland. According to several SME owner-managers, in a worst-case scenario, such a stress field could result in demotivation and corrosion of the values as found and aggregated to L'EPOQuE.

What may be missing at this particular stage of research is a detailed analysis and validation of the motives of owner-managers and their inherent role as drivers for Swiss CSR. The L'EPOQuE business model aims at understanding the nexus of CSR concerns and business models showing how the former is embedded in the latter. Arguably, this model represents a regional interpretation of a specific set of circumstances likely to reveal differences in emphasis. Other contexts may have led to different overarching factors. Even within this research some heterogeneity related to sector, region, or size was observed.

There is, for instance, a tendency towards more democracy but less commitment to life-long training in service companies. Manufacturing companies, often located in less populated regions, have in general tighter links to their employees (evolving a “family feeling”) than tertiary one as evidenced by their strictly regional hiring policies. Their owner-managers, often very active in local associations and/or politics, play a bigger role in their community than those in urban settings.

One question remains: how did NGOs', local citizens, and working people experienced and assessed L'EPOQuE? To answer this question and to rekindle the dialogue between all groups a roundtable, as part of an action research, was organised. The media, NPOs, the government, and 15 SMEs participated in this exercise to stimulate more attention within the wider public but also to exchange their expertise on CSR issues. The participants were either involved in the stakeholder analysis or in the later stages that looked at SME patterns.

The contribution of NGOs in particular explored the boundaries between their “social enterprise approach” and SMEs and confirmed that there is not much difference. Both parties agreed that the roundtable had initiated a mutual learning process wherefrom societal benefit arose. The exchange with the media and government helped clarify and

give answers on the issue of how SME practices should be more strongly respected and involved in future CSR developments, as well as how Swiss society could profit (and vice versa for SMEs) from unconventional CSR practices without sacrificing its altruistic or philanthropic inclinations. This roundtable also enabled further discussions and confirmation of L'EPOQuE 2.0 business model by gaining insights into shared understandings of the SME business from other sectors.

As a result, the level of confidence in the model was increased and allowed its results to be generalizable. More information with regard to the acceptance of the model can be found in the extensive stakeholder analysis (Looser and Wehrmeyer 2014), in the Delphi process conducted during the model evolution (Looser and Wehrmeyer 2015b), in the consistency analysis of the model with conventional business models (Looser and Wehrmeyer 2016), and in a comparative analysis with 15 different other countries (Looser and Wehrmeyer 2015c), etc.

This is not to say that Switzerland will not evolve CSR and build new forms of constituencies extending beyond discreteness and tradition. An example is given by Swiss Valais, an association of 160 SMEs, paired up to create a “sustainable” label. The main drivers here are visibility and differentiation, not bureaucracy. Swiss culture is driven by largely protestant ethical values that underline hard work, business acumen, wealth creation but also modesty. However, CSR is felt in some part of the country like an added value, which should be promoted to a wider audience to serve and to reinforce local ties. Closeness, trust, a shared sense of responsibility can develop through public commitment to CSR.

[...] the way we do our business deserves wider recognition [...] (SME 6)

This is a conclusion strongly supported by others, e.g., Del Baldo (2010a, b) and Looser and Wehrmeyer (2015d). Evidently, this experience can be shared more widely—the way CSR is practised by SMEs is good in general, but particularly for the firm, communities, and society. And when advertised, it can reinforce a regional sense of belonging. Swiss firms' scores on cultural dimensions show that social capital and institutional pressure are indeed powerful drivers for CSR. This is similar to findings from Italy (e.g., Calace 2013), Germany (Schwalbach

and Klink 2012), but also from developing countries, for instance, Bangladesh (Mahmudur Rahim and Wisuttisak 2013). But most importantly, what the “Valais case” showed is that CSR is not monolithic. Thus, the problems formalisation based on, e.g., public regulation ending up in certifications and reports show, is that it tends to impose a “one size fits all” mentality and focuses only on ex-post accountability and not on, what might be useful, ex-ante prevention of adverse impacts (Buhmann 2015). Notably, the latter is exactly what the *modus operandi* of Swiss SMEs achieves.

Above and beyond the disadvantages of being cumbersome and expensive, formalisation is unrealistic and a very “un-Swiss” proposition. The lesson learnt from the “Valais case” is that CSR is linked to the territory and the size of companies. Companies with local imprints should develop local CSR practices that are different from other SMEs with regional or national reach.

It serves no purpose for SMEs to emulate global models. Thus, it is useless to squeeze companies into sets of best practices—see also Looser and Wehrmeyer (2015c). What matters is accountability and this varies with size, industry, and scope of business. Getting together to demonstrate commitment to CSR and constituency can foster a revived sense of belonging, develop innovative solutions, and give CSR more consistency.

## 6 Further Research Steps

The relationship between leadership, good business, religiosity, and spirituality might be an area needing further investigations. For instance, the relation between L'EPOQuE and the EoC project (Baldarelli et al. 2015). Since L'EPOQuE is built on reciprocity, it may chime with the principles of the over 1000 companies participating in the EoC project such as “love one another as I loved you” (John 13:34) or “give and it will be given to you” (Luke, 6.38) (Bruni and Uelmen 2006). The shift from weak to strong CSR reported by companies following the EoC principles and the widespread of these values not only as productive ends in themselves but as new forms of

humanistic management (Del Baldo and Baldarelli 2015) snugly fits with the L'EPOQuE's insistence on subsidiarity in decision making processes.

Other approaches could look at employees' opinion—thus probably requiring a large quantitative survey. Such studies could help refine L'EPOQuE model built on site visits and a small number of interviews. It could serve as a means of cross-checking the results obtained here with trade unions (as some sort of employees' representatives). It could also address issue about diversity in culturally driven contexts. Given that culture is a process of normalisation, it could trace the socialisation trends of employees working within L'EPOQuE's model. Questions like are employees training easier under such circumstances would open up large research opportunities that should not be ignored.

Finally, the relationship between social enterprises and socially driven SMEs should be investigated. Are they similar or not? If so, would it lead to problems or rather to social benefits? And if they weren't, what dimensions of dissent would be concerned? How would they relate to each other? Would they be co-dependent, mutually exclusive, incompatible, or just substantially different? Which one is better and by what yardstick? These are questions very well worth further research.

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# 4

## Company Case Study 2: Novex AG—Frustration and the Great European Office Furniture Hunt

Tyler Brûlé

If you live in Switzerland, Austria, Japan, Sweden, Finland, most of Germany and parts of Italy then you can return to your coffee, muesli and eggs. If you live in the UK, the US or any other country with a chronic record of shoddy building practices and poor workmanship, then read on.

Three years ago I moved my loyal staff of 20 into short-let offices in the heart of London's Mayfair. It was supposed to be only a brief engagement—nine months at the outside—but as I'm tapping out this column I'm still seated in my rather cramped galley-style office. There's a forest of dangerously tall towers of Muji plastic storage crates that threaten to crush Sibylle, Alex and Alison and there are so many magazines that I'm convinced the floor has started to sag. If you're starting to feel sorry for us, don't. Next week we finally move to a rather handsome new home.

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*Source:* Tyler Brûlé, 2005, 'Frustration and the great European office furniture hunt', FT.com, 19th November. Used under licence from the *Financial Times*. All Rights Reserved.

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T. Brûlé (✉)  
Monocle, London, UK  
e-mail: s.looser@surrey.ac.uk

Hunting for office space in London holds about the same amount of joy as a business-class cabin peppered with screaming babies. Back in June, I took to the streets of London with various colleagues and our agent, James, to look for something in the region of 400 square metres that could not be south of Oxford Street, east of Tottenham Court Road, west of Edgware Road or north of Marylebone Road. Not the easiest or most adventurous brief, I'll admit, but I think you know me well enough by now to recognise that I'm a creature of both comfort and habit.

After no less than 20-odd viewings, we found a three-story building that was 100 metres outside my boundary but worked out to be double the amount of space for the same price as our current rent.

After we kicked a few walls, scoped out the local neighbourhood for essential services (flower stand, wine shop, Japanese restaurant, newsstand and gym) and entered into an elaborate negotiation that went on far too long, we finally signed the contract seven weeks ago.

The last time I built offices in London I had an absurdly generous budget from an American media conglomerate and I worked with a Stockholm architecture firm to design an office where virtually everything was custom made in deliciously scented teak or oak. This time round, I have a Swedish and Belgian double-act finance team watching the budget and a Swiss-Italian terrier watching the builders and deadlines.

When Nicoletta was first handed the assignment her immediate reaction was to pick up the phone and call her favourite builders in St. Gallen, Switzerland. "English builders are bad. They have no concept of quality," she said diplomatically. I explained that our budget didn't stretch to flying in a team and that she'd have to do her best with some English builders and learn how to make friends in her newly adopted homeland. Rising to the challenge, Nicoletta launched a three-week beauty contest to find the best builders in the UK.

Each round ended with the same barrage of Italian, English and Schweizerdeutsch profanity.

Deep down, I guess I knew it was never going to work out but in the spirit of keeping jobs in the community, and for pure entertainment, it was worth watching picky Nicky dealing with English tradesmen.

After producing a detailed cost breakdown that demonstrated that the Swiss were not only cheaper but also faster, I finally let her put a call through to Blumer Schreinerei to summon her master craftsmen to NW 1. Having already worked with the same team on my apartment in St Moritz and our office in Zurich I knew we were going to get precision joinery while also buying a bit of quality assurance.

While Nicoletta briefed her crack team of carpenters, I had to find a company that could deliver a full office system for 50 in just under five weeks. Most inquiries to the established furniture brands produced hysterical giggles down the phone. Faced with a strict budget, a desire for excellent quality and a masochistic urge to furnish the whole space with something never seen before on UK shores, I started rifling through my stacks of 35 mm snaps to track down images of some desks I once fell for at a secondary school.

Tracing the desks to a small firm outside Lucerne, Nicky put in a call to Novex for an appointment and I flew from New York to tiny Hochdorf to see if Swiss institutional furniture was going to do the trick.

Touring the showroom with the owners and an overeager marketing manager named Ivo, I explained the time constraints while spinning on chairs, looking under desks and scratching at veneers.

With a sharp intake of breath, Ivo said that my deadline wasn't going to be too much of a problem so long as I ordered from the basic range and stuck to the bog-standard finishes. Agreeing to behave and not tinker with the range, I returned to my car and started to blanket the company's catalogue with Post-It notes. By the time I decided to place the order, the desktops had become matte oak rather than birch, the grey steel had become a warmish grey-white and the black seat cushions had become military olive. Was any of this possible within my timeline?

"This is the advantage of working with a small family company that still has its manufacturing in Europe," replied Ivo.

Earlier this week the Swiss descended on London—two days ahead of schedule. From St. Gallen came an entire oak library, sliding doors and wooden screens and from Hochdorf a perfectly engineered range of desks, birch school chairs, stools and steel shelving for 50 people. While I marvelled at the perfect angles and finishes, our local workers stood

slack jawed, stunned. “What did you hire us for?” asked one builder. “I’ve never seen such perfect carpentry,” said another.

Some years ago Switzerland’s SBB state railways toyed with entering the UK and running some train services. In the end, they backed out because the whole thing proved too daunting. Perhaps a more lucrative export might be eager, detail-oriented craftsmen to a county desperate for quality workmanship and a respect for deadlines.

# Part II

## Virtue Ethics



# 5

## Overview: Virtue Ethics and Managerial Control

Mara Del Baldo

In the last three decades business ethics has gained an increasing popularity among academics (Melé 2009a). Moreover, in recent years, virtue-related concepts have been of considerable interest to philosophers, psychological researchers, and practitioners in the business ethics field and several approaches to character traits have been used to incorporate ethics into organizations: virtues (philosophical approach), character strengths (psychological approach), and competencies (management approach) (Morales-Sánchez and Cabello-Medina 2015).

Among the theories that have contributed to form the basis of business ethics, “virtue ethics” is a Neo-Aristotelian approach applied to business ethics by Solomon (1992, 1993, 1999, 2004), Koehn (1995, 1998), Walton (2004), Moore (2005), and Hartman (1998, 2006). Stressing virtues and considering corporations as communities, Solomon rest on the Aristotelian idea that “business people and

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M. Del Baldo (✉)

Department of Economics, Society and Politics, School of Economics,  
University of Urbino Carlo Bo, Urbino, Italy  
e-mail: mara.delbaldo@uniurb.it

corporations are first of all part of a larger community” (Solomon 1993, 2004: 1022).

While principle-based ethics focuses on ethical issues and dilemmas, virtue-based ethics regards not only the evaluation of actions, but also (and above all) the flourishing of the human agent, considering the singularity of each action through the agent’s practical wisdom (Roca 2008). Virtues ethics rests on a person-centered approach (PCA) “seeking the consistent integration of goods, ethical principles, and virtues with human nature as the reference point” (Melé 2009a: 86).

*Virtues* (from the Latin *virtus*) are good character traits which contribute to a better perception of ethical values and reinforce the will for good behavior (Solomon 1992; Koehn 1995). Fundamental human virtues include practical wisdom, justice, courage, and self-control. Virtue in combination with practical wisdom is the ability to actually do this right thing in a given situation (Aristotle 2009: 1144). “These include all other virtues (such as integrity, authenticity) necessary for human excellence” (Melé 2009b: 97). According to Medieval philosophy, the fundamental characteristics of the human being (his transcendence) can be traced back to the cardinal virtues: unity, truth, goodness and beauty (*unum, verum, bonum-pulchrum*, and the *value* (Ruisi 2010). By focusing on the Aristotelian and Thomistic ethics Bastons (2008) underlines the role of the so-called cardinal virtues in the framing of decisions. These virtues are cardinal because they are related to the human faculties that determine the structure from which decisions are made. In this sense, fortitude (courage) is competence for operating decisions; prudence (practical wisdom) is competence for predicting; temperance (moderation) (the habit of self-control) is competence for evaluation and justice (friendship) is integrity for action. Cardinal virtues are relevant in the business context both at the individual and organizational level (Bruni 2009; Ruisi 2010; Del Baldo 2013, 2014). Virtues are also conceived as spiritual values and include both the aforementioned four cardinal virtues and the three theological virtues (Faith, Hope and Charity).

While virtues refer to character, values belong to the cognitive sphere. Value comes from the Latin *valere* (to be of worth). In general terms values are abstract ideals of that are considered “good”, desirable, preferable. We can speak of personal values, social values, corporate values,



human values and ethical values. Personal values depend on each individual and express what is appreciated by someone because of its moral, religious or aesthetic quality or utility. Social and cultural values are values widely shared by members of groups and communities with a common cultural environment. Socio-cultural values represent one of the four conditions which are at the basis of the common good for each human community—family, business, religious association, sports clubs, political groups, etc. They include “full respect for human dignity and human rights, freedom, safety, order, peace and justice, which permit living together respectfully and foster a sense of tolerance and cooperation” (Melé 2009b: 85). “Ethical values are based on moral qualities that contribute to human excellence: integrity, justice, gratitude, generosity, truthfulness. They are objective, but at the same time they have a subjective dimension, since they can be discovered and applied by individuals” (Melé 2009b: 16).

Virtue ethics assumes that good actions come from good persons. Therefore, ethical behavior will be undertaken by actors with virtuous characters (Moore 2008; Flynn 2008). It has been argued that the most effective changes within organizations are best achieved through interventions from virtuous individual systems acting and behaving with high-ethical standards and moral character (Rahschulte 2010b: 4). A virtuous behavior is based on honesty, courage, generosity, temperance, reliability, trustworthiness and wisdom. It consists of different capabilities, situations, attitudes and dispositions, which lead to a unique corporate identity and generate trust, reducing or avoiding transaction costs and increasing success (Schüz 2017; Chapter 6, see Section 2).

In this regard Johnson (2009) claimed that “good people (those with high moral character) make good moral choices” (Jonson 2009: 70). The author suggests that individual systems aiming to address organizational system change and wanting to do so from a humanist perspective must embody the virtues of courage, integrity, humility, reverence, optimism, and justice. Moreover, the cardinal virtues of temperance, prudence, and fortitude, as well as the aforementioned theological virtues should be considered (Pieper 1966). The list of virtues is far from exhaustive and can also include love, joy, peace, patience, generosity, faithfulness, gentleness, and self-control (Rahschulte 2010a, 2010b: 5).

Johnson (2009) researched a number of organizations that employed virtuous people who created an organizational system culture of high moral character and were able to successfully sustain markets and profits in highly competitive arenas (Rahschulte 2010b: 5). Bastons (2008) points out that such virtues, intervene in the structuring of the decision-making processes and allow the integral development a company and its stakeholders. A stakeholder dialogue and engagement based on virtue ethics is concerned about the development of a virtuous corporate culture that takes a long-term view (Alford and Signori 2014: 6). “CSR is about how a business is run; values and beliefs become real when they are lived every day and no amount of corporate rhetoric can substitute for direct evidence of management’s sincere and meaningful dedication to a consistent set of values” (OECD 2001: 159).

Virtue ethics thus attempts to ground ethics on the basis of character rather than rules (Bertrand 2009) and emphasizes integrity at a personal, business and community level. Integrity is a virtue enabling to do the ethically right thing in a certain situation instead of relying on a compliance-based ethics of duties (Schüz 2017). Virtue ethics aims at developing a virtuous character of the acting subject in order to improve the trustworthy relationship to the different stakeholders (Schüz 2012, 2017). Shaping the capabilities of individuals and organizations to act more ethically it enhances ethical corporate identities and integrity, thus allowing best practice to emerge. Virtue ethics contribute to an environment for business that fosters the best practices (Flynn 2008) and allows us to understand the authentic “roots” of CSR. Indeed, within the CSR context, integrity is connected to entrepreneurs and managers’ motivations that drive toward an intrinsic orientation (Martin 2002).

The relevance of virtues has been widely argued within the leadership literature. Virtue ethics and moral leadership favour a learning environment and enhance respect and trust, capability of listening to the stakeholders’ expectations and needs, as well as cooperation and active engagement (Visser 2011; Hoivik von Weltzien 2014). Accordingly, it allows a person/an organization to pursue the ‘common good’ (Velasquez 1992) that is tied to the social dimension of human beings and rests on two main features: it is created and shared by all members of a community (such as a company), at least potentially,

and it is truly “good,” because it contributes to human flourishing (Melé 2009a: 235).

The cardinal virtues (prudence, fortitude, temperance and justice) have been assessed and proved to be positively related to authentic leadership, ethical leadership and transformational leadership (Flores and Green 2013). A fundamental pillar for the effectiveness of ethical commitments (Collier and Esteban 2007) and the development of internal and external trust lies in a strong “steer” from the top (see Collier and Esteban 2000).

Bertrand (2009) states that one can better understand the action of a leader when viewed from the perspective of the capabilities approach. This perspective reflects on the role of organizations in developing individual abilities and enriching the setting of the virtues ethics. Virtuous managers are able to encourage employees and strengthen their talent, enhancing dignity, promoting positive relationships with customers and involving shareholders in social commitment.

Personal responsibility, vision, moral virtues, integrity, faith in personal commitment, shared social responsibility and solidarity are typical attributes of charismatic leaders (Becker 1998) which leverage a virtuous corporate culture in organizations. Transformational leadership is associated with altruistic ethics (Groves and LaRocca 2011) and stimulates the consciousness of followers by appealing to higher ideals and moral values, such as justice and equality (Burns 2004). Transformational leadership becomes moral in that “it raises the level of human conduct and ethical aspiration of both leader and led, and thus it has a transforming effect on both” (Burns 1978, p. 20). A relationship between transformational leadership and the trust, commitment, profit and performance of positive organizational outcomes has been pointed out by a number of studies (Lowe et al. 1996; Olsen 2010: 17–18). Transformational leaders are highly ethical and focussed on values (Bass and Steidlmeier 1999). The transformational leader is one “who articulates a vision of the future that can be shared with followers, intellectually stimulates them, and pays attention to individual differences among employees” (Du et al. 2013: 157; Hoivik von Weltzien 2014).

The benefits of implementing ethical practices have been demonstrated by focussing on personal virtues held by leaders (Riggio et al.

2010; Dutta and Banerjee 2011). Ethical leadership requires personal attributes (honesty, ability to listen, allowing others autonomy of choice, openness, willingness to consult and to learn) and manifests itself in a series of executive behaviours (i.e., gaining a real understanding of the culture; building ethics and values into “hearts and minds” by means of ethics training programs; building ethical achievement into performance evaluation, creating channels of communication between the company and stakeholder groups, starting with employees) (Brown et al. 2005; Malloch 2009; Capaldi 2013). Responsible leadership require leader to also engage in involving stakeholders with virtue and integrity to build the best community and workplace (Jones 2014). Magni and Pennarola (2015) point out that the competencies of responsible leadership are centered on communication, involvement of people and the importance attributed to the development of a new corporate culture based on values and moral convictions.

The role of virtues in business management can thus be interpreted in terms of virtuousness (see Constantinescu and Kaptain: Chapter 7, Section 2). From a virtue ethics perspective, organizations urge to assume an overall moral goal that transcends economic objectives” (Constantinescu and Kaptein 2020: xx). When organizations strive for “virtuousness” (Cameron et al. 2004) they create through organizational practices (including the informal culture and formal structures) the proper context for human excellence (Bright et al. 2006; Sison and Ferrero 2015; Sison et al. 2017), thus supporting individual and organizational excellence (Morse 1999; Heugens et al. 2008). The presence of universal ethical values (intended as meta-values, such as honesty, loyalty, justice, respect for human life) represents the premise for the success triggered by a business model oriented to pursue a holistic (or multidimensional) development (Sorci 2007; Ketola 2008).

Among the “softer success criteria”, such as having satisfied stakeholders and a good work–life balance, entrepreneurs/managers guided by a self-transcendent value orientation (such as benevolence and universalism, that is the common good) orient the decision-making and consistently motivate behaviors that are congruent with them (Schwartz 2005, 2009; Bardi and Schwartz 2003; Gorgievski et al. 2011). Schwartz and Bardi (2001) empirically verified that self-transcendence values were

central for most people and for most business owners (Schwartz and Bardi 2001), and positively related to pro-environmental behavior and the long-term survival of family firms. The relevance of the ethical construct that underpins behavior and guides it toward the common good has been pointed out by Schwalbach (Chapter 2, see Section 2) (Devinney et al. 2013) who, adopting a historical perspective, identifies the “Honourable Merchants” as a role model for responsible leadership that rests on three pillars: self-responsibility, corporate responsibility and Responsibility toward Business and Society (the economy and society).

Especially in the light of the widespread global economic crisis, the business world and scientific community have been rediscovering the centrality of values and virtues in managing the business (Ketola 2008; Hemingway and Maclagan 2004) and implementing CSR strategies (Vyakarnam et al. 1997). Coherently, approaches focussed on intrinsic motivation toward sustainability and CSR programs have been attracting the attention of the scientific, political and business community (Looser & Wehrmeyer, 2015; Muller and Kolk 2010), while a growing body of research argues for the need to address both internal and external drivers (Child and Tsai 2005; Weaver et al. 1999a, b; Constantinescu and Kaptein 2015a, b).

In the last decades, virtue ethics has in fact received an increasing scholarly attention (Ferrero and Sison 2014; Kaptein 2011). Virtues such as community and integrity (Solomon 1999), reliability and respect (Shanahan and Hyman 2003), consistency and achievability (Kaptein 2011) have been proposed as desirable characteristics to be pursued at organizational level, to project organizations as communities where virtues are practiced (Solomon 1992) and intrinsic motivation generate successful business behavior. Organizational virtue may be used to managing CSR strategically, engaging both internal and external stakeholders. To identify the intrinsic drivers, that is those characteristics of the organizational culture which stimulate individual ethical behavior and lead to ethical performance, a specific model (Corporate Ethical Virtues Model) has been developed (Kaptein 1998, 2008, 2011, 2017; Kaptein and Wempe 2002). The organizational virtues which organizations should possess in order to excel morally (Kaptein 2008) include: clarity, consistency, achievability, supportability, visibility, discussability and sanctionability (see Kaptein 2011: 847).

Notably, the role of intrinsic drivers has been emphasized in the context of SMEs and family businesses (see section 4) where the presence of ethically shared values, the centrality of relationships and the strong rootedness to the local community and its social capital represent fundamental features to trigger CSR and sustainability-oriented practices and strategies (Vyakarnam et al. 1997; Quinn 1997; Jenkins 2006; Del Baldo 2012, 2014; Spence and Schmidpeter 2003; Storper 2005).

Despite the highly formalized CSR control systems and the efforts spent to manage CSR through a management system (Arjaliès and Mundy 2013; Cassimon et al. 2015) numerous critical issues and scandals involving large corporations and multinational enterprises continue to emerge (Looser and Wehrmeyer 2015). To help to address this contradiction there is growing interest in intrinsic CSR rooted in company culture and forms of CSR that represent “the noble way for corporations to behave” (Looser and Wehrmeyer 2015: 3). Notably, intrinsic motivations have been demonstrated to be diffused among SMEs (Murillo and Lozano 2006) and particular types of organizations, such as community-based companies (Peredo and Chrisman 2006), “spiritual enterprises” (Malloch 2009; Capaldi 2013), ideal-based companies (Molteni 2009), territorial companies (Del Baldo 2010), economy of communion companies (Bruni and Uelmen 2006; Gui and Sugden 2005; Baldarelli et al. 2015), as well as family-based enterprises (Aragòn Amonarriz and Iturrioz Landart 2016; Chua et al. 1999; Gallo and Cappunis 2004; Del Baldo 2012). Accordingly, in recent decades the best practices of such companies—previously not adequately investigated—actively contributing to the common good (Zamagni 2007; Zadek 2006) have been highlighted, as well as the need to deepen their “silent”—but effective—conduct because they exemplify an authentic CSR orientation tied to an ethical-based connotation (Hoivik von Weltzien and Melé 2009; Hoivik von Weltzien 2014) inspired by entrepreneurs and/or managers and affecting the organizational culture (Ruisi 2010).

On the one hand it has been clearly pointed out that “managers must acknowledge their role in shaping organizational ethics and seize this opportunity to create a climate that can strengthen the relationships and reputations on which their companies’ success depends” (Paine 1994: 106).

On the other hand it has been marked that “many efforts to establish international business ethics standards in the form of global codes of conduct have met with either resistance or apathy” (Painter-Morland 2006: 353). Global code often fail(ed) in promoting a reassessment of the role of businesses, being developed without the input of the stakeholders that will be affected by its implementation. Therefore, they often remain empty words on paper and are criticized. In particular, critics accuse multinational companies’ codes of conduct of being mere window-dressing and point out their western biases and highlights the lack of stakeholder engagement in code development processes (see: Painter-Morland 2006: 356). In other words, they are not authentically grounded, and a lack of organizational integrity emerges, due to the weakness of a virtue ethics approach (Chun 2005).

“A glossy code of conduct, a high ranking ethics officer, a training program an annual ethics audit—these trappings of an ethic program do not necessarily add up to a responsible, law-abiding organization whose espoused values match its actions. A formal ethics program serves as a catalyst and a support system but organizational integrity depends on the integration of the company’s values into its driving systems” (Paine 1994: 112). Organizational integrity “means that the organization’s values should guide its interactions with all its stakeholders, internally as well as externally” and requires an alignment and an ongoing interaction between an organization’s CSR programs and its ethics management processes (Painter-Morland 2006: 358). Organizational ethics helps define what a company is and what it stands for (see Paine 1994: 111). Therefore, several scholars claim for the urgency of integrity-based approaches to ethics management and CSR-driven strategies. This urgency affects in particular large companies that are more frequently driven by extrinsic motivations (Story and Neves 2015).

“To foster a climate that encourages exemplary behavior, corporation need a comprehensive approach” (Paine 1994: 106) that is broader, deeper and more demanding than a legal compliance initiative in that: it seeks to enable responsible conduct; it cuts to the ethos and operating systems of the organization and its member and their guiding values; it requires an active effort to define the responsibilities and aspiration that constitute an organization’s ethical compass (see Paine 1994: 111). This is particularly true for large corporations. A strategy based on integrity

holds organization to a more robust standard. However, the effectiveness of an integrity strategy rests on fundamental pillars: the guiding values and commitment make sense and are clearly communicated; company leaders are personally committed, credible and willing to take action on the values they espouse; these values are integrated into management decision-making and are reflected in the organization's critical activities; the company's systems and structures support and reinforce its values; managers throughout the company have the decision-making skills, knowledge, and competencies needed to make ethically sound decisions on a day-to-day basis (see Paine 1994: 112).

Drawing from the aforementioned assumptions, the virtue ethics perspective enables us to conceptualize the normative aspect of virtuous competence concerning the ability to identify, develop and generate virtues that constitutes the good character of the entrepreneurs/managers as a normative basis for the decision-making process concerning corporate responsibility and sustainability (Blok et al. 2015). Being that organizational practices include both a formal (the organizational structure, that is written tasks, responsibilities and procedures, such as the ethics program of the organization) and an informal dimension (equivalent to the organizational culture), integrity can act as a governing ethic and a tool of managerial control based on the sharing of organizational values and the introduction of structural changes to support those values (Paine 1994; Treviño and Brown 2004; Kaptein 2011; Constantinescu and Kaptein 2015a). In summary, the adoption of a virtue ethics perspective in responsible and CSR-driven management, fosters integrity strategy and overcomes the limits of legal compliance programs, thus enhancing managerial control of behaviors.

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# 6

## Virtue Ethics, Corporate Identity and Success

Mathias Schüz

This sub-section will address the connection between virtue ethics with corporate identity and the success of an enterprise. It assesses to what extent an employees' virtue-ethical behavior established within the culture of an enterprise can shape its corporate identity and, hence, also influence its success. There is a comprehensible cause-loop between the virtuous behavior of a company, its trustworthy character and appeal to stakeholders. Trust leads to lower transaction costs (Dyer and Chou 2003), since stakeholders usually trust more in virtuous than vicious exchange relations. To avoid loss they prefer the former behavior of fair and therefore repeatable trades. Thus, a company's capability to sustainably build trustful relationships with its stakeholders is a key factor for success. For this, it should distinguish itself by a culture of integrity enabling its representatives to act ethically responsible and, hence, getting along well with its business partners.

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M. Schüz (✉)

School of Management and Law at Zurich University (ZHAW), Center for Human Capital Management (ZHCM), Winterthur, Switzerland  
e-mail: sumi@shaw.ch

The following lines highlight the importance of virtue (aretaic) ethics for successful companies. This is complemented with utility (utilitarian) ethics and duty (deontological) ethics. These three approaches combined have the potential to sustainably inspire ethically responsible actions. The example of VW's emission scandal will illustrate how far vicious behavior can cause stakeholders' mistrust and thus tremendous transaction costs and reputation damage. Secondly, the effects of virtue ethics to establish a sustainably responsible culture will be outlined. Thirdly, some methods to establish a virtuous corporate identity attractive for most stakeholders will be discussed.

## 1 Vicious Behaviour at Volkswagen

On September 3, 2015, the German automobile manufacturer Volkswagen admitted a default before the US Environmental Protection Agency (EPA). Their Diesel vehicles with the VW EA189 engine series would only comply with the strict emission regulations during the test cycle. Eleven million cars are equipped with a software defeat device for the emission control. Under real driving conditions, the different models had 15–35 times higher exhaust quantity of the health-threatening nitrogen oxides (NOx) than legally allowed. According to calculations at the University of Nijmegen this excess of exhaust gas should have resulted in a worldwide loss of 45,000 disability-adjusted life years (DALYs) with a value of 35 billion US dollars (Oldenkamp et al. 2016).

Within the VW-Group, journalists of *Der Spiegel* investigated organizational reasons for the fraud. They concluded it was due to the authoritarian leadership style of Martin Winterkorn, the former CEO. As a developer at VW put it: “*Here [at VW] prevails a climate of fear. If the boss says you have to carry it out, then no one dares to say that cannot be done*” (Grolle et al. 2015: 13, translated by author). Therefore, a climate of pause, self-correction and inquiry was missing. It was reported that Winterkorn would shout at his employees when he noticed mistakes calling them “whimps”. Paralyzed by fear, they had little self-confidence left. In another incident, he fired his US boss after identifying him as the person responsible for the bad model policy in the US market.

Behind Winterkorn stood Ferdinand Piëch, a long-time predecessor as CEO and chairman of the supervisory board, major shareholder of VW and Porsche and grandson of Ferdinand Porsche. He has decisively and repeatedly pushed to develop the denounced Diesel engines at low costs. A complex exhaust gas purification would have been considered disturbing to this effort. He saw in Winterkorn the executive hand of his ideas. The pressure of the command chain on the developers was obviously enormous. In a climate of fear no one dared to admit the impossibility of a clean Diesel engine at low cost for the American market.

The *Der Spiegel* journalists saw the problem in the leadership culture: “A corporation not knowing how the U.S. ticks and, hence, also underestimating how obstinately authorities can react when they sense an infringement. A corporate boss who behaves like a dictator intimidates his people, frightens them - which is why they either do everything, even fraudulently, in order to get cars sold, or stand idly by when a scam is ordered from above. No matter how, the wrong things happen” (ibid.: 15, translated by author).

On January 11, 2016, a US journalist from *National Public Radio* (NPR) confronted Winterkorn’s successor, Matthias Müller, with the statement, that American people see an “*ethical problem that’s deep inside the company*”. VW’s new CEO denied this, saying: “*Frankly spoken, it was a technical problem. We made a default, we had a ... not the right interpretation of the American law. And we had some targets for our technical engineers, and they solved this problem and reached targets with some software solutions which haven’t been compatible to the American law. That is the thing. And the other question you mentioned — it was an ethical problem? I cannot understand why you say that*” (NPR 2016).

The radio reporter reiterated his blame of unethical behavior, saying that VW had “*intentionally lied to EPA regulators*”, while Müller insisted “*We didn’t lie*”, but misunderstood the authorities. As a result, he argued, “*we have to change our thinking. And we just do that. ... For example, we have installed [a] new board member for integrity ... Ms. Hohmann-Dennhardt*” who had previously been with Daimler (ibid.). However, this grand call for cultural change has been remaining unfulfilled until today. The engagement of the former judge of the German constitutional court to reestablish integrity at VW so far failed.

After one year she left with a 12 million Euro golden handshake. The reasons for her departure were never disclosed. But at Daimler she successfully changed the entire group from compliance to an integrity-based culture (Schüz 2019: 193 f; cf. Köster and Otte 2012).

Anecdotal evidence suggests that stakeholders' trust could not be regained by VW so far. European customers have not been offered a sufficient compensation for the devaluation of their cars. Just recently, the president of the VW dealers association, Dirk Weddigen von Knapp, started to publicly complain about the corporation's head-in-the-sand policy and how its members feel abandoned: "*We have a scandal, and how the VW group handles it, is unbelievable. ... They mean the emission scandal were not a Volkswagen issue, but one of the German automobile industry overall. This is a gross violation of ethical values. One does not plead guilty any more for that what one has caused*" (Dahlkamp and Dohmen 2017: 86, translated by author). Furthermore, VW just recently announced a profit warning due to another 2.5 billion Euros of provisions for further financial burdens of the emission scandal (Manager-Magazin 2017).

Many stakeholders directly affected by the emission scandal—authorities, customers, dealers, authorities, governments—lost their trust in VW and are still complaining about the company's deep misunderstanding what its corporate responsibility is and its lack of virtuous behavior—such as acting with honesty, trustworthiness and respect for customers' autonomy. How virtue ethics is linked to ethical responsibility will be disclosed in the next sub-section.

## 2 The Role of Virtue Ethics in Corporate Responsibility

Top managers' lack of understanding for ethical issues is a wide-spread phenomenon in industry. Ethical leadership is often demanded, but rarely delivered (cf. Brown and Treviño 2006). To generalize, responsible leadership deals with the question: To whom, and for what, are leaders responsible? (Pless and Maak 2011: 4). Nicola Pless defines

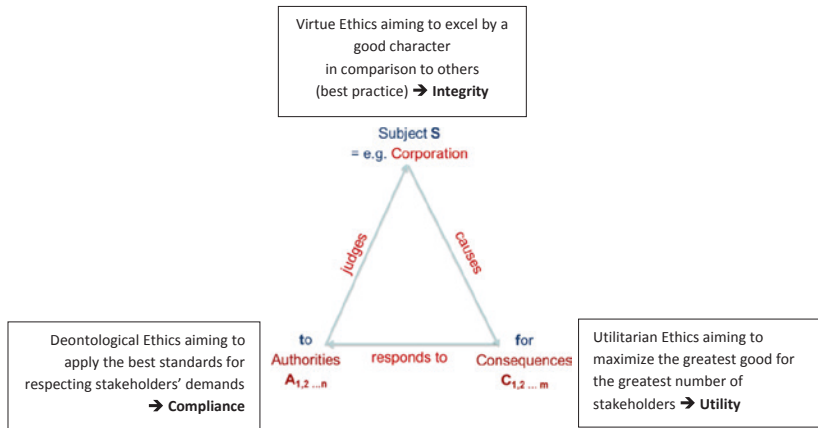
responsible leadership as: a “*relationship between leaders and stakeholders*”, with the purpose of “*achieving sustainable values, creation, and social change*” (2007: 438). A responsible leader excels by responding for the consequences of his activities toward the different stakeholders, and, hence, establishes, extends and restores a trustful relationship with them. According to Stephen R. Covey such relationships lead to more success due to increased value, accelerated growth, enhanced innovation, improved collaboration, stronger partnering, better execution and heightened loyalty (Covey 2008).

In this context, responsibility is a concept of action that justifies all the consequences C1 ...  $m$  (e.g. intended or unintended effects or side effects of the software defeat device in Diesel engines) of a subject's action toward authorities A1 ...  $m$  (e.g. concerned stakeholders affected by the emission scandal), who might bring the acting subject (e.g. VW) to account. It responds to their questions “What have you done? What are you doing? What will you do?” In a business context we can identify such authorities with all stakeholders who might blame the responsible subject (Schüz 2012: 8).

Ethics cares for getting along well with each other (Schüz 1999: 156). This definition can be related to the triangle of responsibility (Fig. 1) with the three positions of actor, consequences and authorities. The three fundamental ethical approaches can be linked to them:

- Utilitarian ethics evaluates the consequences, how far they provide more good than evil for all involved stakeholders.
- Deontological ethics defines the duties to be fulfilled in order to get along well with the stakeholders.
- Virtue ethics aims at developing a virtuous character of the acting subject in order to improve the trustworthy relationship to the different stakeholders. (cf. Schüz 2017: 51)

One can easily recognize, that these three fundamental approaches of ethics are not “main competitors”, as often stated (e.g. De Bruin 2013: 584), but that they complement each other. All three approaches have their often bewailed limitations when used in isolation. Only together they fully represent the three positions of an ethically responsible course



**Fig. 1** The structure of responsibility (Source Author, cf. Schüz [2012: 9; 2019: 246])

of action: consequences ethically desired, duties ethically demanded and capabilities of ethical characters.

The special role of virtue ethics is now outlined. It shapes the capabilities of individuals and organizations to act more ethically in different situations. How virtue ethics can influence individuals and organizations to become ethical characters and ethical corporate identities, respectively, will be discussed in the next sub-chapter.

### 3 Virtue Ethics and Its Influence on Corporate Success

In Western culture, virtue ethics was inspired by Aristotle (384–322 BC). In Aristotle's ethics, the notion of virtue generally refers to the aptitude or diligence of a person, its thinking, conduct and produce if it manages to achieve a good goal. Thus, a person is regarded as being virtuous if it leads a good life as a member of a family, a member of the citizenry, or nowadays as a member of an organization, where it carries out the various roles or functions with different attitudes (i.e. wisely, fairly, cleverly, prudently and so on) (Schüz 2019: 188).

Emotions play a significant role here. When confronted with particular situations, human beings are generally overwhelmed by strong feelings such as rage, greed, jealousy, envy, sensuality or fear. The emotions connected with these “gut feelings” have an important function in that they help us to survive—in the case of fear they may trigger a reaction of fight-or-flight, may, in other scenarios, even paralyze us. In the context of business, these instinctive reactions are quite frequently considered inappropriate if there is no real existential threat. Yet, such strong reactions may lead to costly counteractions of the opponents. Ideally, such affects should be better controlled by human consideration (Schüz 2019: 189 f).

Virtues can be seen as dispositions for behavior which, like muscles, potentially exist in every human being but have to be trained neither inadequately nor exaggeratedly. According to Aristotle virtue is the golden mean between the extremes of excess (too much) or defect (too little) (2009: 1104a), which would otherwise result in vicious behavior, e.g.:

- courage between cowardice and recklessness
- generosity between wastefulness and stinginess
- temperance between apathy and compulsiveness
- wisdom between foolishness and hubris

According to Aristotle, it depends on each individual how far this golden mean can be met. Everybody has different abilities and is confronted with individual situations. Thus, the golden mean of courage to stop a sex offender from attacking on a young woman is different for a martial arts specialist or an untrained bookworm. The same applies for organizations. The ability to act ecologically varies widely between different industries. An insurance company has more freedom to protect the environment than a nuclear power plant. However, within an industry, a player can strive for best practice or at least following it. Viewed in this light, how virtues are expressed is unique for every person or organization within their specific context. Virtuous behavior consists of different capabilities, situations, overlapping attitudes and dispositions, which leads to a unique (corporate) identity, or in other words: ethical character (see Solomon 1999: 115; Schüz 2017: 43 ff).

Besides other researchers (cf. Popov et al. 2006; Schlager 2009), Robert C. Solomon has assembled taxonomy of 45 virtues. Along with this, he identified their related deficiencies and excesses, and how far they are useful for oneself and for others. Following Aristotle, he is convinced that virtuous behavior leads to a good and happy life: *“Living well means getting along with others, having a sense of self-respect, and being part of something one can be proud of”* (Solomon 1999: xxii).

A fair exchange of giving and taking is the basis of trustworthy relationships. As mentioned above, it has “handshake quality”. The exchange partners’ promises can be trusted. Mistrust implies complicated written contracts and the control of compliance with their requirements by an army of lawyers. It will increase transaction costs. Thus, a virtuous behavior based on honesty, reliability, trustworthiness and others reduce those costs and, hence, increase success. The following cause-loop-diagram illustrates this inner connection (Fig. 2).

Therefore, investments in training programs to develop virtuous behavior will payoff—individually and within organizations. Even multinational companies such as Siemens, Daimler and Levi’s have recognized this and have developed own “integrity-programs” for their employees. “Integrity” is a virtue enabling factor to do the ethically

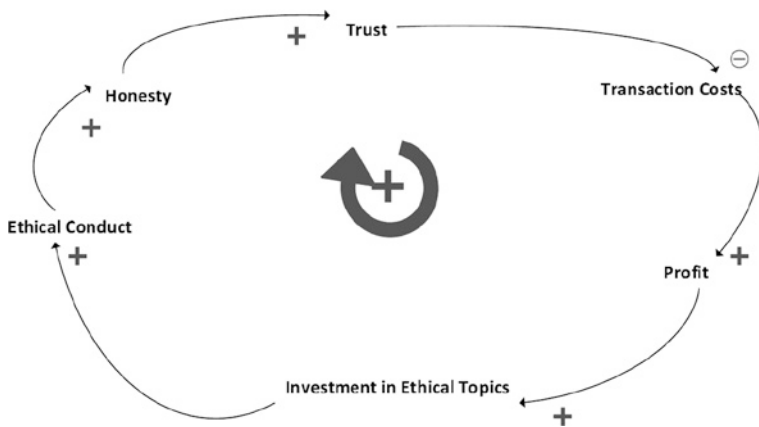


Fig. 2 Cause-loop-diagram for honesty and success (Source Schönenberger 2017)



right thing in a certain situation keeping in mind their own capabilities (Schüz 2019: 206). Instead of just relying on a compliance-based ethics of duties, they foster self-responsibility and good character. Strict compliance programs with hundreds of rules are frustrating, enhance mistrust and denunciation. They should be reduced and complemented by integrity enhancing programs. Lynn Paine has compared the compliance with the integrity approach as summarized in Table 1.

Levi's for example defined for its desired corporate culture the four virtues "empathy", "originality", "integrity" and "courage". The different

**Table 1** Comparison of compliance with integrity

	Compliance	Integrity
Ethos	Conformity with externally imposed standards (external commitment)	Self-leadership according to accepted values and norms (self-commitment)
Ethics-approach	Duty ethics, deontological	Virtue ethics, axiological
Objective	Prevent criminal misconduct	Enable responsible conduct
Methods	<ul style="list-style-type: none"> <li>• Education</li> <li>• Management</li> <li>• Leading through auditing and control</li> <li>• Enforcing transparency</li> <li>• Assessment of conformity</li> <li>• Control through authorities</li> <li>• Penalties</li> </ul>	<ul style="list-style-type: none"> <li>• Education</li> <li>• Leadership</li> <li>• Leading through example and values</li> <li>• Convincing of being accountable</li> <li>• Evaluating trustworthiness</li> <li>• Sensitisation through authorities</li> <li>• Awards</li> </ul>
Motive for behaviour	Avoidance of pain, penalties and pursuit of self-interest	Aiming at fair exchange, fulfillment of mutual interest, purpose, maximizing success for all concerned, pursuit of happiness
Largest scope	Autonomous acting according to universal principles (categorical imperative), compliance with human and life rights ("reverence for life")	Sensibly acting according to situation and ability, balancing diverse interests, integrating into the whole ("know yourself")

Source Author following Paine (1994), cf. Schüz (2019: 207)

departments were requested to apply these principles. For example, the purchase department implemented these virtues with “Terms of Engagement” ensuring suppliers abolished child labor (Levi Strauss 2013). Still nowadays, Levi’s is evaluated as best practicing company within the textile industry (Galland 2010).

The new trend in virtue ethical enhancement of success seems to be the practice of “mindfulness”, a virtue related to “self-awareness”. Jon Kabat-Zinn researched and developed the probably most common “Mindfulness-Based Stress Reduction” (MBSR) program in 1979 and defined mindfulness as a non-judgmental attention in the present moment (2015). Companies such as Google and SAP have been implementing his mindfulness program which combines different mental exercises and forms of meditation. SAP’s “Global Mindfulness Practice Director”, Peter Bostelmann, stated “*It’s about becoming more aware and the capacity to recognize yourself. ... Whenever I am confronted, I am becoming more clear in what’s happening and how I want to respond*” (Giang 2015). Mindfulness has been scientifically researched for more than 30 years (cf. Langer 2014) and has measurable effects on brain structure (Hölzel et al. 2011). Shapiro et al. summarized the benefits of mindfulness practices: It decreases stress, creates a healthy learning environment, enhances innovation and creativity, improves attention and concentration, reduces the negative effects of multitasking, decreases reactivity, enhances interpersonal functioning, empathy and self-awareness (2015: 25–30). At SAP more than 6000 managers went through the mindfulness program, while still 5000 employees are on the waiting list. Obviously, this virtue has not only reshaped culture and identity but also lead to more success (cf. Everson 2015; Koller 2017).

Especially companies with damaged reputation, such as VW, can more easily regain their stakeholders’ trust by implementing virtues like integrity and mindfulness in their leadership culture. This would lead to a more respected corporate identity and thus to an increase in its potential of success.

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# 7

## Virtue Ethics and CSR: The Two Sides of Sustainable Organizational Performance

Mihaela Constantinescu and Muel Kaptein

### 1 Introduction

One of the main research topics related to Corporate Social Responsibility (CSR) concerns the motivation that “catalyses organizations to engage in increasingly robust CSR initiatives” (Aguilera et al. 2007: 837). Until recently, this led to a divide between approaches focused on intrinsic motivations and those focused on extrinsic motivations of business organizations (Muller and Kolk 2010; Swanson 1999)

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M. Constantinescu (✉)

ICUB, University of Bucharest, Bucharest, Romania

e-mail: mihaela.constantinescu@ccea.ro

CCEA, Faculty of Philosophy, University of Bucharest,

Bucharest, Romania

M. Kaptein

Rotterdam School of Management, Erasmus University,

Rotterdam, The Netherlands

e-mail: mkaptein@rsm.nl

for CSR programmes. As for the former approaches, scholars have highlighted managerial motivations related to morality (Heugens et al. 2008), positioning CSR as desirable in itself (Carroll 2000; Lindenberg 2001), in a values-driven perspective (Looser and Wehrmeyer 2015) that sees CSR as the right thing to do (Ellen et al. 2006) because organizations care (Vlachos et al. 2013). As for the latter approaches, scholars have identified external drivers such as contextual pressures from consumers, shareholders, competition, the media, international trade issues or regulatory demands (Brickson 2007; Chapple and Moon 2005; Katz et al. 2001; Kolk 2005), thus positioning CSR engagement as either egoistic-driven by the desire to exploit a situation, strategic-driven by the goal of making a better profit and minimize risks, or stakeholder-driven by the need to react to pressures from stakeholders (Ellen et al. 2006). As some research points out (Howard-Grenville 2005; Muller and Kolk 2010), the extrinsic drivers approach towards CSR has been for many years favoured in both management studies and international business research, as it has been understood as the “business case for CSR” (Story and Neves 2015: 3).

However, an important and growing body of research argues for the need to address both internal and external drivers for the social behaviour of business organizations (Child and Tsai 2005; Jones and Wicks 1999; Weaver et al. 1999a), and even proposes an integrative framework where the two are interpreted in a “mutually reinforcing relationship” (Muller and Kolk 2010: 4). In the same vein, scholars suggest that organizational social performance that is intrinsically motivated can potentially generate economic advantages (Graafland and Mazereeuw-Van der Duijn Schouten 2012; Husted and Salazar 2006; Muller and Kolk 2010). What is more, stakeholders seem to adopt a certain attitude towards an organization based on the way they perceive the reasons for which it invests in CSR (Glavas and Godwin 2013; Martinko et al. 2011). An optimal combination of intrinsic and extrinsic reasons for CSR generates, for instance, a more favourable attitude among employees in terms of performance (Story and Neves 2015; Vlachos et al. 2013).

While extrinsic motivations for CSR are relatively easily observable and thus measurable, an important question still remains: how do we assess intrinsic drivers related to CSR? Some scholars conducting research in the CSR field have pointed, for instance, to the degree management is committed to ethics in order to determine the extent to which organizations are driven by “integrity, fair treatment of others, and ‘doing the right thing’ for its own sake” (Weaver et al. 1999b: 543). Others have highlighted managerial intent and motivations detectable at the internal level of the business organization (Del Baldo 2012), linked with stewardship theory (Aguilera et al. 2007) or shared values systems (Heugens et al. 2008; Ketola 2008).

We argue that we need to adopt a broader perspective concerning the intrinsic motivations of business organizations to pursue goals that go beyond economic performance and aim for long-term, sustainable performance. Such a broader perspective should take into account not only managerial motivations, but the overall organizational context that influences internally the ethical activity of the organization, which is further externalized as organizational social performance.

In the following sections of this chapter we explore such a perspective from a business virtue ethics orientation, and thus add a normative component to empirical research on CSR. More specifically, we appeal to virtue ethics to assess whether an organization is intrinsically motivated to be socially responsible and further connect it to extrinsic drivers towards CSR. To this end, we refer to the Corporate Ethical Virtues Model as developed by Kaptein (1998, 2008, 2011, 2017) and analyse how the virtues it advances foster organizational virtuousness, which we interpret as an intrinsic driver for organizational ethical performance, with implications at individual level. We then correlate organizational virtues with CSR reporting guidelines, which we interpret as an extrinsic driver for organizational social performance. We conclude by suggesting that organizations need to address both intrinsic and extrinsic drivers in order to reach long-term, sustainable performance, understood as both ethical and social performance, in addition to economic success.



## 2 Organizational Context, Ethical Practices and Virtue Ethics

When discussing the ethical performance of an organization, business ethics research emphasizes the role of contextual elements within the workplace in generating management and employee ethical behaviour. The organizational context is interpreted as a direct influencer of individual moral or immoral action (Davis and Frederick 1984; Kaptein and Wempe 2002; Solomon 1992; Treviño and Youngblood 1990) because it can both stimulate and constrain such action. As a result, organizations are urged to carefully design and implement their internal practices (Crawford 2007) which form the organizational context and which further contribute to the overall organizational ethical performance.

But how can these organizational practices, which constitute the context, be further specified? According to Kaptein and Wempe (2002), these practices include, on the one hand, the organizational structure, which refers to various written tasks, responsibilities and procedures. To exemplify, the ethics programme of the organization is part of this structural dimension (Ferrell et al. 1998), as it displays instruments like whistleblowing policies and monitoring systems, codes of ethics and training, to name but a few. Organizational practices include, on the other hand, the organizational culture, which encompasses the unwritten expectations, norms and values, which form up the perceived conditions that stimulate or impede the ethical behaviour of employees (Heugens et al. 2006; Kaptein 2011).

While both the structural and cultural dimensions of the organizational practices are relevant in fostering individual ethical behaviour, the role of the organizational culture has been more highlighted by business ethics research (Kaptein 2011; Treviño and Brown 2004). In this respect, scholars consider that “informal practices exert an important pressure on individuals to conform to them, even when this means going against the formal practices” of the organization (Constantinescu and Kaptein 2015b: 332). Therefore, the organizational culture works as a substantive mechanism which, when properly managed, directs ethical behaviour of management and employees, and this further leads to an overall ethical performance of an organization.

Among various ethical approaches to the organizational culture, virtue ethics has lately received more scholarly attention (Ferrero and Sison 2014; Kaptein 2011), sets of virtues ranging from community and integrity (Solomon 1992), reliability and respect (Shanahan and Hyman 2003) to consistency and achievability (Kaptein 2011) being proposed as desirable characteristics to be pursued at organizational level. Organizations are thus projected as communities where virtues are practiced (Solomon 1992)—with a focus on the intrinsic motivation that generates successful business behaviour, instead of prohibitive principles or rules, which are rather an extrinsic motivator.

From a virtue ethics perspective, we need to urge organizations to assume an overall moral goal that transcends various pragmatic, economic objectives. Such a goal has been normatively conceptualized in business ethics research through the notion of *virtuousness*, towards which individuals and organizations aspire “when they are at their very best” (Cameron et al. 2004: 2). When organizations strive for virtuousness, they create the proper context for human excellence (Bright et al. 2006; Cameron et al. 2004; Sison and Ferrero 2015). As such, virtuousness pertains to organizational practices including the informal culture and formal structures (Sison and Ferrero 2015) inasmuch as they support individual and organizational excellence (Morse 1999). As research points out, when organizations reach a state of virtuousness, the overall organizational performance is positively influenced both because commitment towards organizational citizenship behaviour is amplified and because dysfunctions are buffered (Bright et al. 2006; Sison and Ferrero 2015).

To identify those characteristics or qualities of the organizational culture which stimulate individual ethical behaviour and which determine the extent to which we can consider an organization to be ethical, Kaptein (1998, 2008, 2011, 2017; Kaptein and Wempe 2002) has developed the Corporate Ethical Virtues Model (CEV model). This conceptual model is rooted in Aristotelian virtue ethics and proposes a set of seven organizational virtues which organizations should possess in order to excel morally (Kaptein 2008): clarity, consistency, achievability, supportability, visibility, discussability and sanctionability. These seven dimensions of the organizational context are considered to be desirable in

any organization, because “the greater the level of embeddedness of these dimensions, the higher the ethical quality of the organizational culture and the less likely it is that unethical behaviour would occur” (Kaptein 2011: 847). We detail in the next section the seven ethical virtues, together with the way they influence individual behaviour and thus lead to overall organizational ethical performance.

### 3 The Corporate Ethical Virtues Model and Ethical Performance

To begin with, we interpret the notion of ethical performance as the measurable output generated by the organization’s internal capability to foster ethical behaviour at individual and collective level, through the organizational context. Following this attempt to define the organizational ethical performance, let us note that the seven ethical virtues of the CEV model work as an intrinsic driver of the organizational context, making it possible to label the organization as an ethical organization (Kaptein 1998). When optimally embedded by the organizational culture, they influence individuals to behave ethically, which results in overall ethical organizational performance. In this way, organizations manage to pursue an ethical goal beyond mere financial performance, understood as basic organizational performance. Instead, when the seven virtues are embedded deficiently or excessively by the organizational practices, they become vices (Kaptein 2017) and lead to vicious organizations. Virtues are thus understood in an Aristotelian sense as a mean between two extremes, namely, between “two vices, one of excess and one of deficiency” (Aristotle 1985, NE, 1107a). We therefore discuss below how each virtue fosters individual ethical behaviour, along with corresponding extremes.

The first virtue of the CEV model is **clarity**, which refers to the way moral expectations towards employees are expressed accurately and comprehensively by organizational practices (Kaptein and Wempe 2002; Kaptein 2011). If the organization fails to express concrete guidance related to individual ethical behaviour, clarity turns into the vice of ambiguity (Kaptein 2017). In turn, when norms and policies

are expressed to the last detail and are over-specified, the organization becomes patronizing, which is the opposite vice of ambiguity. Both create room for unethical individual behaviour, either because individuals need to resolve ethical issues without a clear scale of right and wrong (Bruhn 2009), or because they have no space for moral deliberation. It thus becomes highly relevant to assess whether organizations optimally embed clarity in order to foster their ethical performance.

The second virtue of the CEV model is **congruency**, which concerns the extent to which moral expectations regarding employee behaviour are detailed within organizational practices in a way that is compatible and consistent, such as through congruent role modelling from managers (Brown and Treviño 2006; Kaptein 2011). As for the deficient extreme of congruency, the organization becomes subversive and thus vicious once managers contradict, through their own behaviour, the official ethical norms and policies. In the opposite extreme of excess, the organization becomes vicious if pompous, for instance when managers behave too strict and require employees to live up to ethically unattainable standards. An optimal level of congruency embedded by organizational practices is thus needed to reach ethical performance.

**Achievability** is the third virtue of the CEV model, which expresses the optimal balance between moral expectations formulated by organizations, and employees' capability to live up to them (Kaptein and Wempe 2002; Kaptein 2011), for instance when organizational practices provide sufficient budgets, equipment, time or information for individuals to meet their responsibilities. When deficient, achievability turns into the vice of scantiness, an extreme in which organizations provide too little resources for employees and managers to meet their objectives. When excessive, achievability leads to lavishness, with organizational practices becoming vicious because they provide too many resources. Either way, vicious practices lead to unethical individual behaviour and overall poor organizational ethical performance.

Next, the fourth virtue of the CEV model is **supportability**, which concerns the extent to which individuals are fostered or hindered by the organizational practices to behave ethically, for instance by providing the necessary motivation. On the deficient extreme, the organization embeds the vice of animosity, where employees and managers are

prompted to be indifferent or to oppose ethical behaviour. In the excessive extreme, we speak of the vice of zealotry, where ethical behaviour is promoted fanatically by the organizational practices. Understood as the mean between two extremes, supportability is the virtue which may enhance organizational capability to reach ethical performance.

**Visibility** is the fifth virtue of the CEV model and it points to the way ethical and unethical behaviour is made manifest within the organization, such that those in charge may become aware of it and take rewarding or reactive measures, either vertically or horizontally. When deficient, this turns into opaqueness of organizational practices, with little or no transparency of ethical or unethical behaviour. In the opposite extreme, we speak of overexposure, for instance when employees and managers are over-monitored and there is no privacy left. Organizational ethical performance is thus only possible through an optimal level of visibility embedded by organizational practices.

The sixth virtue of the CEV model is **discussability**. When optimally embedded by organizational practices, it allows employees and managers to openly discuss ethical dilemmas and resolve potential unethical behaviour. When organizational practices allow for little or no space for discussion, they embed the vice of muteness, the deficient extreme of discussability. In turn, when ethical issues are endlessly discussed without reaching any conclusion, the organization embeds the vice of talkativeness, the excessive extreme of discussability. As a result, organizations need to make the necessary steps to ensure an optimal embeddedness of discussability if they are to be seen as ethically performing within society.

**Sanctionability** is the seventh and last virtue of the CEV model, which refers to the likelihood that employees are either punished for unethical behaviour or rewarded for ethical behaviour, be it in a formal or informal way. When unethical behaviour is not sanctioned, the organization becomes vicious because of the laxity of its practices. When unethical behaviour is sanctioned too drastically, we speak of the vice of oppressiveness. Both vices create room for unethical behaviour within organizations. To become virtuous and thus reach a good level of ethical performance, organizations need to embed optimally the virtue of sanctionability.

## 4 Organizational Virtuosity and CSR Standards

Our discussion concerning the seven virtues of the CEV model helps delineate one important normative issue related to intrinsic drivers for CSR. Namely, how should organizations authentically follow CSR standards or guidelines to promote not only economic, but overall social and ethical performance? We address this question in the current section of the chapter.

If we want business organizations to reach a good balance of intrinsic and extrinsic drivers for CSR programmes, we posit that it is not enough that they comply with CSR guidelines and standards such as UNGC, ISO 26000 or GRI; they need to also embed virtues like the ones proposed by the CEV model. While CSR guidelines set the extrinsic conditions which organizations need to meet in order to be labelled as good corporate citizens, ethical virtues set the intrinsic drivers which turn organizations into moral communities (Heugens et al. 2008) that strive for ethical performance.

Going back to the CEV model discussed in the previous section, we may state that the extent to which organizations embed the seven ethical virtues points to the extent organizations reach overall virtuosity. This is because organizational virtuosity may be assessed by the extent to which it “stimulates employees to act ethically and prevents them from acting unethically” (Kaptein 2008: 928). Therefore, an optimal level of virtues embedded by organizational practices leads to overall organizational virtuosity, which further translates into ethical performance. As previous research related to the CEV model has shown (Constantinescu and Kaptein 2015a), CSR guidelines fail to embed completely all the seven ethical virtues, with each of the UNGC, ISO 26000 and GRI guidelines embedding to various extents each of the virtues, while leaving some of them completely uncovered.

As a result, to reach overall virtuosity and promote ethical and social performance beyond economic goals, organizations need to integrate intrinsic and extrinsic drivers and thus approach complementarily ethical virtues and CSR guidelines. This complementary relationship is

reflected in several aspects (Constantinescu and Kaptein 2015a). First, while ethical virtues provide generic and procedural guidelines that set desirable organizational goals in terms of virtuousness and delineate the general context in which individual action is carried, CSR standards provide substantive guidelines related to the specific measures that organizations should implement to become socially performing. Second, CSR guidelines are primarily related to the structural dimension of organizations, as they initially set the reporting procedures that need to be met by organizations, which may further bear an actual impact on the cultural dimension of organizations in case of authentic, well internalized CSR. Virtues, on the other hand, pertain to the cultural dimension of an organization, as they directly influence individual ethical behaviour, which may further generate transformations in terms of the structural dimension of organizations, for instance through the implementation of monitoring and sanctioning procedures. Third, ethical virtues provide the input, while CSR guidelines provide the output for organizational action. And both of them admit of degrees: the exercise of ethical virtues within organizations can be improved in time, just as CSR programmes can be perfected to meet CSR guidelines to a higher degree.

Ethical virtues and CSR guidelines are thus the two sides of the same coin: long-term, sustainable organizational performance. The organizational virtues of the CEV model provide the intrinsic driver for organizational ethical activity, as they set the organizational intentions related to a desirable moral goal, namely, organizational virtuousness. In turn, CSR guidelines provide the extrinsic motivation for organizations to engage in socially responsible activities, as they set the organizational measurable results to be achieved within the framework they provide. Therefore, “corporate ethical virtues are necessary to translate guidelines into conduct and any CSR or sustainability reporting initiative should acknowledge this relationship. It is not enough to set reporting criteria, as they only point to the specific requirements that corporations must meet; offering the tools and drivers to achieve those results is equally important” (Constantinescu and Kaptein 2015a: 176).

## 5 Conclusion

The book chapter explored business ethics insights of a virtue ethics orientation to add a normative component to empirical research on CSR concerned with intrinsic and extrinsic drivers for organizational social performance. It argued that we need to adopt a broader perspective concerning the intrinsic motivations of business organizations to pursue goals that go beyond short-term, basic economic performance and strive for long-term, sustainable performance. This broader perspective can be achieved by taking into account the overall organizational internal context that stimulates both managers and employees to engage in ethical behaviour. The chapter thus appealed to the organizational virtues developed by the Corporate Ethical Virtues to assess whether an organization is intrinsically motivated to be socially responsible. To this end, it analysed how the virtues embedded by the organizational context foster organizational virtuousness, which was interpreted as an intrinsic driver for organizational ethical performance. This was further correlated with CSR reporting guidelines, interpreted as an extrinsic driver for organizational social performance. The chapter argued that organizations need to address both of them in order to reach a desirable level of long-term, sustainable performance, with the good news that both can be improved through ongoing practice.

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# 8

## Company Case Study 3: Loccioni Between Innovation, People and Future

Simonetta Recchi

### 1 Introduction

This chapter focuses on the Italian company Loccioni (Gruppo Loccioni 2008–2012) as a case study of a socially responsible enterprise which pays attention to its surrounding environment taking care of its needs and the needs of its inhabitants. To improve, to achieve success and guarantee its growth and the growth of the community around, Loccioni develops many different projects with regional schools aimed at hosting and training students because it wants that young people meet early the labour market. Loccioni it is also an international company which is currently working in more than 45 countries. As a matter of fact, Loccioni has three overseas offices in Washington, Stuttgart and Shanghai

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S. Recchi (✉)

Università degli Studi di Macerata, Macerata, Italy  
e-mail: [simonetta@simurgh.it](mailto:simonetta@simurgh.it)

Department of Business Administration,  
Vrije University of Amsterdam, Amsterdam, The Netherlands

where the main activities are related to market development, territorial relations and direct assistance to customers.

Next sections will outline the history and evolution of Loccioni and how it practises social responsibility. However, Loccioni (Gruppo Loccioni 2013) is a large organization, so not all its activities can be discussed here.

## 2 History of an Italian Company

Loccioni is an industrial automation company founded by Enrico Loccioni in 1968 in the province of Ancona (Marche, Italy) and remains to today entirely owned by his family: Graziella Rebichini, Enrico's wife, who passed away two years ago, Claudio and Cristina, Loccioni's son and daughter.

Enrico Loccioni was born in a family of farmers, in the crossroads of three important abbeys of Benedictine culture: St. Elena, St. Romualdo and St. Urbano. The cultural heritage of Benedictine monks with its values (tenacity, moderation, simplicity, solidarity, family responsibility, respect for tradition) and the family one linked with land and the work in fields have determined the model and the values of the company.

There has been a constant development from the rural world to Marche industries and Loccioni is one of the companies representing this change. Old and new values merge into a dynamic and trustworthy process which governs everyday tasks. Simplicity, integrity, economy, solidarity, family spirit, mutual efforts, team spirit, enthusiasm, energy, strong will, tenacity, creativity, responsibility and the ability to communicate. These values are the cornerstones of Loccioni actions, positive and responsible actions generate a development that respects man and environment.

When the boss managing capabilities come out from an agricultural background, the Marche development model seed is scattered onto the fields. From the agricultural firm to the first-generation company and to the adult enterprise: an uninterrupted development starting from the originary accumulation. Nowadays the new competition attitude makes us immediately think about the strong solidarity among the farmers, it provokes the flourishing of the enterprises integrated systems able to

overcome the single's weakness. The common desire to be successful and so strong to face the market and all the internationalization projects was born from a common strong commitment and motivated human resources.

The first 10 years of the company turn around the industrial electric plant engineering to carry on activities in the service of industry (Freeman 2010). Since the beginning the company has been the intermediary figure between school and working world, finding in technical institutes and in the universities of the region the necessary (human and research) resources to promote and support the company development (Bal 2015).

In the 1980s, Vittorio Merloni was one of the first to identify and to pursue the passage from the quantity to the quality of the product. Working with him, Loccioni started to analyse the new possibilities offered by the market in terms of quality control challenge through the diversification of markets and competences. In few years, thanks to a group of curious and willing young people a new branch of the company was created, soon reaching the international leadership in home appliances and car components testing. Following its clients, world leaders, from electric plants to production lines, Loccioni has started to communicate with them in terms of efficiency, handling, traceability and logistics, developing competences in the productive processes automation technologies. At this point, it is clear that Loccioni's commitment is measuring for improving, thus helping all those who realize products or offer services to do it in the best way, saving time, money and respecting the environment.

Today this commitment is the mission of all eight different business areas of the enterprise that are Industry, Mobility, Humancare, Energy, Environment, Train and Transport, Electronics and Aerospace.

Loccioni counts more than 400 collaborators involved in a lot of different projects that we are going to deepen.

First, Loccioni Industry works side by side to the top players of industrial sector, by doing automation and quality test of their products, processes and buildings.

It is a "technology atelier" where specialists and researchers take care of customers' particular requirements, designing and developing

innovative solutions and entire customized technological fields. For more than 40 years, more than 200 researchers have been creating and carrying on testing solutions about electrical and electronic components (motors, pumps, compressors, sensors, etc.), home appliances, sustainable energy, glass industry, wood and food and beverage, always supporting their customers and partners in the optimization of production processes and in the improvement of products' quality and aesthetics.

The fields of mobility application are noise and vibration, vision, thermovision, flow rate and leakage, spectroscopy, chemiometrical analysis, thermofluidic, mechanical measures, electrical measures, hydraulic measures.

Loccioni (2014) is also health care medical, pharmaceutical and health care system. Humancare takes care of: cytostatic drugs dosing automation and measuring systems, automatic warehouse revamping and planning automation, information, safety, communication, LAN, IP, wireless and WAN networks development and design, analytical assistance services, maintenance and data management.

Going forward, Loccioni has developed other solutions for the environment thanks to Environment and Energy business areas. We mean integrated technologies for environmental monitoring, control, traceability and process integrated systems development, measure and testing systems for thermovision, analysis and prevention, software, safety, LAN communication, IP, wireless and WAN networks development and design, analytical assistance, maintenance, data management services, acoustic emission testing for storage and/or pressure tanks. Then, Loccioni Energy offers to its clients, the Leaf Players, turnkey systems to reach sustainability and energy efficiency by proposing full and customized solutions that integrate different technologies. One of the biggest projects developed thanks to Energy team is the Leaf Community. Leaf refers to the "green and natural leaf" but it is also the acronym of Life Energy and Future (CCE 2011). As well as a leaf, the Leaf Community takes energy from nature: it gathers and uses it when it is necessary and releases it in the air with healthy and cleaned methods. In 2014, Loccioni became the first smart micro-grid in Italy, an example of energy network peer-to-peer that accumulates and gives electricity among different work environments. The Leaf Community is a

sustainable network built around 2 km of future, the area close to Esino river whose safety was secured after the flood of 1990. In that community, it is possible to live in a carbon neutral house, and move with electrical or hydrogen cars, bring children to a solar energy school and work in eco-compatible buildings. Energy is provided by renewable sources, granting the highest level of comfort and modernity.

After acquiring very high-level competences in the most different technologies applied to automation, handling, traceability and logistic systems, Loccioni Group (Gruppo Loccioni 2012) has understood that the sustainability of enterprises and more in general of the territory were the new challenges with which to deal. Therefore, it has operated with such a determination on this front that he deserved the “Environment Enterprise Award” by Legambiente for the “Leaf Community” project. Leaf is the acronym of “Life Energy and Future” that configures the initiative programme but it also corresponds to the English term “leaf”, which for Loccioni Group represents the metaphor of the model according to which the enterprise develops. Faithful to his rural origins and to the traditions of his earth Enrico Loccioni, in fact, identifies the sustainable enterprise as a tree rooted in the territory, drawing energy from the economic, environmental, social and cultural resources that the latter makes available. As starting from its bearing structure, formed by trunk and branches, the tree develops towards the environment through the leaves with which it breathes absorbing carbon dioxide and generating oxygen, likewise operates the sustainable enterprise, whose leaves are constituted by the plurality of individuals who are part of it and by their initiatives (CCE 2011; CPECCESR 2011–2014). Provided that the environment is healthy, the life of the tree essentially depends on leaves, as the life of the enterprise depends on people and on their initiatives. Environment protection and people centrality are then the elements on which, according to Loccioni, we should ground the construction of the future. These remarks have given rise to the “Leaf Community” according to which the enterprise, together with its partners, integrates with the territory taking part in its development in a responsible way. For this reason, inside the company they have implemented the most advanced systems of energy saving and environmental protection.



They have introduced effective thermal insulation systems while for the department lighting they have adopted special optical systems that from the roof address the sunlight inside buildings. Finally, they have installed photovoltaic systems and solar plants for the electrical energy generation and they have exploited a small water stream to power a mini hydroelectric plant. As in Loccioni philosophy it is necessary to measure data to manage a process, the entire energy network of the enterprise has been monitored with the “My Leaf” system and, in addition, they have built the “Leaf House” with six flats inhabited by collaborators and guests of the Group, equipping it with the most advanced systems of energy generation and saving. In this “carbon free” building, besides photovoltaic panels and a geothermic system with heat pump, they have also provided for a collection and distribution system of the rainwater for non-food uses. The monitoring of the “Leaf House” is performed by a computerized system, connected with 1200 sensors of various types. Therefore, the “Leaf Community” has been extended to the internal mobility system of Loccioni Group and finally to the community, involving school and education areas in the energy management. All these experimentation and monitoring activities are completed by development actions, in collaboration with outstanding partners such as Enel, Samsung SDI and other big brands of the household appliance industry, of the most advanced technologies for domotics and energy co-generation with photovoltaic and solar systems and with fuel cells, as well as with state of the art batteries for the electrical energy storage. Through the “Leaf Community” Enrico Loccioni intended to indicate a course for the sustainable development, along which the principle of sharing goals and resources is accompanied by the concept of the smart use of technologies, widening also the intervention horizon to the community the enterprise is in contact with (CPECCESR 2011–2014).

As concerns Train&Transport business area, starting from the first electrical equipments and automation systems for rail stations in the 1970s, experience in transport sector and passion for innovation have driven Loccioni towards the continuous improvement of quality and services for the transport and railways network. It follows that Loccioni collaborators have produced: **Felix**, first mobile robot for automatic

railroad switch inspection, tunnel inspection systems and train components testing systems (brakes, motors, etc.).

There is also the Aerospace business area and its mission is design and implementation of static and dynamic DAQ to manage data configuration, calibration, synchronization, streaming, monitoring, export and post-processing. Those solutions serving small and large test rigs for functional test (e.g., Turbine stage characterization).

In the 1990s, the passage from hand-crafted company to a knowledge company is almost completed, first starting from specialized workers and then passing to people with diploma and finally graduated people. Loccioni is a knowledge company, employing entrepreneurial collaborators who invest their knowledge in the company, sharing its success. The knowledge company develops projects instead of products and enhances the attitude towards responsibility, autonomy, entrepreneurship and team working. It delivers knowledge internally and externally and invests in education. Because people are its most important legacy. The knowledge development also comes thanks to a recruitment policy focused on the continuous employment of young people who can benefit of training in return for their energy, courage in taking initiatives and responsibilities with the aim of contributing to the growth of the company (e.g., Bertagna 2014).

In this way, after the electric engineering plant, industrial automation, home appliances and car components quality control and monitoring phase, new adventures start with developing telecommunications competences and ICT and environmental monitoring.

Measuring for improving, transforming data into values: this is the Loccioni mission relating to machine integration and monitoring.

On the other hand, ICT measurements and competence meet up on a new ground, the energy flows focusing these 40 years of experience and knowledge in transforming quality into sustainability, data measured into tangible values to communicate.

The first 10 years of the new millennium see Loccioni transforming from knowledge company to a thinking company which develops innovation.

Almost 50% of collaborators has a degree, the Research for Innovation team numbers more than 40 researches, the Marketing

and Communication team explores new markets and cultural visions, Loccioni systems are proposed in more than 45 countries in the world and international branches are created in USA, Germany, China and now also in Japan.

### 3 Ideas, People and Technologies to Transform Data into Values: That Is the Loccioni Mission

The core of Loccioni activity are the data that are managed, created, measured and transferred not only to improve products and processes but, in going through intelligences, knowledge, open company networks, they are transformed into values. Data are the values of economic, quality, performance and efficiency and mainly represent the company soul, its most intimate dimension.

Ideas, people and technologies are the main characters of the company: soul and values represent the intangible and the tangible purpose of the different activities. Transforming data into values is the Loccioni (2012) commitment towards our interlocutors—clients, collaborators (the word “collaborators” is more than the word “employees” because collaborators are actors of the works and not only means to an end, not only tools that a company uses to produce something for the common well-being), suppliers, partners—with the aim of improving ourselves, of going beyond the limits and facing new challenge (e.g., Bal 2015).

To create values for market, clients and collaborators, Loccioni uses a complex behavioural system which leads the daily work. The system focuses on six fundamental ideas, Loccioni’s management principles that are:

1. **Listen to anticipate:** Loccioni is an evergreen and innovative company. To remain young, it needs to know the market and its developments. In that way, it promotes its growth, anticipating what is going to happen in the automotive, industrial, environmental and technological world (Freeman 2010).

Listen to anticipate also refers to the attention that Loccioni shows towards the students. The company works with primary and secondary schools and universities because it wants that young people meet early the labour market. Just in that way, it is possible to create the future: helping the young workforce to know itself, its needs and what it wants.

2. **Energy and will** which means putting a great deal of enthusiasm, passion, initiative, courage and motivation in the things we do; energy and will are the highest expressions of doing, the fundamental values at the base of every knowledge company where there are no products to realize but projects to imagine and dreams to fulfil.
3. **Clear communication:** Loccioni clients trust the company because it communicates its identity in an honest, reliable and clear way.
4. **Innovation** in the sense that the curiosity of the new, of the unknown market and clients allow the company to remain young and to renovate itself.
5. **Flexibility and adaptability:** to be flexible and adaptive at work means knowing how to manage yourself in many different situations, how to spend time in different projects and being ready to answer the daily challenges.
6. **Proactivity and intelligence:** Loccioni is a team where each collaborator employs his/her knowledge and skills to reach common goals. Proactivity is the ability to imagine and to do something, to create work and value, to do some proposals for the growth and the development of the company. In addition, in a team, each person has a role and a task: to be intelligent means to know your role and the role of the other one, to know how you can collaborate with the others and it means that it sometimes needed to change your role to win new challenges.

Loccioni company conducts projects through partnerships and networks of people and competencies (Trickey 2004): it establishes partnerships focusing on the qualities and the values of solutions. Non-stop training, leading-edge technologies and creativity are the instruments for the growth of knowledge.

People and their knowledge create the enterprise, the network, the system: they represent the real capital. The aforementioned six points

become true and effective when they are linked with three values, as well, that are: **imagination, responsibility, tradinnovation.**

**Imagination** is having the ability to dream, watching with “big eyes”, asking ourselves useful questions to get to the realization of the dream imagined. Knowing how to dream is to be co-creators, participating in the construction of the future rather than being subjected to it. Capable of imaging is whoever has the right curiosity, openness and creativity to make his work and his life a coming of unique events, continuous occasions to grow even if still young.

**Responsibility** is living the present with the awareness that every action we do has consequences on the future. It means respecting the environment and the people living on it, personally taking the trust offered upon ourselves (by clients, suppliers and collaborators). It is the ability to respond and therefore welcome, with generosity, honesty and integrity.

**Tradinnovation** combines the value of tradition, of the rural culture Loccioni comes from, of the experience and innovation use and listening, of the incentive to be launched in the future and of continuously innovating. It is the arrow which once strongly shot; it can reach the furthest places. It is recovering the base cultural values, the ancient wisdom which leads to live innovation as behaviour, towards the territory, the people, the organization and the technology.

These three pillars and the aforementioned six ones are important, no doubt, and Loccioni makes them operational thanks to national and international research projects where it has been involved for years, thus contributing with innovation and technology to improve the quality of life. Different patents every year, research programmes carried out in collaboration with prestigious universities, scientific publications and knowledge transfer through the implementation of innovative solutions are the result of a continuous investment in research and development. As a matter of fact, the R&D team, through its own certified internal labs, carries out its own research projects, or at the request of particular customers and partners, exploring new territories of industrial innovation. The development of new survey and measurement techniques also comes from the technological transfer and is targeted to make something already existing usable

in other application fields. This occurs through the construction of competency networks that give value to the individual and collective external knowledge, since innovation is above all an opening and sharing process among groups of researchers. The aim of the company is to add value to the “bespoke” projects and solutions of the Loccioni companies and, at the same time, help every research activity to transform into experience and therefore competency for everybody. Networking, flexibility, free initiative, responsibility and courage represent the core of Loccioni innovation process.

All that has just been said is the core of Loccioni identity, of its philosophy and it is the ground of its projects.

This section focuses on some of them that allow to understand just an aspect of the broadest Loccioni social responsibility.

## 4 The Workplace for the Ages: Bluzone, Redzone, Silverzone

Loccioni numbers around 400 collaborators across the world with an average age of 34; 300 of them are in production.

Each employee is daily called to form his/her own knowledge and skills continuously in the field. Loccioni hires students just graduated after their bachelor or master degrees and they immediately become spokesmen for the company worldwide. It invests on training of those students who come from local and foreign schools and universities (over a thousand every year), to help them to live at the same time the dimensions of **studying** and **working**. Over the past four years, the company has hired more than 100 students.

Loccioni is a real training ground to build the skills of the future. Students of different ages are introduced to the business world and involved in many workshops organized in collaboration with schools through which they learn to integrate **nature and technology, knowledge and know-how**. These kinds of projects constitute **Bluzone**, an open network with schools and universities aimed to host and train students.

There is also the **Redzone**, an area where the professional growth of the collaborators is helping and monitoring with a training programme composed of different kinds of Master.

It is clear that the company combines different generations, professional worlds, different skills and matches primary students and PhDs, teachers and managers, technicians and humanists guru thanks to its projects. This is the reason why it is a **jobplace for all ages** where relationships create intergenerational bridges to achieve a common goal and where the openness towards the others, the intertwining of perspectives lead to discover the joy of learning by doing and exchanging knowledge, as we will show below more in detail.

Hence, Bluzone and Redzone meet **Silverzone**, a network of more than 100 people, a “meeting garden” where the experience of **trainers, entrepreneurs** and **scientists** matches with **young collaborators**: a place to innovate, imagine and design the future.

Silverzone involves “beautiful minded” **over-65 retired people** that have met Loccioni along their way. It is a virtual space that gathers people with huge luggage of **different knowledge, competences and experience**. With their precious contribution and contagious enthusiasm, they keep sustaining Loccioni success.

Silverzone is all about building **trustful** and **respectful relationships**. It is basically based on **mentorship programmes**, through which a new employee is joined by a retired person and together they work on a highly innovative project.

Loccioni gave birth to this programme, also called “**28-82**”, because of the ages of the first mentor and the mentoree involved, to preserve the richness that these individuals own, not just looking at the past, but looking into the **future** in creative and **innovative perspectives**.

Through Bluzone, Redzone and Silverzone, Loccioni merges different characteristics and positive aspects of **young and old people**, of different professional profiles. The **theoretical knowledge** matches with the **practical approach** in an exercise of maturation and growth that is constantly enriched and supported by dialogue.

A similar network that other companies can certainly develop leads not only to **knowledge transfer**, but also to **new knowledge creation**, triggering creativity and concretize avant-garde innovative projects and solutions.

## 5 Corporate Social Responsibility and Silverzone

One of the most pressing challenges for today's organization is demographic ageing (Bal and DeJong 2016; Bal and Jansen 2016). The European population, and more in general, the world population, is ageing; on one side, this shows that length and quality of life are increased in number but on the other side, this phenomenon can lead to determining a higher number of pensioners and an increase in the unemployment rate.

Hence, demographic change is a crucial issue for companies and it is linked to Corporate Social Responsibility.

As we saw above, Loccioni pays attention to older workers' needs that are different from those of young people.

The ageing workforce is usually seen as a factor of diversity and potential discrimination but a socially responsible enterprise should foster and endorse a new vision of ageing, by considering the possibility of a longer working life and converting the current challenge of ageing population into an opportunity.

Furthermore, since the workforce is ageing and young people are hiring, today's organizations are communities for all ages. Different ages within an enterprise entail creating and strengthening intergenerational ties between the young and old so that they become a common force of social experimentation and cooperative environments, open to dialogue with differences, capable of taking care each other and of articulating the multiplicity of languages and cultures that make up the cultural and social heritage of the community (Rivista Formazione Lavoro Persona 2014: 64).

In such an environment, the biggest challenge is taking care of all workers, regardless of the ages and integrating the different age cohorts in a way that allows each group to contribute what they can do be, and to ensure everybody respects all other groups for their right to contribute and the quality of their contribution.

In this scenario, Loccioni tries to introduce one way for a company to answer the problem of retired people's employability: Silverzone project.



In this space, knowledge that has been gained through years and episodes is collected to be available in the future. There are researchers, consultants, professors and managers of important industrial companies that have reached ambitious achievements in their professional lives. Collaborators, clients, suppliers and partners who now feel like transferring their experience to young people, with a renovated enthusiasm and passion.

Indeed, the company aims at hiring young students that have just finished up professional and technical high schools or have just graduated from university. That means that Loccioni focuses its attention on enthusiasm and proactivity, rather than on long experience when hiring. Consequently, Silverzone that is based on mentoring programmes, is crucial to support learning and decision making, enabling competences and knowledge to be quickly gained.

It was written above that Silverzone sprang from one of this project, called “28-82” because of the ages of the first mentor and the mentoree involved.

It was 2005 when Carmine Ungaro arrived at Loccioni, after graduating in mechanical engineering. It arrived from Ischia, in the middle of the winter, while it was snowing in an unusual and extraordinary way for Angeli di Rosora (AN).

The valley was covered by a thick layer of white and freezing snow and was completely desert: Carmine was all alone, even in the apartment that the company provides to non-resident collaborators and that is usually very crowded, there was nobody.

Carmine found on the door of his new room a post-it written by Enrico Loccioni himself telling that the following day he would pick up Carmine to go to CFR (Fiat Research Center) and they would meet Mario Ricco, “Common Rail technology mother”.

They went together with Filippo Surace, ex-Technical Director at Alfa Romeo, sharing a strong passion for car and automotive sector in general. The challenge they prompted for their owns was inventing a tool to measure spray injector from mass distribution, internally developing the needed technology rather than buying it, cutting off costs.

After that meeting, Carmine spent months working on this project closed in his office. Every now and then he met Filippo and discussed

steps and advancements. Two years later, in 2007, they successfully developed and prototyped a tool called Mexus. The patent was filed using both their names, instead of one of Loccioni brand. Mexus has won lots of awards (e.g., NI Green Technology Awards) and allowed Loccioni to defeat direct competitors in the field.

Starting from this solution, a whole research for development laboratory has been developed in mobility business unit. Nowadays Carmine is the responsible to the whole team, composed of young researchers and engineers.

Thus, merging the different characteristics and positive aspects of different professional profiles and generations leads to knowledge transfer triggering creativity and concretizes avant-garde innovative projects and solutions.

According to this, knowing how many Silver work in this network and which are the projects that they developed and that they are developing even now and then, monitoring the type of involvement of the Silver in this network and their feelings about it, is the right way to understand the beauty, the effectiveness and efficiency of the project.

On the one hand, asking Loccioni managers about the importance of Silverzone allows to measure its real value. Silverzone means to increase Loccioni network and find new partners (schools, associations, local and international companies). Knowledge, competences and skills of Silver allows the company to innovate, to train young collaborators, to develop new businesses. At the same time, especially for what concerns technological innovation, it shouldn't rely on Silver men too much: they don't always know the news about innovation and could have obsolete knowledge. This is the reason why, maybe it shouldn't ask them too much from the operational point of view but more in terms of vision and network.

On the other hand, from Silverzone's point of view, this project is a working situation where the main human and professional dimensions emerge.

Silverzone is linked with the idea of "gift, exchange, community, respect" and to innovation, technology, as well. Everyone involved in that network agrees in saying that to find oneself working in many activities and projects in Loccioni was a privilege, a luck, a new reason to feel alive, valued and fulfilled once again.

Loccioni Silvers are people that have already achieved important goals during their life, who have worked hard but they are not tired yet. On the contrary, having the possibility to take a new challenge after retirement has been seen by them as an acknowledgement of their career and success. This has been one motivation for their pride and their second birth into a new life, the life of “wise grandparents”.

Silverzone project focuses on the human being and his value first as a person and then as a worker. Here, the respect of people goes through the relationship between seniors and juniors, the cooperation, the dialogue among different generations and the desire to work together in order to achieve shared well-being and enterprise's growth.

Silverzone is a community and this term refers to interaction, sharing of interests; it is a *munus*, a gift through which it becomes a meeting space of different people, a community where the relationship among people are gifts that you do and that you receive at the same time.

In addition, the human dignity respect that results in respect of older workers' stories is a factor that predisposes them well to teach and guide the young into difficulties.

People involved describe the project with the following words: experience, wisdom, innovation, tradinnovation, collaboration, fun, sociability, ideas, respect, creativity, diversity, exchange, challenge, wonder, commitment, passion, awareness and beauty (Trickey 2004). Below, a list of what the project means for Silvers:

- Giving wisdom and exchanging energy
- Thinking company of the future
- Human flowering
- Learning by doing
- Feeling alive
- Having fun
- Choosing to do
- Giving knowledge
- Discovering yourself
- Feeling evergreen
- Helping young generations and learning from them.

Silverzone is an example of an enterprise that is a socially responsible enterprise and where the necessity to make profit is not ignored or underestimated but is subordinated to the higher value of contributing to human needs fulfilment.

The Silver men involved in the network maintain “Silverzone is a network where old people help young workers to open their mind”; “Silverzone is a place where the older worker is considered as a resource and not as an obsolete tool”; “Thanks to this project Loccioni defends and promotes the differences between employees because it understands that in a world that is ageing, a socially responsible enterprise must combine the competences and the wisdom of the elderly workers with the energy of young people”; “Silverzone represents the tool box thanks to which young generation can create its future”; “This project builds a generational bridge”; “Silver men are motivated to guide young people because they feel evergreen”; “Silver men represent the milestones and the underpinning of Loccioni success”; “Silverzone is the space where ideas arise and you can think the company of the future for the human flowering”; and “Silverzone is the workplace of the mutual respect”.

Silverzone is a good practice to keep older workers proactive because working after the retirement, in a comfortable and respectful work environment, allow people over 65 years old to be still essential for today’s organizations and to reach important goals (Bal and Jansen 2016).

## 6 Conclusions

Loccioni Group is a real example of a socially responsible enterprise. The Italian company is a laboratory that used to open its doors to schools of the territory, offering technological challenges for the present and the future that is yet to come.

As a matter of fact, it is an industrial company that offers the possibility to work in different business areas such as Mobility, Industry, Energy, Environment, Train&Transport, Humancare and Electronics.

Loccioni numbers around 400 collaborators across the world with an average age of 34: almost the 50% of Loccioni (Gruppo Loccioni

2013) collaborators has a degree, the Research for Innovation team numbers more than 40 researches, the Marketing and Communication team explores new markets and cultural visions.

This is the reason why Loccioni systems (Gruppo Loccioni 2014) are proposed in more than 45 countries in the world and international branches are created in USA, Germany, China and now also in Japan.

All over the world, each employee is daily called to form his/her own knowledge and skills continuously in the field.

Loccioni (2013) hires students just graduated after their bachelor or master degrees and they immediately become spokesmen for the company worldwide. It invests on training of those students who come from local and foreign schools and universities (over a thousand every year), to help them to meet early the labour market.

Loccioni (2014) is also a real training ground to build the skills of the future and the projects that allow the company to do it are Bluzone, Redzone, and Silverzone.

We mean three areas where, respectively, students of different ages, collaborators and trainers, entrepreneurs, scientists over 65-year old can work together to achieve a common goal, that is the industrial, cultural and human development of the country.

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# 9

## Company Case Study 4: Boxmarche—A Heritage of Values for a Virtuous Company

Mara Del Baldo

### 1 Introduction

In Small and Medium-sized Enterprises (SMEs), the orientation toward corporate social responsibility (CSR) is usually triggered by entrepreneurs' values and beliefs (Vyakarnam et al. 1997; Spence and Lozano 2000; Spence and Rutherford 2003; Spence et al. 2004; Jenkins 2006). These are always tied to anthropological and sociocultural features typical of the geographical context where entrepreneurs and SMEs are located.

SMEs are often unable to formalize and communicate CSR and sustainable practices and performances and adopt a “sunken CSR” approach (Murillo and Lozano 2006). Such a “silent” approach suggests that SMEs are often “unknowingly socially responsible” (Jamali et al. 2009). Nevertheless, the distinctive “social capital,” enriched by values, cultures and traditions, tied to a specific local community

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M. Del Baldo (✉)

Department of Economics, Society and Politics, School of Economics,  
University of Urbino Carlo Bo, Urbino, Italy  
e-mail: mara.delbaldo@uniurb.it

favors the development of authentic forms of CSR in SMEs, often profoundly rooted to their local areas (Del Baldo 2012a, b, c, d). In other words, although the path toward best practices should be intensified, most SMEs already “do the right thing” and adopt strategies based on transparency, responsibility and ethical correctness toward stakeholders (Jenkins 2004).

Accordingly, the main objective of this section is to point out that through exploring a case study—BoxMarche—how SMEs can successfully perform authentic<sup>1</sup> socially oriented strategies in that actions align with stated values and are triggered by the entrepreneur’s inwardly derived values (O’Neil and Ucbasaran 2010). The hypothesis underlying the study is that particularly among SMEs, the orientation toward CSR is intrinsically driven (Looser and Wehrmeyer 2015) since it “begins” with the entrepreneur and inspired by personal and family values and virtues tied to cultural and social variables that are typical of the territory they belong to (Putnam 1993).

The case study first aims to point out the key values triggered and experiences by the manager/entrepreneur and translated into the company’s mission. Second, the coherence among the mission-governance-accountability dimensions (Matacena 2010) will be analyzed. Third, attention has been focused on specific virtues as Schwalbach (2020, Chapter 2) pointed out claiming for a return to the virtues of Honourable Merchants (see: section 2) the cardinal virtues—and on how they affect relationships with stakeholders. Namely, the cardinal virtues are: prudence (practical wisdom), justice (friendship), fortitude (courage) and temperance (moderation) (Bastons 2008). Further virtues that facilitate the practice of the cardinal ones (i.e., hope, humility and honesty) are the pillars of a “spirited business” since they foster trust, vision, courage, creativity, patience, integrity, diligence and enthusiasm (Lamont 2002; Ketola 2008; Kaptein 2009; Kaptein and Wempe 2002).

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<sup>1</sup>“An authentic person is one who takes responsibility for freely chosen actions that represent some internal standard – of self, potentialities or principles” (Tedeschi 1986: 7). It is about being sincere, honest and genuine rather than fake, insincere and untruthful (Trilling 1972).



*Prudence* (practical wisdom) aids practical rationality in identifying the right thing to do in each situation (Melé 2009). Prudent behaviors inside a company entail first of all the entrepreneur and the managerial team (Ruisi 2010) and imply: (1) knowing the nature of the company, the principles of its government, the business vision, purpose and goals; (2) having a clear hierarchy of business goals and their subordination, to human progress and the common good (Zamagni 2007); and being aware of the entrepreneurial formula: the structure of the firm, the competitive and the social environment, the human resources (professional profile of skills, motivations, aspirations, character and temperament), of corporate values and organizational climate.

*Justice* regulates the relationships with others and is conceived as the “constant wish to give to each his/her own right.” In a narrow sense, it refers to the respecting of other’s rights. In a broad sense, justice refers to benevolence and care for the good of others, and thus, it is close to *caritas*, communion and friendship. It comprises all of the virtues related to human relations including: honesty, loyalty, gratitude, generosity and solidarity. In an entrepreneurial context, one could consider: commutative justice for relations between the company and employees, between companies and various economic actors and between the company and stakeholders; distributive justice for what concerns the duties of the State toward the company and individuals; legal justice for the duties of the company (other than individuals) toward the State. It also leads to: distributing joint or shared property with equity; contributing what is due to the society in order to provide appropriate social conditions for the human development (social justice); improving the natural environment, the habitat of human beings, including future generations.

*Courage* (fortitude in classical nomenclature) means perseverance, that is pursuing what is good in spite of obstacles, overcoming fear and difficulty to attain goals essential to a human way of life. Fortitude includes the characteristics of perseverance, patience and endurance directed toward adversity on behalf of a noble cause.

*Temperance*—the virtue of moderation regulates the human inclination toward pleasure, to avoid extremes (the unrestrained search for

pleasure and lack of self-mastery). In a business context, it regulates the actions with moderation of satisfaction and pride for the present results or for what it will be reached.

The case study, below presented, allows to understand how such virtues are applied in the business context and the corporate strategies, rendering authentic the CSR orientation.

## 2 Methodological Approach

The empirical study was developed according to a qualitative approach and a case study methodology (Eisenhardt 1989; Eisenhardt and Graebner 2007; Yin 2003) aimed at understanding which ethical values and virtues the entrepreneurs possess and how they foster the company's CSR strategies and practices.

BoxMarche has been selected since it is part of a sample of Italian best-practicing SMEs (Balloni and Iacobucci 2015) and has been awarded for several aspects of excellence (Del Baldo 2012a, b).

BoxMarche is located in a region (the Marche), whose dense entrepreneurial fabric formed the so-called Third Italy model based on SMEs established in small centers without upsetting pre-existent agricultural and artisan traditions and preserving the territory's socio-economic fabric of relationships (Fuà and Zacchia 1983; Becattini 2000). Such region hosts numerous cases of socially oriented SMEs tied to a specific *genius loci* and exemplifies a "territorial model of CSR" (Del Baldo and Demartini 2012; Balloni and Trupia 2005).

The analysis also followed the dynamics of the narrative and research case (Naumes and Naumes 2006) being the researchers actively engaged with the entrepreneurs in sharing the best practices among other enterprises and stakeholders.

Data have been collected since 2012 through several in-depth semi-structured interviews with the managing director, the president, employees, external collaborators and representative of local institutions. Moreover, data were obtained through direct observation during company visits, focus group and workshop, since a lasting and intensive

**Table 1** BoxMarche features

Industrial sector	Manufacturing: paper industry
Core business/activity	Design and production of packaging for the food and houseware sectors
Size	Small-medium-sized
Employee (2016)	51
Capital turnover/total asset	12.069.028
Total sales/turnover (2016)	10.782.533
Region	Central Italy (Marches)
Year of constitution	1969
Certifications	ISO 9001, 2001; OHSAS 18000-SA 8000
Ownership	Family based (open family-owned; president and general manager outside the family)
Accountability tools	Social report starting from 2003; global Report starting from 2006, living company report (since 2013)

*Source* Our elaboration

collaboration has been developed through several years. Finally, supplementary information was retrieved from documentary source and the company website.

The most relevant features of BoxMarche are summarized in Table 1.

## 3 BoxMarche: A Company with a Soul

### 3.1 Company Profile

BoxMarche is headquartered in a small town in the province of Ancona (Corinaldo) and is a regional leader in the production and design of paper packaging. The firm was set up in 1969 by the members of the Baldassarri family predominantly dedicated to agriculture and small trading activities. The notary who registered the firm's charter currently remembers the humility and determination of the founders, who were (and are) honest workers, firmly rooted to ethical principles such as fairness, transparency, solidarity and respect. "One's word is one's bond": this recurrent expression is common in the Marche's region and

derives from the farmer's world, where people are used to behave with integrity and virtues adhering to principles of decorum and respects for obligations one assumes. During the decades, BoxMarche has achieved important goals, being constantly aware that success and competition are based on both innovations (technology, processes and products) and relationships.

The *mission* of BoxMarche exemplifies the company's healthy obsession of "doing what is best" and points out the "call to reach the top in all fields: to be an excellent company, based on solid principles, that works to benefit all stakeholders: clients, suppliers, employees, partners, the territory and the community."

The vision statement, that is "from 'heavy' assets to thinking assets," intends to mark the "values that constitute the firm's culture, and, therefore, have their own value, their own richness, are their own intangible goods, which strengthen faith and certainty in the business" (S. Pierfederici, Past President of BoxMarche) (Table 2).

BoxMarche experiences the "art of running a harmonious business" by reconciling economic objects and human interests on a day-to-day basis. Such a "way of doing things" contributes to improve the reputation of the company that is rich in intangibles derived from the following distinguishing attributes:

- a company culture driven by a set of ethical values (shared by entrepreneurial and managerial team, the employees and other categories of stakeholders) spread throughout the organization;
- the implementation of a wide range of CSR actions;
- the adoption of social and environmental certifications;
- regular publication of social, environmental, intangible capital and integrated reports;
- sensibility to the dissemination of best practices of CSR in the local and national context; and
- a number of recognitions and awards received for its CSR activities (Table 3).

**Table 2** BoxMarche's cardinal rules

Partnership	Developing and improving collaboration with clients and suppliers, emphasizing innovation. relationships are founded on respect, friendship and frankness
Centrality of the firm	Overcoming individual interests for the longevity of the firm
Organization	Researching best practices for the organization of labor, nurturing talents and emphasizing flexibility and professionalism
Respect for the individual	Valorizing the dignity of employees, encouraging personal growth through continual training
Environment and territory	Triggering best environmental practices by committing to sustainable development goals, going beyond the standards, raising awareness within clients, employees, suppliers, and instilling a relationship of trust and transparency among the local community and local government
Foster collaboration with clients	Offering high-value products and services through innovation and excellence
Quality	Exceeding the client's expectations
Value of capital	Optimizing economic and financial results through technological and human resources
Constant improvement	Testifying and disseminating a culture of constant improvement

Source BoxMarche, Living Company Report 2016: 23 (BoxMarche 2017)

**Table 3** BoxMarche's awards

2003	Quality award Italy for SMEs
2005	Sodalitas Social award (3rd ed.). First place in the SME category for the project "The passion for improving activities for a responsible business model". The Sodalitas Social Award honors businesses in Italy that are distinguished for the achievement of projects with high social, ethical and environmental content
2005	Italian Prize for the Social Responsibility of Businesses awarded to Box Marche for being "a solid reality that donates 15% of its earnings in corporate giving, and pays close attention to the environment, research and development, and society" (BoxMarche is among 30 Italian firms selected by the Italian Ministry of Labor and Social Policies, and by Confindustria to be honored for best practices of CSR)
2005	Recognition of benevolence, City of Corinaldo

(continued)

**Table 3** (continued)

2006	Official Selection at the Second European Market Place on CSR. BoxMarche was placed in the category, Skills and Competence Building; it won the title of best practice: People Care–Skills Passport Project
2006	Confindustria Award for Excellence assigned to BoxMarche for being a “business champion for the valorization of the territory”
2006	Membership to the Multi-stakeholder Panel for the Italian CSR Forum
2007	“Work Value” Prize assigned to Box Marche (among the 10 best Marches’ firms) for its contribution to the quality of work and for being attentive to social, environmental and cultural needs
2007	Italian Prize “Oscar di Bilancio” (winner for the SMEs’ category) attributed for releasing the 2006 Global Report, centered on the innovation of the “3Ps”: Products, Processes and People
2011	ISO 22000 certification
2013	Italian finalist to the “Oscar di Bilancio” Prize
2016	Introduction of “Weekly Quality Focus” for the analysis of non-conformities and action of improvement

Source Our elaboration from BoxMarche Living Company Report (BoxMarche 2017)

### 3.2 The Governance

The conviction that permeates BoxMarche is that entrepreneurial and managerial leadership founded solid ethical principles is a key element of the company’s orientation toward sustainability.

For twenty years, the shareholders were 10 family partners, each with 10% of the shares; 70% of the capital was retained by the Baldassarri family, 10% by the managing director and the remaining 20% by non-family members. Currently (2018), the managing directors hold the 57.1% of the shares, while the 29.9% belongs to the Baldassarri’s family and the remaining 13% to a local company (Pierfederici Group). The board of directors counts five members, included the managing director and independent directors.

BoxMarche Living Report (section: “Identity and Sustainability”) dedicates ample space to describe the governance structure and functioning. Retribution and compensations of the board members, as

well the distribution of profits, are detailed in a specific prospect “distribution of the added value.”

We provide constant updates on the management of the company to our shareholders; in addition to the annual report, we organize several meetings with our stakeholders (the stakeholders forums are always organized for specific categories) to share strategies results and objective and communicate how the company is going. (T. Dominici)

### 3.3 The Accountability Model

The idea to adopt a social reporting (2003) was triggered by the president “to show the values of a business and the necessity of transparency for the stakeholders” (T. Dominici). From the first social report, BoxMarche went on to release an integrated global report in 2008. This comprises the asset and liability statement, the income statement, and the social and sustainability report. In 2006, a section for the analysis of intellectual capital has been introduced. In addition, starting from 2013, the accountability tool has been named “Living company report.” Such report represents a pillar of the business disclosure policy and a key element of the “quality-security-environment-social responsibility” management. It has been released following both national and international standards (i.e., the GBS and GRI principles, the Q-RES project for the quality of corporate ethical-social responsibility and the Italian Ministry’s CSR-SC Project) (Italian Ministry 2003).

We believe that our report is the best tool<sup>2</sup> for spreading our ethos, which drives us forward with enthusiasm and love in everything we do. It merges numbers, images and words and allows us to share our reality with every stakeholder. (S. Pierfederici, letter from the President; BoxMarche Global Report 2007; BoxMarche 2008)

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<sup>2</sup>The reports are available on the Web site: [www.boxmarche.it/index.php?action=index&p=95](http://www.boxmarche.it/index.php?action=index&p=95).

One notable aspect of BoxMarche is the excellence in communicating CSR policies. “We here at BoxMarche like to communicate. We see relationships everywhere and with everyone who shares our principles” (T. Dominici, letter from the Managing Director, BoxMarche Global Report 2007). Moreover, the company is effectively designed to actively involving stakeholders, as well as providing tangible best practices and through several channels: the website, company’s magazines, public events and multi-stakeholder forums, such as the annual living company report day that, in 2017, has been organized in one of the Italian centers devastated by the Italian earthquake in 2016. In that occasion, attendees to the event dedicated to “Connecting, Interacting, Building” (clients, banks, employees, partners, institutions and the community) were actively involved in supporting the fundraising aimed to rebuild a new school.

## 4 Virtues in Action Within the Business Context

Before addressing the attention on the entrepreneurial virtues applied in the companies’ day-to-day activity, we would like to sum up some distinctive characteristics of BoxMarche that are useful to understand the specificities of BoxMarche’s approach to CSR (Grayson and Hodges 2004).

The first is relative to the presence of a set of shared values including: diligence, labor, equity, trust, honesty, simplicity, integrity, parsimony, sense of family, team spirit, enthusiasm, energy and responsibility. These values are tied to the aforementioned cardinal rules (see Table 2) of which they provide an anchor and they are shared by internal and external local stakeholders and have been inherited from the culture of the region (the Marches) historically characterized by a solid rural tradition, nurtured by religious-based principles which formed the basis of the entrepreneurial culture and favored the assumption of social and civic responsibility (Del Baldo 2012a, b).

The second feature relates to the intrinsic orientation toward CSR and sustainability, which is strongly desired by the founders, the fam-



ilies they belong to and the entrepreneurial/management team whose commitment and engagement represent “the first best practices.” Among the statements that have emerged during the interviews and informal conversations, below some words, consistently to what we state and the pillars of “honourable merchant”—self-responsibility, corporate responsibility and responsibility toward the company and society at large—(see: Constantinescu and Kaptein 2020, Chapter 7), are quoted.

From the very beginning I have felt welcome, like a part of the family, and I’ve been given the trust necessary to grow. I’ve done, and I continued to do, my best to personally embrace those same values and to experience the company – BoxMarche - like a common good, recognizing and enhancing the entrepreneurial spirit that I’ve had the good fortune to know. (T. Dominici, President and Managing Director of BoxMarche)

Our Global Report is not only a report of numbers, but also of values. It permits our stakeholders to have a dependable idea of how the business fulfills that sort of delegation that civil society has conferred to produce a better world in terms of goods, services and human relationships. (...) First CSR, is a fact of faith. (T. Dominici, BoxMarche President and Managing Director of BoxMarche)

Similarly, the thoughts of one of the successors of the founders’ family and the past president of BoxMarche articulate this best:

We have an emotional tie with the territory. We want to use our abilities to sustain the local economy. Absolute priority is given to values, to human relations. Our activities are not only business choices. Our ability, though we are a small firm compared to other companies, is to card threads (through the determination to follow the “dream” of an enterprise and of the environment in which it is inserted), is to pull thread (through cohesion and collaboration inside and outside of the firm) and to stretch thread (through the motivation that feeds creativity, understanding, sensibility, the capacity to listen) of a network. A network made, in primis, by Men. (M. G. Baldassarri, Board member)

Our company is a team. We are inspired by positivity and enthusiasm: we have great projects for the future and for that reason we have to remain united. The secret is a simple one: we must be a team not when it comes

to organizational procedures; but bearing in mind a person's soul, a sense of belonging, a belief in one's job, from the simplest to the most complex, as everyone contributes to the common good. This requires courage, determination, sensitivity, a passion for teamwork: individual talent and friendship must be involved to unite people, fortitude, a sense of sacrifice and a relish for challenge. We need soul, sensitivity and trust in others. (S. Pierfederici's letter from the Chairman of BoxMarche, Global Report 2011, p. 13)

Third, vision and values are continuously communicated inside and outside the organization through an effective stakeholder engagement process, thus contributing to the growth of intangible capital (social, relational capital and organizational capital). Moreover, values positively affect the decision-making process which is based on collaboration, sharing and transparency, ensuring consistency in decision-making and avoiding values-gaps.

A further distinctive aspect is represented by the company's rootedness and active engagement to enhance the well-being of the local community. In this regard, a number of projects have been implemented for years and externally awarded.

Lastly, BoxMarche is characterized by a distinctive openness to partnerships at the local, national and international level. The "art" of weaving "threads" (relationships) is aimed at cultivating the culture of responsibility and sustainability and testifies best practices at the local and national level.

Drawing from these premises, the most relevant features relative to the company's virtuous behavior are summarized, using some extracts derived from interviews addressed to the managing director/president and other stakeholders.

## 4.1 Prudence

In BoxMarche, a clear vision orients long-term goals and short-term objectives. Both formalized and non-formalized tools (open days, internal meetings, multi-stakeholder forums, as well as newsletters and

house organs) are aimed at communicating the company's, purposes, policies and strategies. The concept of responsibility pervades the organizational culture. It is triggered by the entrepreneurial family and the managing director and shared by internal and external collaborators. Stakeholder dialogue and engagement are performed through direct relationships, formal and informal agreements, and several projects involving suppliers, customers, universities and research centers, social enterprises, and local public, not-for-profit and civic organizations. The initiatives undertaken by BoxMarche are numerous and widespread, both in regard to the past and those currently in course, which range from corporate giving and social solidarity to direct contributions in diverse (artistic, social, cultural and environmental) fields of engagement with the community (i.e., the restoration of works of arts). One can cite, in particular, numerous education and training initiatives, such as sponsoring conferences through the university, schools, research and educational institutions, trade associations, and local and national organizations (chambers of commerce and the entrepreneurial association—Confindustria); participation in fairs dedicated to the enhance the visibility of the Italian excellences; initiatives of environmental impact such as the recycling program, Riciclo Aperto and the promotion of “the culture of beauty” through numerous cultural events organized in collaboration with the local community aimed to valorize and preserve the Italian artistic and cultural heritage. Moreover, among the internal processes of CSR, one can mention the implementation of several tools aimed to enhance communication and sharing of values and ideas, such as the firm's *house-organ InBox* and the magazine *Next Ideas and Packaging*, open to internal and external stakeholders. Among other projects are the “philosophy of the smile” and the “smile graph” used by all employees to assess and celebrate the value of cordiality as a fundamental pillar of internal relations, the “self-evaluation grid” used to evaluate the leadership style adopted by the department heads; the questionnaires used to appreciate the staff satisfaction; and several other initiatives addressed to employees and collaborators (i.e., incentive trips and company dinners; scholarships for workers' children; extra-professional training activities and inclusion in cultural and artistic events promoted in the territory).

Mission and vision are ethically founded and the accountability tools (ethical code, social balance, global report and living company report) allow to appreciate the ethical anchoring of the business goals.

The different strategic business areas are appropriately defined in terms of coherence between the various dimensions (i.e., business resources and structure/system/processes) and different tools (both formal and informal) addressed to stakeholders are used to verify the adequacy of the strategies employed to guarantee the balance among economic, financial, social and environmental performance. The government principles are respected, i.e., economization, solvency, precaution, etc. An adequate level of managerial competence is present and is continuously developed through internal and external training. Special attention is addressed to human resources, both in terms of training and incentive mechanisms aimed at spreading the knowledge (i.e., working teams, meetings, celebrative events) and in terms of attention to their personal bell outside the company.

BoxMarche is a living company, where fantastic people live side by side and their passion - a driving force behind life and work - not only gives them an income but contributes to “building the cathedral”, that is to promote civilization inside and outside the company. The company has a ‘soul’, linked to the spirit and to the dignity of our people. The value of BoxMarche’s products is measured by a profound harmony with all of our ‘travel companions’ who smile, suffer, and live within the company. Our best technology (people) comes home at night. Collaborating means in Latin ‘cum vergere’ that is helping each other, when we deal with clients or people within the company. Success is the excellence obtained by people doing their work well. (T. Dominici, President and Managing Director of BoxMarche)

## 4.2 Justice

Develop working relationships marked by fairness; enhance the professionalism involved in the company; implement honest conduct and transparent relationships with stakeholders; promote the local development. The attention of the companies over the virtue of justice can be summarized in the following aspects:

- clarity of business roles and responsibility, transparency in paths of career progression; attention focused on the succession process.
- attention to improve working conditions in terms of salary, flexible working hours, children and parental leaves, diversity management practices;
- adoption of practices aimed to empower employees and share knowledge and competences (i.e., the box of ideas, circles of quality, brainstorming sessions, etc.). BoxMarche has recently introduced a new organizational model (customer-desk) aimed at enhancing the problem-solving capability, fostering the “open-door principle” and favouring the exchange of suggestions and experiences;
- adoption of numerous certification systems (product, social and environmental certifications), different initiatives of stakeholders’ dialogue, as well as cultural, environmental and social projects implemented at a local, regional, national and international level;
- adoption of customer satisfaction mechanisms.

To celebrate 40 years of business activity, BoxMarche has chosen to share this goal with “its people”, despite the economic crisis and the need to pay attention to costs reduction. But, just as in a family, relationships, important moments in life, friendships, exchange of views and the sharing values and principles, cannot be given up. (T. Dominici, BoxMarche Global Report 2011; BoxMarche [2012](#))

### 4.3 Fortitude

Behaviors useful to assess fortitude (or resilience) are relative to the company’s ability to overcome difficulties/(financial problems, competitive pressure, etc.) arisen in situations of cyclical business crisis. Indicators of fortitude are also relative to the adoption of mechanisms able to support the employees based on monetary benefits (profit sharing) and non-financial benefits (i.e., work–life balance initiatives, grants for children, scholarships, entrepreneurial education and spin-off processes). Other aspects are related to magnanimity in taking tough measures to safeguard the survival and the

development of the company; magnificence in carrying out projects of great impact benefit for the wider community (for the common good); patience with oneself and others faced with many difficulties; perseverance, especially when struggling to get the expected results; hope and humility.

This is the second year with a financial loss. But if we consider the added value which represents the corporate value, and not just the net revenue, we can see that there has been growth. The stakeholders should be able to look beyond and perceive the real growth of a company. A tree falling makes more noise than a forest growing. We had two years of loss: I did not receive a salary but we doubled our investments in training and innovation. Despite the global crisis, we continue our journey toward collaboration and growth. Collaboration is essential for putting ideas and passions together. Growth must not only be conceived in terms of turnover, but also in terms of relationships, knowledge and values, which are intangible and connected to the virtues that the people of Box Marche put into their work. Numbers do not emerge if there are no values. (T. Dominici, BoxMarche 2012, July 20)

#### 4.4 Temperance

The virtue of temperance (in classical nomenclature) regulates the human inclination toward pleasure, and to avoid extremes (the unrestrained search for pleasure and lack of self-mastery). In a business context, it regulates the actions with moderation of satisfaction and pride for the present results or for what it will be reached. Moderating behaviors, that is controlled behaviors,<sup>3</sup> occur in the company undertaking

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<sup>3</sup>“Temperance is a quality that enables us to adapt our intention according to rational knowledge, even though our sensitive \_feelings\_, our spontaneous motivation, try to impel the action in another direction. In decision-making human beings are often faced with conflicted alternatives: there are actions that are more attractive from one point of view and others from another point of view. The development of this virtue is tied to the way in which these motivational conflicts are solved” (Bastons 2008: 397).

operational decisions of investment and growth starting from the actual availability of resources, skills and competences. BoxMarche always carried out balanced investments and performed a coherent qualitative development founded on innovation, training, social and environmental improvement instead of merely economic performances. Both the founders and the current top management have always interpreted the growth above all in terms of growth of people and development of the local community.

Being a family-based business, both the family and the company are nourished by ethical shared values that orient the leaders' behavior. For instance, the entrepreneurs and managing director lifestyles are based on frugality, sobriety and a sense of duty and responsibility. Other linked virtues whose presence was reflected in their narratives are: gentleness and humility in relationship with stakeholders; clemency toward collaborators who commit errors; modesty in relation to objectives and results achieved so far; continence in resisting temptations to exceed in the managerial process compared to the available resources, capabilities and competences.

Our company is a team. We are inspired by positivity and enthusiasm: we have great projects for the future and for that reason we have to remain united. The secret is a simple one: we must bear in mind that everyone contributes to the common good. This requires courage, determination, sensitivity, a passion for teamwork. Individual talent and friendship must be involved to unite people, to nurture fortitude, the sense of belonging, the sense of sacrifice and a relish for challenge. (S. Pierfederici's, letter from the Chairman of BoxMarche, BoxMarche Global Report 2011: 13; BoxMarche 2012)

Growth at all costs? Sometimes it is not necessary to grow! First we must allow people to grow, in terms of culture, passion, willingness, interests and quality of life. What tangible goods we may lose we gain with intangible goods: problem solving ability, increased value of our products and services, relationships with clients, a positive working atmosphere, greater happiness, tidiness and order in the working environment, the relationship with our local community (T. Dominici 2015, July 20).

## 5 Concluding Remarks

In the last decades, several contributions have pointed out the urgency for virtuous conducts in the business world (Visser 2011; Bouckaert 2011; Bocken et al. 2014; Bruni and Uelmen 2006; Zamagni 2015; Bruni and Sena 2013). In this regard, the case study afore presented is useful to understand how a company can pursue the “art” to balance a multidimensional success (social, economic and environmental success) tied to the centrality of values, people and relationship.

First, BoxMarche is a “company with a soul” (Catturi 2006), nurtured by core principles (ethical values and virtues), triggered by an internal change-agent, represented by the entrepreneur and the management team. The firm is conceptualized as a “narrative identity” that every day “tells a story.” The centrality of CSR and the authenticity of the strategic approach allows one to define BoxMarche a “spirited business” (Lamont 2002) and a “CSR enterprise” (Kvåle and Olsen 2006), that is, a high-performing company where competitive success grows out of its commitment to values and to the human spirit. These values have been triggered by social and anthropological features, such as the centrality of the family, considered as the first source of virtuous relationship; the religious principles (deriving from the Catholic religion) that have historically forged the Marche’s culture; and the rootedness to communities belonging to small centers characterized by a strong social cohesion.

Second, the top management and the entrepreneurial family are responsible for directing the CSR principles and affect the company’s culture. They are also strongly involved in the well-being of the local community where they live and where the company is placed: “We want to make our territory visible, with its traditions, culture, the beauty of its places and the values of our people. Corinaldo and the local community are a source of wealth for BoxMarche” (T. Dominici, Managing Director).

Third, BoxMarche’s experience reveals how “easily” an SME can be socially oriented, if such orientation is intrinsically motivated. In fact, CSR does not represent an opportunity to improve the firm’s visibility



and reputation, but a “tool” to actively benefit the socio-economic context, starting from the local community. However, the company is aware that most of the benefits of CSR are not always easily quantifiable and, sometimes, can be gained only adopting a long-term perspective. This does not avoid the need to face difficulties and experience patience with oneself and others in facing competitive difficulties, as well as to adopt hope, humility and perseverance, especially when struggling to get the expected results. BoxMarche difficulties have been tied to the consequences of the global crisis that caused a down in turnover. But even in the face of falling sales and reducing margins, the company has never chosen, for instance, to use suppliers without environmental certifications. It has never fallen into the “temptation” of applying cuts to wages, implementing policy aimed to reduce staff, decreasing the hours of training or the investments in social projects addressed to the community. For example, even in the years of loss, the company has not stopped celebrating “the harvest of the year” during the social dinner organized in July to present its global report. Similarly, faced with the decrease in profitability in those years, the banks have been immediately involved by the managerial/entrepreneurial team in order to share—basing on the pillars of the value of trust and true of relationship—the situation and be confident with the company projects and actions to manage the difficulties, being banks considered partners “both in good and bad times,” and not only providers of financial capital.

Finally, we can affirm that such virtuous examples are not rare. Indeed, they are often “unknown” (Hoivik von Weltzien and Melé 2009; Perrini et al. 2006). Therefore, despite the limitations that affect the present work, we are aware of the importance to disseminate best practices in order to contribute within both the scientific and operational level to spreading the knowledge and stimulating discussion on good examples and agents of civilization capable to promote the common good.

**Acknowledgements** We would like to thank Tonino Dominici, current President and Managing Director of BoxMarche, for his invaluable collaboration, sensitivity and help in providing the information useful to develop the analysis and share insights and reflections.

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# Part III

## Family-Run Businesses



# 10

## Overview: Family Run Businesses and Intrinsic CSR

Stéphanie Looser

Arguably, within Corporate Social Responsibility (CSR) the intrinsic motive is more significant than the extrinsic because the former induces a stronger involvement. Others showed that a behaviour attributed to extrinsic motives is mostly perceived as dishonest and misleading. This highlights how important the underlying motivation is for the perception, and thus, design and effectiveness of CSR frameworks. This study discusses these divergent motives with two focus groups: together with seven owner-managers of Small and Medium-sized Enterprises (SMEs) and seven managers of large companies. The results show that CSR implementation in Swiss SMEs is related more strongly to moral commitment than to profit-maximisation. Accordingly, small business CSR emerges from the nexus of mission and value-set and the sociological tradition of the stewardship concept. This contrasts the extrinsically motivated approach of the large companies under research. In sum, this study showed that CSR is meaningful and justifiable even if it is not profitable in the first place.

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S. Looser (✉)

University of Surrey, Guildford, UK

e-mail: s.looser@surrey.ac.uk

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W. Wehrmeyer et al. (eds.), *Intrinsic CSR and Competition*,

[https://doi.org/10.1007/978-3-030-21037-3\\_10](https://doi.org/10.1007/978-3-030-21037-3_10)

Distinctive concerns and needs of large companies dominate CSR frameworks worldwide (Mason and Simmons 2013). The latter are determined by efforts to manage CSR through a management system (Weber 2008; Cassimon et al. 2015). Despite the increased recognition and emphasis on CSR as a topic and highly formalised CSR control systems numerous well-publicised problems and scandals involving large corporations and Multinational Enterprises (MNEs) continue to emerge (Osuji 2011; Asif et al. 2013). To help to address this contradiction there is growing interest in intrinsic CSR rooted in company culture and core logic (Lorenzo-Molo and Siloran Udani 2013). Culturally embedded CSR is often reported from SMEs so that studying small firms with informal and non-systematic approaches to CSR and specifically the comparison with large organisations following “the business case” for CSR can shed light on different motives and manifestations of CSR. The research focuses on a sample of small and large companies in Switzerland aiming at a comparison of key motivation for CSR and different CSR performance levels (i.e., manifestations) related to company size.

Van Marrewijk (2003) issued the following definition of CSR that is adopted here: “In general, corporate sustainability and CSR refer to company activities—voluntary by stakeholder definition—demonstrating the inclusion of social and environmental concerns in business operations and in interactions with stakeholders”. Hence, CSR as a concept should support positive behaviour in companies. Its function is not primarily to point at actions companies should not take but to promote responsible business practices (Scherer and Palazzo 2007). This less utilitarian view on CSR may question the absolute primacy of the profitability motive of CSR and attributes companies to the role as societal actors that reinforce wider responsibilities (Arjaliès and Mundy 2013).

Switzerland has a long tradition of smaller companies concerned about values such as integrity, sincerity, and transparency rooted in tradition and deeply embedded in their virtues (Berger et al. 2012; Gentile and Lorenz 2012).

Accordingly, CSR in Switzerland is mostly intrinsically motivated, thus, not predominantly guided by regulations and formalisation or financial interests, as a recent stakeholder analysis among different



stakeholder groups showed (Looser and Wehrmeyer 2015). This cultural background and system allow therefore the comparison of extrinsic and intrinsic motives for CSR. The latter are strictly followed by Swiss SMEs whereas “big business”, and specifically MNEs, often follow the former principle, as a network analysis of interests and concerns in Swiss CSR substantiated (Looser and Wehrmeyer 2014).

So far, the differences between intrinsic and extrinsic CSR in Switzerland, or small and large companies respectively, are not clearly assessed and need a closer look. In order to do so this study asks: *What are the differences in motives and manifestations (i.e., levels of performance) of CSR between small and large companies?*

The French philosopher Rousseau (2003) defined “the social contract” between business and society as a “symbiosis” enabling social members to act independently in a civil society that share the same will (Bichta 2003).

Several authors—inter alia, Carroll (1991), Bichta (2003), and Campbell (2006, 2007)—argue that CSR is “a moral duty” and that the “soul” of CSR is exactly what Rousseau defined as “social contract”. For centuries the concept of CSR has attracted a lot of controversial attention. Some found it to be irrelevant to business (e.g., Freeman and Liedtka 1991). Others (e.g., Friedman 1962, 1970) indeed see the relevance of CSR but think of it as a distracting idea for business. A number of authors (Asongu 2007; Weber 2008) regard CSR as an important business strategy to enhance financial performance.

CSR can help in defining the “rules of the game” and in ensuring conformity with rules by signposting movements from “ought” to “must” (Osuji 2011). However, recognition must be paid to different arguments in intrinsic/ethical and instrumental/extrinsic CSR, which the next section outlines.

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# 11

## Virtue Ethics, Values of the Founders, and Organizational Growth

Josh Wei-Jun Hsueh

### 1 Introduction

Family businesses, defined as companies held by few members of the founding family through controlling the corporate governance structures, including ownership, management, and/or board (Astrachan et al. 2002), have been one of the main contributors to global economic development and employment. This business form can accommodate up to 80% of the registered enterprises in Europe (Mandl 2008) and employ 60% of the workforces in the United States (Astrachan and Shanker 2003). A recent PwC survey (2016) indicates that the total value of family businesses across 50 countries can account for 500 billion US dollars. More interestingly, this business form tends to sustain across generations (Chua et al. 1999). To achieve such a trans-generational sustainability, the controlling family pays attention to

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J. W.-J. Hsueh (✉)

University of St. Gallen, St. Gallen, Switzerland

e-mail: josh.hsueh@unisg.ch

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W. Wehrmeyer et al. (eds.), *Intrinsic CSR and Competition*,  
[https://doi.org/10.1007/978-3-030-21037-3\\_11](https://doi.org/10.1007/978-3-030-21037-3_11)

the long-term financial and non-financial assets, resulted from various stable stakeholder relationships, such as communities, governments, and the public (Feliu and Botero 2016).

Family business scholars have looked at the motivation behind a family business's sustainability strategy that integrates the firm's responses to multiple stakeholder groups (Le Breton-Miller and Miller 2016). They tend to rely on the construct of socio-emotional wealth (SEW) to denote the difference between the motivations of family and non-family firms (e.g., Berrone et al. 2010; Deephouse and Jaskiewicz 2013; Gómez-Mejía et al. 2007). SEW represents the pursuit of a family business for long-term and non-financial utilities, such as the family's affective connection to the firm, the reputation concern, and the maintenance of the power and influence in the firm structures (Gomez-Mejia et al. 2011; Martin and Gomez-Mejia 2016). Instead, non-family firms are driven by the pursuit of financial returns, especially short-term profits and maximization of the shareholder returns. Family business scholars argue that the pursuit of SEW can trigger a family business's sustainability activities to achieve various long-term non-financial benefits, such as reputation and stakeholders' supports (Cennamo et al. 2012; Gomez-Mejia et al. 2011). However, empirically, there is mixed evidence regarding the sustainability activities of family businesses, such as the governance, employee, and community practices (e.g., Block and Wagner 2014a; Cruz et al. 2014; Du 2015; Labelle et al., 2018), suggesting an incomplete theorization for the link between those drivers and sustainability strategy of a family firm.

This chapter provides a theoretical model to explore the potential mechanisms behind family businesses' mixed sustainability strategy. The model presents a potential dynamic between a family business's strategic motivations—financial and SEW goals, depending on the life cycle of a family business. Then, this chapter proposes several directions for the application of the model with theoretical extension and empirical suggestions to examine how other family and firm characteristics may interact with the model, determining a family firm's strategic decision addressing various stakeholder groups. This chapter highlights

the importance of temporal shift in the controlling family's strategic goals (Holt et al. 2017) that account for the heterogeneous sustainability strategy of family businesses.

## 2 Theoretical Background

### 2.1 The Difference Between Family Business and Non-family Business—SEW as Non-financial Goals

Family businesses are characterized by the dominance of few members of the founding family in the firm structure through holding the majority of ownership, controlling the voting rights in the board, and possessing several top managerial positions (Astrachan et al. 2002). In addition to the significant control of the firm structures, the controlling family tends to have the intention to transfer these controls to the next generation (Chua et al. 1999). Compared to non-family businesses which tend to focus on merely financial goals, particularly short-term profitability and returns on investments (Carney et al. 2015), family businesses are influenced by the both the financial and non-financial goals that are related to this family involvement in the firm. For instance, they would have a more careful financial plan and pay more attention to the family's non-financial assets, such as reputation and social relationships, to sustain the family control over generations (Hammond et al. 2016). Family business scholars tend to use the SEW construct to capture these specific characteristics of family businesses, particularly those related to the family's non-financial goals.

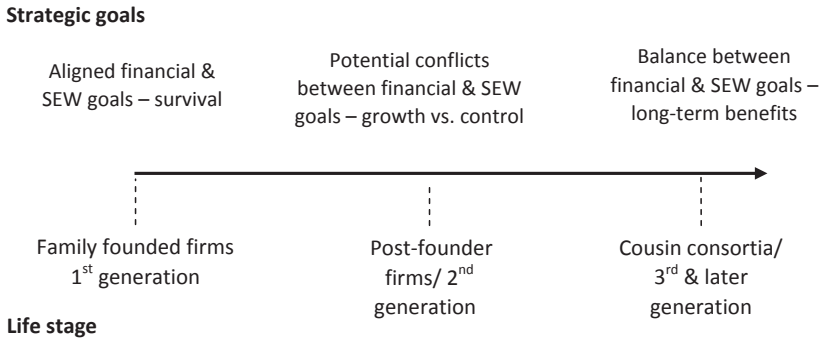
The construct of SEW is first proposed by Gómez-Mejía and colleagues (2007) to denote the non-financial goals of family businesses. They examined Spanish olive oil mills from 1944 to 1998 and found family-owned mills were less likely to join cooperatives that could increase the firm's financial performance but would cost the family's control of the firm. They proposed that this decision is driven by "socio-emotional wealth," the controlling family's affective needs to maintain its control of

the firm as a family dynasty. Later, Berrone and others (2012) proposed a theoretical framework called FIBER model to capture all the potential non-financial goals of a family business. It includes (1) family control and influence through ownership and management; (2) identification with the firm which name is closely tied to the family name; (3) binding social ties between the family and other non-family stakeholders; (4) emotional attachment of the family that transfers the interpersonal relationships to the firm; (5) renewal of the family dynasty that persists across generations. This model provides a framework to examine how various non-financial goals may affect a family firm's strategic decisions, including sustainability strategy (Hauswald and Hack 2013).

However, existing studies have mixed evidence regarding how SEW goals affect sustainability activities of a family firm. Although some studies show positive evidence, such as better environmental performance (Berrone et al. 2010), more philanthropic donations (Campopiano et al. 2014), and greater community involvement (Peake et al. 2017), others have shown negative results. For instance, McGuire et al. (2012) used the American sample from the Kinder, Lindenberg, and Domini (KLD) database<sup>1</sup> in 2000 and found the negative effect of family dominance in the firm's governance structure on its sustainability activities. Another study of Cruz and colleagues (2014) looked at public firms in Europe and found that family firms perform worse than non-family counterparts in terms of governance and employee practices to maintain the family control and emotional attachment. Similarly, Labelle and others (2018) used the sample of firms from multiple developed countries and found that the over-concentration of family ownership prevents a family firm from investing in sustainability activities. The inconclusive evidence in the existing literature indicates that we probably need to consider other potential factors that may alter the influence of SEW goals on sustainability activities of a family business (Le Breton-Miller and Miller 2016).

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<sup>1</sup>One of the most commonly used database in existing studies to look at corporate sustainability activities, including practices addressing issues related to community, diversity, employees, environment, product and services (Carroll et al. 2016; Harrison and Freeman 1999). Now, it is renamed as MSCI ESG database.



**Fig. 1** The dynamic between different strategic goals of a family firm along its life stages

### 3 A Temporal Framework—The Dynamic Between SEW and Financial Goals

To examine how the strategic goals of a family firm have alternating influences on its sustainability activities, this chapter introduces the temporal factor to point out how SEW and financial goals interact along with the life cycle of a family firm. As family businesses are characterized by the long-term horizon across generations (Gomez-Mejia et al. 2011), the examination of a family firm's life stage enables us to have a better examination about how its sustainability activities evolve along time, especially when corporate sustainability is supposed to be a strategy addressing stakeholder relationships in long run (Eccles et al. 2014). Following the life stage model of Le Breton-Miller and Miller (2013), the proposed framework, presented in Fig. 1, looks at three stages: founding stage, post-founder stage, and cousin consortia stage.

#### 3.1 Founding Stage—Aligned SEW and Financial Goals for Firm Survival

At the founding stage, the first generation of the family needs to go through several entrepreneurial processes to begin the business. Cardon and colleagues (2005) use the parenthood metaphor to illustrate these



processes. The founding family, as the parent, first has the entrepreneurial idea and starts to make commitments to commercially realize such an idea. They go through various start-up processes, including obtaining venture capital, developing business plans, negotiating with suppliers, and sort through the legal requirement to start-up the venture. After the firm starts the business, the parents need to nurture their child, i.e., the firm, to grow and become independent, i.e., having profits to continue the operation on its own without overreliance on the founders' personal resources (Cassar 2007). At this stage, the founding family primarily focuses on building the foundation for the firm to survive on its own (Miller and Friesen 1984).

For a family business at this stage, the SEW goals is believed to align with the financial goals—the firm survival. The SEW comes from the founding family's treatment of the firm as if it is their child (Cardon et al. 2005). The founders have high emotional attachment to the firm when they put in personal capitals and commitments, including eliciting financial and human resources of their personal networks and being involved in the daily decision-making processes (Gersick 1997). Founders are similar to parents, who tend to hope that their children can survive and grow to become independent adults, in this case, an independent firm that can thrive in the market. To survive, the children need to have the financial means to survive the environment, i.e., profits to sustain the operation in long run. Therefore, the founding family tends to pay most of their attention to the financial stability of the firm so that the firm can sustain itself in the future (Cooper 1981).

This alignment of SEW and financial goals for the survival of a family business at the founding stage is likely to develop its sustainability activities based on the cost-benefit analysis. The sustainability strategy is likely to be focused on economic issues (Cennamo et al. 2012). For instance, instead of increasing the diversity practices in the governance structure or human resource recruitment, a family business is likely to target activities that can facilitate the business operation on the market (Zientara 2017). The firm may comply with the regulations for the minimal wage to ensure employees' basic livelihood, and there is no violation of labor right rules (Spence 2016), without going further on improving employees' benefits. Instead, the firm is willing to invest in

marketing campaign about the environmental attributes of its products or services, such as limited greenhouse gas emission or reduced use of chemical substance, since marketing campaigns can boost customers' purchase, even if the firm may not actually implement any practice to improve its environmental footprint along the operational process (Gond et al. 2009). Thus, a family business at its founding stage may limit its sustainability strategy to activities that can facilitate the firm survival, such as avoiding the regulatory violation and directly improving market returns.

**Proposition 1:** Sustainability strategy of a family business at the founding stage is limited to those with direct financial returns.

### 3.2 Post-founder Stage—Potential Conflict Between SEW and Financial Goals

In the next stage after founders have left the firm, a family business is passed to the following generation. Several family members, normally with the sibling relationships, share the ownership and management controls of the firm (Gersick 1997). Instead of holding the parenthood mind-set, the controlling family members in this stage have a different mind-set in managing the firm, depending on the intra-family relationship (Le Breton-Miller and Miller 2013). If the involving family members share a harmonious relationship, their control and psychological bonds tend to remain strong and could focus the attention on the firm, including the financial performance and growth. However, if the family members lack cohesion due to some family disputes, such as the distribution of the ownership shares and/or management positions in the firm or interpersonal conflicts (Pieper 2010), a family firm is likely to struggle with allocating their attention between addressing the SEW goals, such as determining next successor(s), and the financial goal of business expansion.

If the family members share harmonious relationships, their SEW and financial goals are likely to maintain aligned to continue growing the business that can be sustained in the following generations, rather

than struggling with the SEW issues, such as addressing the inter-family conflicts (Martin and Gomez-Mejia 2016). After the founding stage, a family business tends to have grown in size and resources that allow the expansion of the business and strategic activities (Le Breton-Miller and Miller 2013; Miller and Friesen 1984). Without the concerns of firm survival and family issues, it has the ability to expand sustainability activities to those without immediate financial returns, such as environmental protection (Berrone et al. 2010), innovation of product and service to benefit the health of customers (Cruz et al. 2014), or philanthropic donations to charity (Dou et al. 2014). For a post-founder family business with strong family cohesion and stable financial performance, it is able to explore different sustainability practices that the controlling family believes would bring in long-term SEW benefits, such as positive reputation and supports of broad stakeholder groups (Cennamo et al. 2012; Gomez-Mejia et al. 2011).

However, after the founders leave, if the remaining family members have conflicts over their SEW, such as fighting for the control of the firm or lacking quality relationship, it is likely to place a family business in a struggle over settling SEW goals of the family at the expense of financial goals of the firm (Martin and Gomez-Mejia 2016). The focus on SEW goals can have negative implications not only for the financial performance but also the sustainability activities of a family business. For instance, to preserve the family's control, a family business may have limited product innovation and diversification due to the constraint of the diversity practices, such as excluding non-family members in the key leadership roles (Vandekerckhof et al. 2015). This may explain the previously negative evidence regarding the sustainability activities of family businesses when the controlling family prevents the practices that may undermine its untenable SEW, such as introducing independent directors in the board or giving non-family employees' greater work autonomy (Cruz et al. 2014; Zientara 2017). Thus, if a post-founder family firm lacks cohesive relationship, the controlling family pays most attention on addressing SEW goals by imposing limitations on sustainability practices so that it can pursue SEW goals despite the potential conflicts with the financial goals.

**Proposition 2a:** Sustainability strategy of a family business at the post-founder stage is likely to be expanded to those without direct financial returns if the involving family shares close relationships.

**Proposition 2b:** Sustainability strategy of a family business at the post-founder stage is likely to be limited to those without direct influence on the family's SEW if the involving family has conflicted relationships.

### 3.3 Cousin Consortia Stage—Balance Between SEW and Financial Goals

At the stage of cousin consortia, a family business is characterized by the involvement of more generations, including the third or later generation after the founders (Le Breton-Miller and Miller 2013). A family business at this stage tends to have grown to a more mature business than those at the previous stages, with a more formalized firm structure and more human resources (Gersick 1997). The governance structure tends to become more complex with the involvement of multiple members from different family branches and the inclusion of non-family and professional managers to address day-to-day operations. When a family business becomes mature, it tends to develop a formalized structure to effectively coordinate the complex structures and diverse resources (Miller and Friesen 1984). Through a formalized structure, a family business at the cousin consortia stage is more likely to develop a systematic evaluation of its SEW and financial goals through involving both family and non-family members in the governance structure (Dyer 2006).

With a formalized governance structure in place, a cousin consortia family business is expected to have a balanced strategy between SEW and financial goals (Holt et al. 2017). The increasing involvement of professional non-family members in the governance structure, such as independent directors in the board or non-family executive managers, raises the importance of financial performance in the decision-making process of a family business (Cabrera-Suárez et al. 2014). This allows a family business to have a more balanced view in its strategic

decision-making by considering both SEW goals, valued by the family members, and financial returns, emphasized by non-family owners and managers (Minichilli et al. 2014).

Compared to the previous stages, a family firm at the cousin consortia stage is likely to develop a sustainability strategy that can balance its SEW and financial goals over long run (Le Breton-Miller and Miller 2016). With the monitoring of non-family owners and managers, the controlling family cannot limit the sustainability activities to only those that would directly benefit the family's SEW goals (Labelle et al., 2018), such as ignoring the diversity practices and employee empowerment to preserve the family's power (Cruz et al. 2014). Meanwhile, the continuous presence of the controlling family in the governance structure also ensures that non-family managers are not limiting sustainability activities to those with only direct financial returns, such as the improvement of products or services only. The involvement of the family members implies that the firm reputation is still connected to the reputation of the family, which is shaped by broader stakeholder groups beyond shareholders and investors (Block and Wagner 2014a), such as the local community and the general public. Therefore, a family business at the cousin consortia stage with a formalized governance structure is likely to develop a balanced sustainability strategy without over-emphasizing SEW or financial goals to have long-term financial and non-financial benefits.

**Proposition 3:** Sustainability strategy of a family firm at the cousin consortia stage is balanced between those that can benefit both SEW and financial returns.

## 4 Directions for Future Research

Future research can use the proposed framework as a foundation to advance the theoretical and empirical exploration of sustainability strategies of family businesses. First, future research can go beyond the general sustainability strategy discussed in the model. As corporate sustainability is meant to address multiple stakeholder groups (Aguilera

et al. 2007), there can be a more refined examination on which specific stakeholder groups are affected by the change of strategic goals. For example, the sustainability performance scale of MSCI ESG database provides five common stakeholder groups: community, diversity, employee, environment, and product. Future research may apply this framework to see if the influences of the goal dynamic on different stakeholder groups are constant.

Second, in addition to the life stage of a family business, other family and/or business factors may have roles in shifting the strategic goal of a family business. One direction is to examine the conflicts between the family and working lives (Jennings and McDougald 2007): how the family members who are not involved in the firm structure affect the involving family members' decisions regarding the sustainability strategy of the business. Another direction is the institutional context in which a family business is located (Aguinis and Glavas 2012). The regulatory and normative pressure for corporate sustainability may differ at the national and local community levels and thus alter how the controlling family evaluates the importance of corporate sustainability to achieve the SEW and financial goals. The institutional factor can also be examined at the firm level by looking at the organizational culture, which would determine managers and employees' sense-making processes regarding the sustainability strategy and the related implementation (Maon et al. 2010). Future research can expand the framework to consider how other factors in family and firm domains would alter interaction between different strategic goals and the determination of the sustainability strategy.

Third, future empirical examination of this framework may require a mixed-method. The quantitative approach can be used to examine financial goal and some parts of SEW goals of a family business. The historical and relative financial performance can capture the financial pressure (Gómez-Mejía et al. 2007). The ratio of family and non-family members in ownership, management, and board structure in long run can denote whether a family firm has a stable SEW and a formal governance structure at different life stages (Gomez-Mejia et al. 2011). There are several databases, such as MSCI SEG and Thomson Reuters Asset4, that provide longitudinal observation of corporate sustainability

activities. However, the family's relationship quality may require the qualitative approach, such as field observation of the family members' interaction, interviews with both family and non-family members, or content analysis of the internal communication documents, to better capture the emotional attachment and social relationships of the family (Berrone et al. 2012).

In summary, this chapter incorporates the temporal factor to discuss how financial and SEW goals interact over time to potentially explain the existing mixed evidence about sustainability activities of family businesses. The framework proposes that the evolution of strategic goals would determine how a family business allocate the attention and resource to the sustainability strategy. This chapter suggests that future research may need to consider the temporal dynamic between different strategic goals when examining the sustainability strategy, especially for a family business that sustains across generations.

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# 12

## Company Case Study 5: The Value of Values in Economy of Communion Enterprises—Start Up and Governance of Loppiano Prima

Maria-Gabriella Baldarelli

### 1 Introduction

This chapter describes the case that represents the implementation of the passage from weak CSR to strong CSR (Baldarelli and Del Baldo 2017). The case is of “Loppiano Prima”. Loppiano Prima is a small cooperative and from 2004 took the name: “Fattoria Loppiano” and at present is continuing its agricultural activity. On 2004 It had: sales volume €479,426.00; Owners capital €1,145,950.00; 11 workers.

I chose this case, because its start up, history and dynamics of governance, represent the implementation of communion and fraternity principles. The period considered is up to 2007, because it had been a very interesting management problem to solve and the decision-making process showed the dimensions of strong CSR and intrinsic motivations.

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M.-G. Baldarelli (✉)

Department of Business Administration,  
University of Bologna, Bologna, Italy  
e-mail: maria.baldarelli@unibo.it

University Institute of Sophia, Florence, Italy

Loppiano Prima is located in the small city of Loppiano (near Florence). Loppiano had been founded in 1964 after a donation. In Loppiano live almost 800 people: young people, adults, families, consecrated people, priests, monks, nuns, etc., coming from different countries all over the world, that want to improve their knowledge and experience of the Gospel in the light of the *Spirituality of Unity* or of *communion* which characterises the Focolare Movement (Lubich 2001, 2007). Loppiano Prima was founded in 1973 to help the development of Loppiano City and for the people that wanted to live and to work there through agricultural activities. The mission of Loppiano Prima is: “to promote communion experience of life” (Foundation Act) and Its mission is orientated by the “word of life” that is a “sort of pact” among people to live, step by step, some Gospel words that the founder of Focolare Movement: Chiara Lubich gave to the cooperative, that is: “A first look for the kingdom of God and His justice, and all the rest will be given to you in addition” (Word of Life gave by Lubich) (Lubich 2001).

The chapter involves the presentation of the case (Naumes and Naumes 2006), the data gathering methodology consider 6 semi-structured direct interviews with partners (2), managers and accountant (2) and employees (2) between 2006 and 2007; ratio analysis of the financial statements; the analysis of minutes of the board for the same period; the foundation Act and notes of chief of executive of the same period.

## 2 Cooperatives and a Firm for Community Experiences: Start Up and Governance

Cooperative Enterprise is a special category of enterprise that carries on, by way of a common enterprise through the reciprocal and fair cooperation between partners, with the objective of useful to them as well as the community (Matacena 2017). The principle of mutuality is fulfilled by way of giving the partners the possibility of avoiding capitalist intermediaries and, for this reason, of having higher incomes with relation to the market or of obtaining goods at a more convenient price.

The principle of solidarity opens out towards the protection of the socially weaker classes, it stimulates forms of solidarity in order to improve systems of entrepreneurship which are coming to an end. The principle of democracy consists in a willing adherence and in the equal participation of partners in the management of the company (Matacena 2004, 2017).

In May 1973 the “Loppiano Prima” Cooperative (Matacena 2017; Matacena and Baldarelli 2016) is instituted in Loppiano (Florence-Italy), which gave rise to agricultural activity by way of buying and renting land and tenements which also made the accommodation of the workers and the ordinary activities of mechanical maintenance of farm vehicles possible. During the first year of activity Loppiano Prima managed everything of Loppiano small village, but on 18 May 1974, board of directors of the cooperative decided the institution of a “Branch with ample decisional and accounting autonomy in Loppiano – Incisa Valdarno (FL)” as may be read in the very minutes. Following this decision the cooperative had more autonomous in the respect of Loppiano city. Its geographical position did not come about by chance, indeed in Loppiano there is a “small city of witness”, a Gospel lived, in which people are working and are attending training courses to deep study and to live the fraternity principle (Lubich 2007).

The firm’s activity is based on growing vines, olive trees, cereals and on producing honey and includes the connected activity of farm holidays (Baldarelli 2011; Baldarelli et al. 2015).

Indeed from the start, the board of directors enthusiastically welcomed the direction given by the Word of Life “*First look for the kingdom of God and His justice, and all the rest will be given to you in addition*” (Minutes of the board). This sentence which is often combined into the “must be” of the cooperative, has always been a reference point in the definition of the aims, in the ways of regulating the firm, in the ways of economic calculation of costs and in the statement of accounts. Since the birth of the Cooperative, a widespread form of participation to the firm’s capital was promoted among people who wished to adhere to the principles and the ways of working and producing of the firm which was inspired by the promotion of community experiences. Indeed starting with 100 initial members, it has at present risen

to include more than 4000 members and 200 hectares of land and on 2004 sales volume €479,426.00.

The choice of a “limited liability cooperative” as a legal structure for the newly constituting society was made for two main reasons. The first one was linked to the sharing of principles of mutuality, solidarity and democracy (Matacena 2017) which inspired the cooperative model. The second and most important reason, which is prevailing in cooperatives inspired by Catholic principles, was that this juridical form allowed the going back to those values, which were present in the market before the development of the form of capitalism, which is too much on the side of capital. Further to the moment of its constitution, the Loppiano Prima Cooperative bought the “Tracolle” farm on 12 January 1974, effectively starting the agricultural activity.

Later, the Cooperative decided to hire farm workers (former sharecroppers), who had already been living on the farm with their families for more than a hundred years, acquiring the whole store of experiences of they who have lived on the same land for generations. With them genuine relationships were created, in spite of different political and religious ideas. To be honest, there was a special coexistence between believers and non believers, so that at the beginning of the day they met up to agree upon how to work during the day, a fact that, for them, interrupted a long history of unconditioned submission to the landlord.

The work force included Roberto Cardinali, the Technical Director with ample decisional powers which were delegated to him by the board of directors, and by four families of workers and employees of the firm who were technical experts but held ethical views diametrically opposed to Catholic values. Two mechanical engineers and two bricklayers joined them: the former were necessary to repair the farm vehicles, as economically it was not possible to buy new ones, the latter were necessary to restore and build new houses for the families, who decided to move to Loppiano.

In 1974, even though there was not an efficient infrastructure, their will to bring the company to economic practices was very strong. Certain pieces of land had been abandoned for many years and were in a disastrous state with only one farm tractor available. One of the first choices, that the firm faced was the possibility of using a herbicide.

Notwithstanding the objective difficulty and the condition of abandonment of certain pieces of land, they decided not to use herbicides, but to hire three workers for disinfection. This choice implied a higher cost from 1 (old Lit) each tree to 30 (old Lit) to each tree! Nevertheless, it had its foundations in the principle which, even still, guides all the choices of the firm, that is “to think firstly about people’s health care”, even though the economic implications serious, especially for the beginning of the cooperative. In this context, the company partners played a fundamental role, because, besides sharing the choice of “respecting people and the environment”, they economically supported the firm.

One example of these economic dilemmas is in the same period, that Ezio, the firm accountant, for several days had been worrying about the persistent rain which prevented them bringing in the grape harvest and which, if it had continued for too long, would have seriously endangered the entire vintage. He thought of the bills and salaries to be paid. More late, he talks with one of the atheist farm workers and Ezio heard him saying: “We are all under the same sky”. This sentence made Ezio’s heart skip a beat and he remembered the “must be” and the need to have faith which he had been reminded of by a person who did not follow catholicism.

The vicissitudes of the Loppiano Prima cooperative also include the subject of finance, the question is: “Is it possible to combine finance and communion?” Notwithstanding, the Small City of Loppiano, in the 80s was already famous for the ethical impact which it had through the integrated initiatives of spiritual education and training that soon developed its international character, but, de facto, it was not yet possible to establish a trusting relationship with the banks, which was so important for the development of Loppiano Prima and the development of the other enterprises that were in the region.

In fact, the General Director of Tuscany Federal Institute of credit: Marignani visited Loppiano. During the visit to Loppiano he had been impressed by the international people that leave, work and learn there together in a special harmony and peace. This changing of mind of Marignani determined the building of interesting contacts, which definitely established themselves from the moment when the General Director of the Tuscany Federal Institute of credit, nowadays called

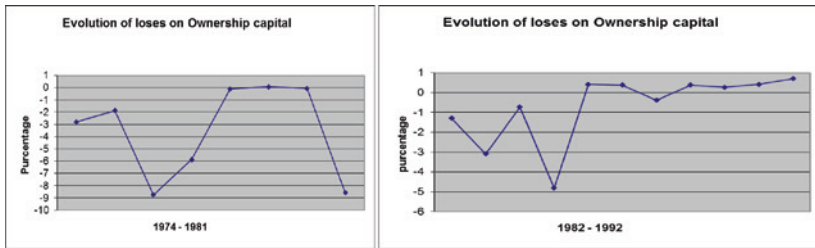


“Banca Verde” (Green Bank), visited Loppiano in that capacity and as President of the Cooperative. The General Director would have expected a working lunch with all the formalities which are usually reserved for such initiatives, instead, actually starting from a lunch invitation from his driver, something which is not very usually done at the time, the official tone of the lunch became a convivial occasion for getting knowing each other on a profound level, for making friends in a simple way and with few formalities. From having lunch together a sound trusting relationship would arise, which has lasted right up to now and not only with the aforementioned bank either. Indeed, when the same person later became General Director of the Monte dei Paschi, he made sure that Loppiano Prima will never be without credit from his departing bank and whose head office is in Incisa Valdarno, only a few kilometres away from Loppiano. This was of great advantage to the company which finally could count on precious and considerable financial support for its future development, often obtaining these at favourable costs.

### **3 The “Boundaries” of Communion in the Firm: Start Up, Misadventures and Providence**

Following a few years of bad weather and as a consequence of a precarious economic and financial situation, a serious frost struck Tuscany in 1984 making it one of the most difficult years they ever had. Indeed, the pruning, following the cold spell, brought with it considerable costs which could not possibly lead to profit. Accordingly, the initial order was to cut “the head” off the olive trees but after a fortnight, considering the seriousness of the frost, the only way that the fall down of olive oil production, but some trees could be saved was to “cut them from the base of the plant”. This means that after few years the production of olive oil increased as before 1984. As far as Loppiano Prima was concerned, this frost led to the loss of 5000 dead plants as showed in Fig. 1.

This was enough to make the accountant of the company, Ezio, not sleep very well. Especially throughout 1984 and the following year,



**Fig. 1** Evolution of losses on Ownership capital 1974–1981 and 1982–1992. *Source* Our elaboration

he worried the organisation could not be kept afloat, and closing the cooperative would have brought serious difficulties for the survival of Loppiano.

Once again, Providence, which was never lacking in the past, was called upon. Therefore, the board of directors had been assembled in order to make a decision. We can read from the minutes: “In 1985, following the natural disaster which struck agriculture (long periods of heavy and abundant rain, frost, etc.), the State set aside funds”. They applied to have State funds and this means that Loppiano Prima had at disposal a lot of money that the Government gave to cover losses.

Moreover, they thought of recouping the losses with partners’ share holdings together with the proposal that each partner should buy a crate of wine. In this way, considering the numerousness of partners, the crates of wine were sold and the cooperative was able to survive the hard times.

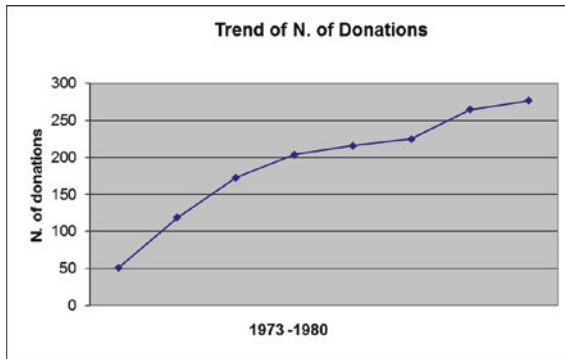
Loppiano Prima Cooperative always had an important support role to the various other activities of the small city, placing its adequate competencies at the small city’s disposal, wherever they may have been of use. The cooperative was used by the city to get small jobs done, this escalated to an extent that it affected the economic viability of the cooperative, so they decided to charge, but the charismatic leader only charges occasionally, when economically necessary.

Competencies such as: the restoring of homes, taking care of gardens, the transport of heavy objects, mechanical maintenance of vehicles belonging to the small city which did not belong to cooperative capital.

During one of these occasions, when an “additional” piece of work is needed to be done to give services to Loppiano city, Ezio desperately needed work force to transport urgently a heavy object.

Ezio saw himself involved personally in all this, since he was thinking about the work that Loppiano Prima needed and the wages that he had to pay out at the end of the month. So he suggested to workers that before they had to make work for Loppiano Prima and then to the City of Loppiano, but the responsible person of Loppiano City didn't agree. The difference of aims among Loppiano Prima Entity and Loppiano City exploded, because everyone initially was defending his own position. Later, they both tried to accept the reasons of the other. The conflict was mitigated, finally arriving at a solution that worked well for both parties.

These “additional” jobs were very frequent and, within a logic of solidarity, the workers themselves volunteered to give a hand. They were called to various places throughout the small city to carry out gratuitous activities in the sincerest intentions of collaboration possible. These activities, from the beginning of Loppiano Prima, had not been economically recognised, because there had been a sort of learning agreement as religious and ethical task to develop Loppiano City. These services that Loppiano Prima made for Loppiano City created a very important international informal social network, that Loppiano Prima had to use to sell its products and to benefice of donations as explained below. But at a certain point, the accountant who saw the cooperative's accounts deteriorate and so many families go through serious economic straits, embraced common sense and that which had been decided in the past, namely: “Negotiate and eventually conclude a contract for agricultural maintenance and gardening, providing that the terms are fair and remunerative for the cooperative ... the contract could be paid hourly or on a lump-sum basis” (minutes of 19 May 1974). Perhaps Ezio did not think of the minutes of 1974, however he decided to invoice these “additional” jobs every so often, and therefore to ask that they be paid. This was necessary in order that the accounts of Loppiano Prima had some breathing space. Such behaviour, once shared, bore not only social but also economic fruits.



**Fig. 2** Trend of number of donations 1973–1980. *Source* Our elaboration

The network of relationships, which Loppiano Prima was and is able to develop, leads to benefits of an economic nature which were inconceivable, in that its aim is to share a relationship of brotherhood (Bruni and Crivelli 2004; Bruni 2006; Golin and Parolin 2006; Argiolas et al. 2010; Argiolas 2014).

This availability to create and to improve relational goods makes possible the presence of donations to the Loppiano Prima, that are very useful for the survival and the development of the same as evidenced in Fig. 2.

Even the newcomer is made part of company activities, in such a way that he can, from the beginning, feel part of a family, because he is accepted for his skills and limits and all workers and the board members demonstrate their interest in: family composition, eventual monetary problems and material and spiritual needs.

## 4 Work Relations: The Dark Side of Communion?

Respect for the environment and nature contains the respect of man as a premise, and particularly in the company where participation in it is aimed at creating a community among the workers themselves. We can especially single out active employee participation through

work committees, including the agricultural committee, the building committee, the accounting committee, the financial committee.

In the 70s, there was a wide gap between the wages established in the contracts for farm workers and those established in the contracts for other categories of workers. From the beginning, every worker in Loppiano Prima, worker or employee, got the same wage according to the National Collective Contract for farm workers, but later they realised that this contract did not guarantee the same living standards to all workers, especially to those who had the biggest families. What should they do?

Then an idea, which was shared by the board of directors, came to be: the “family wage” which took the conditions, the number of children and the eventual dependant spouse into consideration when establishing salaries for all workers..

Giorgio Balduzzi, General Director of the firm, is satisfied after the decision, which was taken by the board of directors, to plant new vineyards that produce red wine.

They came to such a decision after heated debate, certainly due to the importance of the issue. Indeed the choice of planting new vineyards is as important as the choice between “white and red”, but also due to the fact that different generations: young and senior people form the board of directors. People with great experience are often less inclined to run a risk while young members and technicians are more inclined to take innovative but riskier solutions. The risky solution in this case had been to decide to produce red wine.

In this case the technicians’ contribution, who have always been invited to take part in the board of directors in a cooperative context, was decisive. This is not so usual, because the technicians’ advices are considered in general before the board meeting and not during the assembly. Such cooperation was directed towards fostering development and sharing knowledge among the different sectors of intervention. The technicians had prepared cost estimates for the new vines and afterwards they had brought it to the administrator in charge. The latter had revised it together with the person in charge of the technical Office, in order to verify the investment planning with respect to their level of economic revenue.

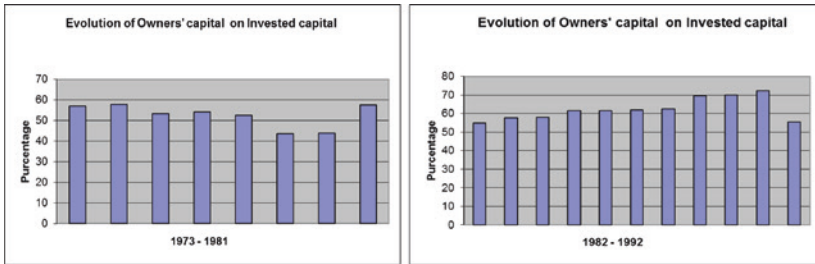
## 5 Produced and Distributed Wealth: Economics Versus Communion Results?

The involvement of Providence has always allowed balancing of the accounts and at the end of the year Ezio was able to satisfy the financial needs of the company, sometimes he was even able to face emergencies; like during the periods of bad weather. In those times, the financial cash flows need to be carefully watched in order to guarantee the payment of the wages to the workers at the end of the month.

Moreover, from its constitution, the cooperative showed a certain autonomy from the accounting point of view and particular attention to the economic returns of its typical activities, such as farming. Also the attention to the calculation of the sailing price has been always taken care of, in order to guarantee the correctness and the completeness of information to share both with partners and workers (minutes of 4 November 1974), so much so that the cost for a single bottle of product can even be calculated. This, thanks to the establishment of an internal analytical accountancy which had been planned since 1974.

The board of directors has always been informed punctually of past and prospective investments of the firm. There have been periods when the cooperative had to face economic and financial difficulties, asking its members for loans, often at interest, other times asking them to give up the interest, but in general Loppiano Prima face investments mainly using owners capital. So the cooperative chose to have more solidity in long-term financial situation instead to increase income by leverage practices using more bank loans (Fig. 3).

The firm, even if it had problems to find its own market during the initial years, afterwards it obtained acknowledgement from the world and widespread intrinsic value. This can be explained also through the particular attention to the trusting relationship with the customers. For example in certain years, when wine production was not considered satisfying in terms of quality, in order to be up to the prestigious Tuscan label “Chianti”. The cooperative decided to not have the label “Chianti” because the quality had been worse.



**Fig. 3** Evolution of owners' capital on invested capital 1973–1981 and 1982–1992. *Source* Our elaboration

This choice brought the consequence that a lower price would have to be asked and therefore that lower revenues would be obtained.

During the meetings of the board of directors, they often talked about the social report without being able to draw it up even if disclosures of various kinds: social, ethical, environmental, are contained in the final balance statements and in the minutes of the meetings of the board of directors ([www.loppianoprima.it](http://www.loppianoprima.it)).

## 6 Conclusions

On 2004 the cooperative seriously asked itself questions concerning its future, because from the point of view of the estates, partly bought, and partly acquired through donations, the company had a lot of grounds assets and buildings. This situation required a change in legal form, because the cooperative had too much grounds and buildings than those that are required by the Italian law.

Moreover, the essential symbiosis with the small city of Loppiano has always been present in every aspect of the firm's management, but it had necessarily to come to the surface more clearly, especially as regards the governance of the same firm, from a formal point of view, too. Or rather, the relationship between the community of faith and the economic experience had to be rendered clearly explicit. These are some of the main reasons which drove the board of directors to revise the structure of the firm radically.

The activity, which until 2004 was unitary, has really been divided between two cooperatives: Loppiano Prima to whose name the buildings are registered, and which carries on the active services such as gardening, building maintenance, education and training, hospitality, etc.; while Loppiano Farm acquires the original farm activity with all the personnel who work in it. This is that which can be deduced by the minutes of 16 November 2004: “*Point 6: Farm transfer ... the board of directors proposes that farm management is extrapolated from the social activity and transferred, as a branch of its own companies, to a co-operative which better answers the specific requirements for such activities. It is therefore a question of singling out the elements of company wealth which constitute such a branch of the company, excluding all real estate, even if instrumental, which could instead constitute the specific object of a lease*”.

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# 13

## Company Case Study 6: Bertola Srl (Italy)—A Family Business Within the Economy of Communion “Family”

Mara Del Baldo

### 1 Introduction

The chapter focuses on a particular type of family business, belonging to the Economy of Communion (EoC) project. This membership renders the case-study particularly interesting, since it represents a family business (Astrachan et al. 2002; Chua et al. 1999; Del Baldo 2012) driven by ideal-motives (Molteni 2009) tied to the principles of the Chatolic Movement “Focolare” set up by the charisma of Chiara Lubich (Gold 2004; Bruni 2009; Bruni and Uelmen 2006; Buckeye and Gallagher 2013). If non-financial goals of family businesses represent a feature useful to explain their orientation toward sustainability, in the selected case a further variable, namely the adhesion to the EoC project, reinforces such orientation rendering it an expression of “strong

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M. Del Baldo (✉)

Department of Economics, Society and Politics, School of Economics,  
University of Urbino Carlo Bo, Urbino, Italy  
e-mail: mara.delbaldo@uniurb.it

sustainability” (Gray 2002; Gray et al. 2014; Baldarelli et al. 2015; Baldarelli and Del Baldo 2017).

The EoC project involves entrepreneurs of different cultures and religions, companies, associations, social organization (including workers, managers, consumers, investors, scholars, poor people, private citizens and families) in concretely developing a new economic model and a new way of conceiving and implementing business management, labour and economic relations. Despite the lack of a unique and worldwide agreement on the definition of poverty (Goedhart et al. 1977; Abel-Smith 1984; Ringen 1988; Ruggeri Laderchi et al. 2010) and the presence of different approaches to *measurement of poverty—the monetary, capability, social exclusion and participatory approaches* (Sen 1983; Nussbaum and Sen 1993; Osberg 1991; World Bank 2008; UNDP 2016; Istat 2009, 2017) the Italian government distinguishes absolute poverty from relative poverty (Istat 2017).<sup>1</sup> If absolute poverty classifies poor/non-poor families on the basis of the inability to acquire certain goods and services, the measure of relative poverty, defined with respect to the average standard of the population, provides an assessment of inequality in the distribution of consumer spending and identifies poor families among those who have a disadvantage (worst) compared to others. However, the concepts of poverty and poor assumed by the EoC and the Focolare Movement overcome the aforementioned institutional and scientific definitions and approaches. Adhering to the Gospel and the Christian doctrine’s messages the poverty is conceived in a holist and multidimensional perspective, thus including the transcendental one. The poor is a human being who can be affected by one or more different possible dimensions of poverty that influence his/her life, included the material, social, cultural and spiritual one. The proposal of EoC was initiated in Brazil in May 1991 during the visit of Chiara Lubich, the founder of the Catholic “Focolare Movement,” in

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<sup>1</sup>The former varies according to the size of the family, its composition by age, the geographical distribution and the size of the municipality of residence. The absolute poverty estimation methodology, developed in 2005, is a measure based on the monetary valuation of a panel of goods and services considered essential to avoid serious forms of social exclusion.

Sao Paulo, in a country (Brazil), which is a symbol of imbalances and social inequality (Lubich 2007). The EoC project drives the “culture of giving” inside and outside of the company (Lubich 1999: 617). The project involves more than 1000 companies (for profit and not for profit companies) around the world belonging to all economic sectors. Altogether, these companies form a new composite reality, which is based on an economy on a human scale, suitable to both enterprise and family (Bruni and Zamagni 2009). This global reality is coordinated by central and local committees, following a subsidiarity principle (see the EoC manifest: [www.edc-online.org](http://www.edc-online.org)).

As aforementioned, EoC companies are the fruit of a new “lay vocation” aimed at changing society, economy and humanizing the market (Lubich 2001a, b). For years, the interest of this project has been involving academics, entrepreneurs and institutions (Alford and Naughton 2002; Gold 2004, 2010; Bruni 2009; Bruni and Uelmen 2006; Buckeye and Gallagher 2013). The poor are the main purpose of the EoC project that applies the principle of communion, which is an expression of Chiara Lubich’s charisma. To address and solve the problem of poverty, the principles of the communion are adopted by entrepreneurs, managers and workers. The aims are: (1) creating new businesses; (2) strengthening existing ones through increased productivity, employment and sustainable development; (3) supporting the State in helping the most vulnerable people; (4) foster “new men,” namely people who adhere to the culture of communion and change their way of being and acting (serving as employees, scholars, students, entrepreneurs, managers, etc.), through activities aimed at spreading the principle of brotherhood (fraternity) and of reciprocity; and (5) a further goal is the local and global integration and support of poor people. However, they are neither assisted, preferred nor seen as external stakeholders, rather they are “partners” of the EoC project since they provide—in the sense of a donation—their needs. Consequently, entrepreneurs and managers are spurred to provide a concrete response to their needs through their creativity and the economic, social and environmental performance of their activity. EoC companies’ profits are divided into three parts: One-third is intended to the growth of the company; a

second one is dedicated to support and help the poor; and the last part's aim is to spread the culture of communion by financing cultural and research activities (Baldarelli 2006, 2011; Argiolas et al. 2010; Argiolas 2014). Further, the EoC annual financial statement declares the distribution of resources that have been used and highlights the results achieved. This includes, for instance, new job opportunities, support for starting micro-enterprises, aid for basic cultural as well as university education (through a variety of educational activities including conferences, workshops, seminars, school of civil economy; courses at the Sophia University Institute founded in Loppiano–Florence; publishing house), and assistance to basic needs in emergency situations (Crivelli 2011; Ferrucci et al. 2014).

Starting from this premise, the following section describes the experience of Bertola Srl, a family business that changed a profit-driven approach and joined the EoC project.

## 2 Methodology

Qualitative research and a case study build the base of this study (Eisenhardt 1989; Eisenhardt and Graebner 2007; Yin 2003). The analysis also followed the dynamics of the narrative and research case (Naumes and Naumes 2006). Data have been collected during a period of two years through semi-structured interviews addressed to the entrepreneurial family members and the employees. Two different semi-structured questionnaires were submitted, based on the role played by those directly involved: A questionnaire was sent by email to the owner-manager Livio Bertola (second entrepreneurial generation), who then indicated as a further key interlocutor his son Marco for a skype interview (third generation). A second questionnaire was addressed to two employees and submitted by email. Secondary information from the company, AIPEC and EoC Web sites (i.e., the EoC annual reports and videos) as well as newspaper and EoC magazines articles added further data useful regarding a triangulation and verification of the aforementioned data.

### 3 Company Profile and History of Bertola Srl

The origins of Bertola Srl date back to 1929, when Michele Bertola, during the Second World War and the continuous bombings on Turin (Italy), decided set up an entrepreneurial activity in Marene, a small town in the province of Cuneo (Northern Italy), devoted to nickel plating. In 1942, he started the production with “means of luck,” during the difficulty of that time. At the end of the war, in 1946, a new company was established, the “Officina Galvanica Bertola,” in partnership with his brothers Antonio and Giuseppe. The company was specialized in galvanic treatment and metal grinding and polishing. The development was immediate. In a few years, the business grew and, by the early ‘50s, it counted fifty employees. After subsequent transformations, the Bertola Srl was created involving the second entrepreneurial generation represented by Antonio Bertola’s sons. In 1960, the company employed 107 persons. In the following period, a constant growth—due to the increasing demand by Turin industries (many important firms specialized in sportive equipments, automotive, motorcycles, internal furniture and security locks) that gradually began to operate the plant automation—led Bertola Srl to place itself among the leading companies in the field of galvanic treatments for third parties.

In the ‘90s, the company passed into the hands of one of Antonio’s sons, Livio Bertola. After having held the position of general manager he became the unique family business owner through the acquisition of the shares of the brothers who, decided to leave the company and sell their shares. Livio introduced several challenges and innovations and made numerous steps forward, both in terms of professionalism and managerial evolution and in terms of product quality. Namely he decided to manage the business in a different light from the traditional one. In 1996, he adhered to the EoC project and became the promoter of an experience of civil economy that unites hundreds of companies in the world with the aim to enhancement of the person and the achievement of universal fraternity through the entrepreneurial activity.

Currently Bertola Srl is owned and managed by Livio and his family: his sons and daughters—Paolo, Caterina, Marco and Lia—and his wife

Teresina. The company has over 160,000-euro investments and 29 employees (18 are members of the EoC project). Livio (born in 1953, married in 1978 and holding the diploma in electrical engineering), is at the same time President and Chief executive officer.

The company is among others, the national leader in industrial galvanic treatments and specialized technical assistance, based on a highly trained and qualified personnel. Since the year 2000 has implemented the Quality Management Certification System, according to ISO 9001 specification (ISO 9001:2015) and has achieved the IATF 16949:2016 certification (former ISO/TS 16949) that represents the highest quality standard for the automotive sector. In addition, Bertola Srl is highly committed to environment protection and natural resources safeguard. In this regard, it achieved the Environmental Management Certification System, according to ISO 14001 (obtained since 2003), as well as the Safety Management Certification System, according to OHSAS 18001, aligning itself to specification ISO 10617 after Seveso legislation.

During its 70 years of history, the company has proved to be an important reference point for the local community. Since 1946 in the small town where it is headquartered, over 3000 600 inhabitants have been employees at Bertola Srl.<sup>2</sup>

### **3.1 The “Fraternity” and the Pillars of EoC Through the Eyes of an Entrepreneur**

In 1995, Livio meet the ideal of fraternity, adhering to the EoC project, radically changing his personal life and the logic used to manage its company. In the narrative of his story during an interview for a national broadcast (“Sulla Via di Damasco”), some events related to his family business and the principles that currently orient the company management are as follows quoted (Balduzzi 2012).

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<sup>2</sup><http://www.aipec.it/componenti-del-consiglio-direttivo/livio-bertola-2/>.

With all the employees I've established a beautiful friendship, which continues outside the working hours. Several employees are Muslims. From the very beginning, I have also proposed to live the "golden rule" inspired by the founder of the Focolare Movement, Chiara Lubich. This rule is highly appreciated by all religions and people of good will. It states: "whatever you want men do to you, you have to do to for them". I have often visited my employees at home. I'm interested in their life and personal situations. They told me: "Before I met you we felt only foreigners here; today, after having known this reality of evangelical fraternity working at Bertola, we feel in a family!"

A further example occurred, some years ago, when Livio became aware of the difficulty experienced by two non-EU citizens. In that time the situation of the company was not particularly good. However, he decided to take care of them. "I wanted to trust God and I offered them a work. With the support of my family we also arranged to provide them housing and furniture. For these young people, life changed decisively; interim, things improved also for the company: almost inexplicably, a great commercial order arrived, allowing us to increase both our personnel and turnover".

And again: "Some time ago an unemployed young boy came to apply for a job. He looked like he was suffering and sick. His parents were dead and he was alone. It was obvious that he was not a person suitable for the company. Moreover, in that period the market trend did not allow for hiring new people. I was just thinking about how to explain my denial, when a thought came into my head: This person definitely needs for a job, more than other people."

Obedying that intuition, Livio hired the young man, introducing him warmly to the employees. "We then understood he was a drug addict." Crying, he confided his difficulties to me. I started to take care of his situation and provided him the necessary assistant service. I was aware of the risks and difficulties, but the evangelical rule was clear for me: "Whatever you did to the needy person, you did it to Me."

Livio's conversation with the operators of the social services was successful, and his family's support was decisive in restoring the dignity



of that young people and allowing him to completely recover his life. Currently he works in the same community to help other people to get out of drug addiction.

A further example is tied to the approach adopted to face business crisis and difficult times. As many other companies, Bertola Srl has to face the economic crisis incurred in the last decade. How does it possible to apply the fraternity and live for helping the other even when everything goes wrong and difficulties are overcoming? The answer of the entrepreneur is:

I try to address our effort on innovating and searching for new customers, but above all I try to trust focus on fraternal relationships: this keeps me confident and calm, without anxiety that once haunted me. Thus, I keep knocking on the doors that are signaled to me. For example, one day an exceptional opportunity opened for the company. It was so important that, at the end of the negotiation, an executive asked me: “But will you be able to do everything? It could be millions of pieces to work every year!” It seemed to me to experience the miraculous fishing.

### **3.2 The Foundation of AIPEC: The Family Business in a Wider Family**

Communion is the key pillar of EoC. To experience communion within the enterprise means achieve the goal to share not only skills and experience, but also ideas, projects, hopes, joys and difficulties. Like in a family. To “operationalize” the communion in his entrepreneurial and family life in 2012 Livio, together with other entrepreneurs, decided to set up the Aipec association (Association of economy of communion entrepreneurs). Being a partner of Aipec allows entrepreneurs to think about what one can do to solve the problems of others by sharing and combining talents, entrepreneurial experience and ideas.

Aipec is an association of entrepreneurs, professionals, consortia and companies that that experience the “culture of giving” and through their way of working provide value to the society and the national and international market. Also, students, employees, retired and unemployed can

be supporting members and provide their specific contribution to the growth of the association.

Entrepreneurs are not required to adhere to the Focolare Movement. However, they have to share the ethical principles of the EoC statute: “Aipex does not only address those who are already economy of communion companies, but all companies and individuals interested in developing the ‘culture of giving,’ through new ideas and opportunities” (Livio Bertola, October 12, 2016).

The levers to set up the Association are to be identified in the words of Chiara Lubich: “*We always give; we give a smile, an understanding, a forgiveness, a listening; we give our intelligence, our will, our availability; we give our experiences, our abilities. To give: this is the word that cannot give us respite!*”

“Following these word, each of us felt the need to concretely do something right away. We are convinced that only through a cultural revolution the crisis—the economic crisis and the crisis of values—as well as the unequal distribution of wealth can be overcome. Only through a true communion among companies it is possible to transform difficulties into opportunities of growth” (L. Bertola).

Among the main objectives that AIPEC pursues are:

- In-depth knowledge to share with the members to allow the creation of networks among companies that share the same ethical principles.
- Training of “new” men and companies interested in experimenting the “culture of giving” and deepening principles and strategies to orient their growth.
- Creation of healthy businesses that are committed to the common good, with the mission of eradicating poverty and injustice and build a more human society.

The reasons that led Livio Bertola to find this association of entrepreneurs, stems from the belief that “the time has come for me, for many of us, to act and engage in the first person, feeling directly responsible for the entire world and the future generations, both from a moral, social and environmental point of view” (Balduzzi 2012).

### 3.3 Turning to a Strong Sustainable Orientation

The company “was born” a second time in 1995, when the entrepreneur decided to adhere to the EoC project of economy of communion. In 1992, Bertola Srl faced a period of crisis. Livio was forced to lay off three employees, due to a 30% drop in turnover. However, this choice did not hinder the values of fraternity, compassion and love for the employees. He spent many efforts to create an internal office that allowed these employees to find an alternative job, because he did not want to leave in difficulty people who had been part of his business and he succeeded to guarantee for them the choice of various/alternative job opportunities. The dismissal was a tough decision to make, even if unavoidable. However, the crisis triggered the entrepreneur’s desire to do something more for the company and its employees. Later, he had the opportunity to participate in a conference addressed to a heterogeneous group composed mostly of laymen, atheists and agnostics, to discuss the charisma of Chiara Lubich, the founder of the Focolare Movement (Lubich 2001a, 2007; Bruni and Sena 2013). Livio was particularly struck by the words of that woman: “we have to love always, everyone, oneself, even the enemies; we are called to love by making oneself one (that is, putting oneself in the other’s shoes) and above without any interests.” It was then that he decided to join the Economy of Communion project.

He induced changes in company strategy, priorities, to put people at the core of corporate culture, taking care of relationships and trying to do his best in managing the company. He introduced the founding concepts of the EoC, living in first person the “golden rule” in his daily life, inside the company and the family. Since then the life of the company and the life of his employees and collaborators, started to improve, and despite the difficulties, the company grew and developed more and more.

All the members of the Bertola’s family supported Livio in this challenge. The family cohesion favored the choice to pursuit ethical purposes in managing and governing the company. In this regard, during the interview, his son Marco stated: “The Economy of Communion is a great project, aimed to contributing to a real economy, without

neglecting the importance of people and attempting to their flourishing. The principle of communion can be applied in all economic areas, that is on a social, environmental, qualitative level. Everything can be seen through the lens of communion. We collaborate for the common good through human relationships that allow us to appreciate the advantages deriving from this way of conceiving our work and our life” (M. Bertola, October 13, 2016).

According to the EoC principles, a distinctive feature of Bertola Srl is relative to the centrality attributed to relationships with internal and external stakeholders, based on transparency, honesty and truth. For example, the entrepreneur is particularly attentive to the professional growth of employees and suppliers, whose selection is carefully managed.

The governance system rests on a participatory management aimed to trigger and maintain a climate of communion among employees from different cultures, religions and ages (i.e., foreigners and young graduates). “Everyone has found within the company a large family that takes care of their needs while respecting equal opportunities without privileging or neglecting anyone.” The annual budget takes into account the objectives that arise from the dialogue between the owner family and the employees. The communication of results and achievements during meetings and committees plays an important role as well.

Livio is committed to develop the talents of each employee, encouraging their creativity and responsibility, allowing them to participate in defining and implementing company objectives and adopting special measures to help those in need. Furthermore, it undertakes to manage the company to promote the increase in profits that are necessary to help those in economic difficulty and favor the recruitment of people even when the profit logic discourages it. In other words, the company management is a driver of inner growth that allows the entrepreneur and his family to contribute to the universal fraternity.

In accordance with the principle of the EoC, the company allocates one-third of its profits to a not for profit association (Associazione Mondo Unito—United World Association), involved in numerous solidarity projects around the world. One can mention a project in Sudan the creation of schools to train and educate young people, promote

women and support poverty; and a project in Senegal for the reclamation of some areas and the construction of gardens that allow the local community to work and provide them with the necessary to live in a dignified way.

### 3.4 The Employees' Perception

The EoC project presupposes an aptitude for relationships that positively influences the company climate, fostering the professional and personal growth in reciprocity and nurturing honesty and a proper conduct in performing duties inside and outside the company.

During the interviews, employees highlighted the main differences between an EoC and a traditional company. Namely they emphasized the relevance of relationships within the working environment. Since Bertola Srl is a small family-based company, the low number of employees favors close and authentic relationships between the entrepreneurs and the employees who are, first “friends,” without leading to a lack of seriousness or respect, rather encouraging a greater commitment in working to carry out a common project. Moreover, the healthy and family working atmosphere allows a higher return, also thanks to a good family management.

The employees feel that their opinions, their work and their presence are of fundamental importance for the company. They believe that a similar working context provides them something more than a simple salary. The trust given in managing complex problems enhances the employees' awareness that the entrepreneurs are highly committed in investing in people.

In such a context, the availability of the entrepreneur to ask for their opinions and advices allows the employees to participate in the decision-making process, thus increasing creativity and the emergence of new ideas, and fostering the integration into the company's relational network, fueling the sense of belonging and strengthening the business culture.

The answers have highlighted the enthusiasm, the serenity and the pride of these employees to work in Bertola Srl. “I felt lucky because

I found a work consistent with my studies in a company that gives employees the chance to growth. During my work experience, the company faced a series of problems, but it always faced difficulties in the most professional way. I had the opportunity to learn a lot, not only in terms of skills, but also from the human side, because the entrepreneurs have established a climate of cohesion that allows me to feel part of the whole process. I am really very satisfied to work for this company, even for what concerns my future” (Interview with employee E).

“This business is a valid example in many respects and being part of it is a source of pride for me” (Interview with employee F).

## 4 Conclusion

The experience of Bertola Srl points out that reciprocity and fraternity represent useful tools to develop the trust, which is necessary to hinder difficult moments and share successful ones. Furthermore, the relationships of esteem and trust with stakeholders (customers, employees, suppliers, etc.) confirm that the principle of sharing is not penalizing for the company, rather it constitutes a point of strength. The case study highlights how joining the EoC project allowed the family business to face the crisis and experience a further development. Livio and his family had to take difficult choices with regard to different issues; however, the Providence guided the decision-making process, so that potential solutions were identified with consequent possible solution and favorable events.

In Bertola Srl, all persons feel part of a family that takes care of people, guarantees an atmosphere of serenity and increases the collaborative spirit. In other words, being part of the EoC network allows a family business like Bertola, to join a larger family, rendering concrete the principle of communion.

Like in a family, sometimes it can be difficult to maintain good relationships and devote time to develop them. However, it is necessary to do so, and the beneficial effects (in terms of correctness, trust, commitment, dialogue, listening) are seen in the long term and form the basis for the resilience and the development.

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# **Part IV**

**Business Strategy, Innovation  
Management and Growth**



# 14

## Strategies, Growth and Innovation: Are There Any Interlinked Management Configurations?

Stéphanie Looser

### 1 Overview: Management Strategies, Growth and Innovation: Are They Interlinked?

#### 1.1 Historical Perspective

Leading economic scientists in the eighteenth century, like Richard Cantillon and Jean-Baptiste Say, first introduced the term “Unternehmer” (or entrepreneur) as driver of economies and advancements (Zimmermann 2014). “Good businessmen” and “good entrepreneurs” as business owners, founders and managers involved in firms and society and not motivated by their own profit and benefit are required in the current economic situation resulting from the greed of

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S. Looser (✉)  
University of Surrey, Guildford, UK  
e-mail: s.looser@surrey.ac.uk

individuals. As said, owner-managers as well as entrepreneurs play crucial roles in a direct way in their companies but also in an indirect way for society as they contribute by innovation, as employer, by economic, social and environmental responsibility (Del Baldo 2010).

Especially since the financial market crisis, the call for responsible corporate management has become louder. Citizens in many countries fear that existing control mechanisms might not be enough to put a stop to financial gamblers in an ethics-void context in the future. To this extent, the financial crisis revealed both societal and corporate deficiencies in the basic understanding of responsible, sustainable, honourable and thus successful, corporate leadership. Most of the public is likely to agree that only those who are economically successful are also able to act efficiently in the interest of society and the environment. And this in turn means that the economic viability of companies and the willingness to assume responsible management are inseparable.

## 1.2 SMEs and CSR: A Complex Relationship

At this point, a great number of SMEs all over central Europe (e.g. in Germany and Switzerland) come into play. As has been shown by previous chapters and case studies, their guiding principles assume that responsible behaviour enacted by those in leadership position is the basis for sustainable economic success and social peace in society. Modern Swiss owner-managers as well as Honourable Merchants in Germany have a strong sense of responsibility on the corporate as well as the societal level. This includes fair behaviour towards employees, customers and business partners, as well as the development and supply of innovative products and services, social commitment at the company's location, transparency of company's policy towards the public, defence of the market economy and sustainable environmental protection in all company decisions.

It should also be noted that frequent controls by auditors and regulatory authorities, of the supervisory boards, as well as the greed of small and large investors, have made possible higher returns while neglecting

business risks. The recent financial market crisis certainly had numerous causes. But, as the argument above has shown the misconduct of their actors was primarily individual and not institutional, and many examples of “dishonourable” SME leaders and their criticism by society exist throughout history as well. Arguably, economic crises create opportunities to learn and to stimulate a discourse on the relationship between business and society. Economy and society are mutually and interdependent with companies prospering mainly in modern societies with a high level of education for their citizens, well-functioning markets and strong legal certainty. On the other hand, modern societies depend on successful companies, as only these can increase the prosperity of a society through market success. Companies and society are therefore interdependent and the value systems that guide both are mutually reinforcing.

### **1.3 Values, Virtues and Tradition: SMEs’ Crisis Management Strategy**

This chapter shows that in times of significant social, economic, environmental, political, technical changes and/or crises—informal, but individually responsible leadership, as in most cases found in SMEs demonstrate their strengths, beneficial effects on society, however, also their weaknesses or needs for improvements. Chapter 6 will show that SMEs all over the world show common attributes, attitudes, as well as the key characteristics for market success—even in times of crises—so that a number of very small up to medium-sized companies are world market leaders in their specific niche. Others have diversified their product line to an extent that a Multinational Enterprise would not be able to control. However, the mentioned key characteristics are:

- The terms of stipulation, the mind exercises, their call for sacrifices are well-known—at least since Schumpeter’s claim for “Creative Destruction”—underlying sine/hyperbolic/cosine curves, which are

to some extent predictable but more quickly emerging, so lesser following rules of procrastination.

- Craftsmanship of highly specialised products as “hidden champions”, on the one hand in an economic sense, related to specification and outstanding quality, however, also with respect to CSR.
- To drive businesses mainly embedded in local value chains so to have low transaction costs.
- Like-mindedness with family-run businesses all over the world (see Chapter 6) allows SMEs to do businesses without any contracts, lawyers, but based on their common values and virtues, which again saves transaction costs.
- SMEs often have a long tradition, so they rely on one specific detail: to never divide capital from the steering of the company, so to avoid principle agent problematics.
- Most SMEs have reached the perfect size fitting to their business. Over centuries they optimised their fixed and variable costs to get the most out of their company.
- They are highly agile due to their small size, which is as comparative asset in adapting to today’s rapidly changing circumstances, e.g. the imposed challenges to implement the United Nations’ (2015) Sustainability Development Goals (SDGs).

So, regarding future crises, disasters (existential) threats and dark skies and as an explicitly significant contribution to the currently published CSR literature it might be helpful to search for other, similar concepts on a global scale, define some key skills, concepts, tools, independent while at the same time equivalent, alternative, innovative, working and joint solution that might include parts from every globally existing concept so to have a general framework able to adapt to specifications of countries, problems and circumstances.

The next section will example the German Sustainability Index as some sort of lighthouse in the extent that linking informal Management, Business Strategy and Ethics could get alongside and be a success story.

## **1.4 The German Sustainability Index: Linking Informal Management, Business Strategy and Ethics**

### **1.4.1 An Example Driven by Politics, Policies and Polity**

On 21 September 2016, the German Federal Government passed the bill on the CSR reporting obligation, thereby creating the condition for the EU directives (2014/95/EU of the European Parliament and of the Council amending Directive 2013/34/EU) to be transposed in due time into German law implement. The resolution of the law by the German Bundestag is expected in December 2016. The reporting obligation initially affects corporations (at least 500 employees, €20 million balance sheet total or €40 million turnover). But it is an open secret that duty will affect the supply chains and thus trigger a cascade effect towards the German middle class. Much of the German middle class is characterised by owner-managed or family-run SMEs. Many of these SMEs are also world leaders because they operate in niche markets or offer competitive advantages due to their agile innovative power.

### **1.4.2 Introduction**

Already today, many medium-sized companies involved in the value chains of large corporations (SE, AG, etc.) are forced to comply with formal requirements and to be accountable for compliance with social and environmental standards. These SMEs therefore apply formal management systems to manage environmental, social and quality issues and are certified accordingly (e.g. ISO 9000, ISO 14000 et seq., EMAS, IFS QS, etc.).

With the CSR reporting obligation, further transparency requirements will apply to SMEs in the future, which, in line with the materiality principle, also include aspects of strategy, governance, compliance, stakeholder management and much more. Large corporations usually have the capacity to use GRI4 or Effas for their reporting. They usually have sustainability teams in the range of 3–25 employees. In SMEs,

sustainability is either done by the owner himself or by one person as an additional task (e.g. by the quality manager, communications or CSR/sustainability officers, etc.).

Our own experience, as well as studies by chambers of industry and commerce and user surveys by the German Council for Sustainable Development, shows that many SMEs are already responsible from an ethical perspective. However, it is difficult for these companies to establish the link between CSR and business success. They usually do not have a sustainability strategy integrated into their core business. One source of entrepreneurial strategy can be dialogue with civil society and its institutions. However, few SMEs have systematically captured their stakeholder universe and developed a dialogue strategy that helps them to ground their core business as societal demands increase. And finally, the mostly intrinsically developed values or ethical (sometimes religiously motivated) principles of the entrepreneur are not always fixed as such in writing, but at best are “scattered”, e.g. in supplier contracts and cooperation agreements.

### **1.4.3 German Sustainability Code (DNK): Reporting Tailored to Family Businesses**

In order to submit a low-threshold offer to the owner-managed or family-run medium-sized companies in order to meet increasing transparency requirements, the so-called German Sustainability Code (DNK) was developed in Germany in a comprehensive dialogue process. This code contains only 20 criteria, complies with the EU reporting obligation and can be applied across Europe as a “Sustainability Code”. At present, the international roll-out of the Sustainability Code is taking place as a possible standard for Europe as well as an option for SMEs to meet EU reporting requirements. While the explanatory GRI manuals and the additional Sector supplements sometimes cover several hundred pages, the DNK comes out with a 50-page manual. In order to make SME fit in Germany, a nationwide initiative was started together with almost 100 training partners. Medium-sized companies applying the DNK prepare a so-called declaration of conformity. Almost without



exception, all users report that the process of a first declaration of compliance alone has led to an in-company learning effect and has highlighted strategic and operational gaps.

Using the example of Brocker Möhren GmbH & Co. KG (<http://brocker-moehren.de/>), it would be possible to show how the company has developed historically, which values or virtues have been handed down and what motivations are to be met to meet the increasing transparency requirements and increase the strategic view on the generic topic of sustainability.

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# 15

## Company Case Study 8: Cucinelli—A Humanistic Enterprise for a Sustainable Growth and a Sustainable World

Mara Del Baldo

### 1 Introduction

This section presents a case study relative to an Italian large Group, Brunello Cucinelli, that is of particular interest for its business model and the path of growth, characterized by a coherent and authentic CSR orientation.

The study employs a qualitative research approach. Data has been collected through a variety of sources: analysis of information drawn from the company website, document analysis of company reports (the consolidated non-financial statement) as well as relevant articles published in magazines and scientific publications (Eisenhardt and Graebner 2007; Yin 2003).

The remainder of the chapter is structured as follows: firstly, it provides a brief description of the company; secondly, attention addresses

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M. Del Baldo (✉)

Department of Economics, Society and Politics, School of Economics,  
University of Urbino Carlo Bo, Urbino, Italy  
e-mail: mara.delbaldo@uniurb.it

the humanistic enterprise model and the leadership style. Finally, conclusions summarize the most relevant insights emerged from the case.

## 2 Company Profile

Brunello Cucinelli Spa is an Italian couture house of approximately 1500 employees and 3500 subcontractors listed on the Italian stock exchange (MTA). Employees of 47 different nationalities work for the Cucinelli Group. The company was founded in 1978 by Brunello Cucinelli, stylist and entrepreneur, in the medieval hamlet of Solomeo, a small hilltop village in the region of Umbria (Central Italy) that counts about 400 inhabitants not far to Perugia. The company is one of the best-established brands in the luxury and casual-chic fashion sector, the so-called absolute luxury (Minoja 2015) and is specialized in cashmere. It is one of the most exclusive brands of Italian lifestyle worldwide, distributed in over 60 countries to mono-brand boutiques and selected multi-brand stores. Brunello Cucinelli Spa's success, whose main financial results are shown in Table 1, is rooted in the history and Italian culture and is founded on a combination of high-quality material, innovation, creativity and artisan skills which are the pillars of the corporate identity and the business model.

Brunello Cucinelli, Chairman and CEO of the company, commented the results achieved in the previous year (2016) as follows: “*Another splendid year for our industry has just ended with double digit revenue growth and a very agreeable image of our brand at a universal level. To all our esteemed employees, coworkers, clients and shareholders, who help us feel like custodians of creation, we would like to express our most heartfelt thank you, thank you, thank you*”.

As one can read in the last consolidated financial statement: “*The year 2017, an especially fine one for the business, has left an important mark on our history, enabling us to reach and exceed €500 million in sales and allowing us to continue looking to the future with unchanged confidence and serenity while at the same time fully respecting the economic and moral dignity of all those ‘thinking souls’ who accompany the Company’s life in a*

**Table 1** Brunello Cucinelli Group's results (2017)

Group consolidated turnover (net revenues)	€503,571 thousand, an increase of 10.4% with respect to 2016
Revenue from sales and service	An increase of €4965 thousand (+13.4%) with respect to the figure from 2016
Growth in all distribution channels	Significant growth was achieved in all distribution channels and in all geographical areas: Retail mono-brand; wholesale mono-brand; wholesale multi-brand: +10.4%
Net debt	15,703 vs 50,956 in 2016 Approximately €51 million on December 31, 2016, a decrease on the figure of €56.4 million on December 31, 2015
Net invested capital	278,894 vs 276,838 in 2016 (+0.7%)
2017 EBITDA	87,476 (vs. 76,692 in 2016), equal to 17.3% of revenue from sales and services, reflecting an increase with respect to normalised EBITDA as at 31st December 2016 of €9261 thousand, representing an increase of 11.8%
Net profit	€52,485 thousand (vs 37,119 in 2016) accounting for 10.4% of Revenues from sales and services

Source Our elaboration drawing from the consolidated report (2017), [www.brunellocucinelli.com](http://www.brunellocucinelli.com)

*harmonious synthesis of profit and gift. We are particularly satisfied with the highly positive atmosphere circulating around the brand, the decisive appreciation with which our collection proposals are received and the lifestyle that we believe we are capable of creating, starting with our values and business identity. All of this enables us to continue working by following the high ideals that have always represented the pillars of our business: a balance between working life and private life, sustainable growth and a 'fair' use of technology*" (Brunello Cucinelli Consolidated Financial Statements at 31 December 2017, p. 31).

Namely the comments about the Group results for 2017 point out a special mention: "*We are particularly pleased with the results obtained and even more so with the image which we hope we have succeeded in transmitting, with the places where we live and with respect for human being, dignity and the beauty of our land*" (Consolidated Financial Statements at 31 December 2017, p. 33).

Sustainability of growth and healthy profitability are distinctive features of the Cucinelli Group which in 2012, was listed in the Stock Exchange market, setting the basis for the future growth. Brunello explained to his employees and collaborators that resources were not enough for further growth. Listing would have provided the benefit of an adequate capitalization. Brunello shared with employees and collaborators the results achieved in that year and in the following ones. At the end of the first trading day, the trading price closed at 50%. Each employee was awarded an extra prize of a few thousand euros as a sign of gratitude, appreciation and closeness to the employees' families.

However, this choice was not only made for financial reasons, nor simply be attributed to the high growth orientation. Instead, it marked the Brunello's will to let investors share the idea behind the Group and spread a ideal of capitalism conceived as a new Renaissance resting on the great values of humanity.

### 3 The Humanistic Enterprise Model

In the medieval hamlet of Solomeo (near Perugia), Brunello Cucinelli created a new way of doing business: "a company with people at its core, where work is conceived as an expression of human value, profit as a mean to achieving the *true good*, that is to improve the lives of workers, to develop and recover the world's beauty" (Brunello Code of Ethics 2011: 3).

A similar vision started when Brunello was a boy. He often witnessed his father working in a hard and unwelcoming work environment. Being an acute observer of the world, he started to develop his dream: to promote a concept of work capable to ensure respect for the moral and economic dignity of human beings. This is the key element to understanding Brunello's personality and the success of his business, intended not only as tools to produce profit and economic benefits, but a wealth-generating entity and a driver to develop "a gentle capitalism" that enhances human beings.

Indeed, Solomeo became a sort of laboratory to trigger a different way of doing business that is a contemporary form of "neo-humanistic

capitalism” that has been defined as “humanistic capitalism”. Brunello Cucinelli has set up an innovative business reality where human being lies at the core and work is conceived as an expression of human value. Accordingly, profit represents a mean to achieve the higher end of the ultimate good to improve the workers’ lives.

The Humanistic Enterprise is the noblest form of expression of all of the rules of ethics that humankind has established over the centuries. A form of modern capitalism with strong roots in the past, where profit is earned while seeking to avoid harming humankind and part of that profit is then used to pursue any initiatives that are suited to effecting a concrete improvement in the conditions of human life. Within the Company’s *organization*, the common good is the touchstone, the guiding force towards achieving prudent, courageous actions. Humankind is at the centre of all production processes and human dignity is restored through the rediscovery of the Conscience. (Brunello Cucinelli Code of ethics 2011: 4)

These values and principles, established over more than 30 years of history, are now naturally enshrined in the Code of Ethics, through which the Company reinforces the values and responsibilities that have always distinguished its business culture (Table 2).

Among the aforementioned principles, some of which (i.e. respect for the individual, the environment and territory, centrality of the firm and quality) are similar and consistent to the pillars of other exemplary

**Table 2** General principles (of the humanistic enterprise)

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Legality
Confidentiality
Transparency
Fair competition
Personal dignity
Integrity and propriety
Quality
Environmental protection
Responsibility to society

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Source Our elaboration of Brunello Code of Ethics (2011: 5), [www.brunellocucinelli.com](http://www.brunellocucinelli.com)

CSR-driven SMEs and Italian “territorial” companies<sup>1</sup> (Del Baldo 2012b, c) the following are particularly distinctive with respect to the humanistic model: personal dignity, integrity and propriety, environmental protection and responsibility to society.

First, the company undertakes to promote respect for the physical and cultural integrity of individuals and respect for interpersonal relations. It guarantees working conditions that are respectful of individual dignity and safe working environments. It promotes the value of human resources, increasing the wealth of skills possessed by each employee.

Second, relationship with stakeholders is guided by the principles of propriety, cooperation, loyalty and mutual respect, which consists in acting with a sense of responsibility.

Third, the company constructively contributes to environmental sustainability in all of its activities. The commitment to safeguard the environment is put into practice by planning activities that seek a balance between economic and environmental needs in accordance with Italian and international directives.

Finally, the company takes account of the needs of the community in which it conducts its business and contributes to promoting quality of life as well as economic, social, cultural and civil growth.

Alongside the fundamental values and general principles of respect for the law, integrity, transparency, propriety and good faith, the Code of Ethics places a strong emphasis on the objectives of sustainable development, including the wellbeing of the people who work at and collaborate with Brunello Cucinelli and the Company’s responsibility to the local community. (Brunello Cucinelli Code of ethics 2011: 4)

The humanistic enterprise model triggered by Brunello Cucinelli, known as the “Prince of Solomeo” (Mead 2010) derives from the vision and charisma of the founder, (Bruni and Sena 2013) born in 1953 in a peasant family in Castel Rigone, a fifteenth-century little hamlet near Perugia. After obtaining a diploma as surveyor, Brunello Cucinelli enrolled in the faculty of Engineering. However, he dropped out

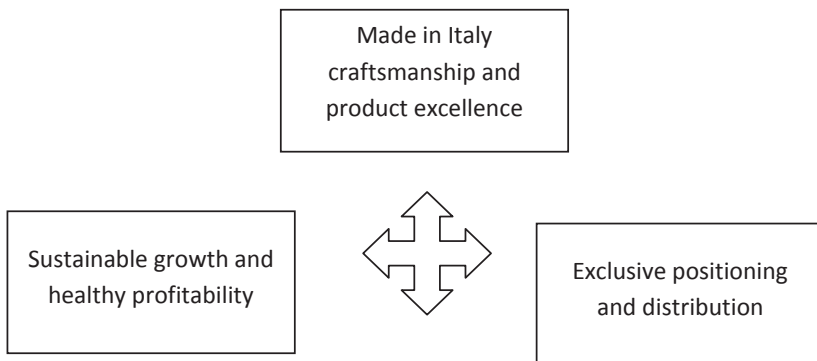
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<sup>1</sup>See: Company case 4, BoxMarche.

in 1978 to set up a small company and implement his business idea: to dye cashmere, which at that point had mainly come in natural or more basic colours. In 1982, after getting married, Brunello moved to Solomeo where, in 1985, he purchased and restored the tumbledown castle that became the corporate headquarter, making his dreams come true (Bianchi Martini et al. 2015).

In the annual company report, the section devoted to shareholders and values states: *“I would like our products to speak of our land and place of origin, while we strive to work with dignity, tolerance and respect”*. Therefore, being a shareholder of the Group means: supporting and sharing a value system and a philosophy that place the human being at the core of every project; sharing a long-term sustainable and ethical growth; according to a business model that has enabled the brand to become a world-class member of the “Absolute Luxury”; investing in a company oriented to a sustainable growth.

The foundations of the business model are as follows stated: (1) search for top-notch quality, excellence in craftsmanship and manual work and skills; (2) exclusive products which are expressions of authentic made in Italy; and (3) the preservation of values that make up the company’s DNA: dignity of work, profit and a special relationship with the surrounding territory, in a “gracious” and constant long-term development plan (Fig. 1).



**Fig. 1** Brunello Cucinelli Spa’s business model (Source Our adaptation from Brunello Cucinelli annual report [2016], [www.brunellocucinelli.com](http://www.brunellocucinelli.com))



Brunello's philosophy can be summarized in the following statement: *"During my lifetime, I have always nurtured a dream: a useful work to achieve an important goal. I have always felt that business profit was not enough to fulfil my dream and a higher purpose was to be found"* (Brunello Cucinelli).

Many projects were triggered to make this ideal come true. For example, in 2013, the Solomeo School of Arts and Crafts was established. The School is located in the Forum of Art, built exclusively by Umbrian master craftsmen. It also includes the Neo-humanistic Aurelian Library, the Gymnasium, the Amphitheatre and the Theatre. Brunello's vision requires that the memory of an important humanistic factor such as craftsmanship is preserved and passed on to future generations. Moreover, the Project for Beauty—presented in 2014 and supported by the Brunello and Federica Cucinelli Foundation—entailed the creation of three huge parks in the valley (the Agricultural Park, the Secular Youth Club Park and the Industry Park), partially recovering the property occupied by old abandoned factories and using it to grow trees, orchards and lawns. This last project points out the respect for (and crucial value attributed to) the earth, "from which all things are". In particular, it exemplifies an integral ecology orientation and highlights the people and company's duty to restore the dignity of the land and act as a guardian of creation (Pope Francis 2015; Jakobsen et al. 2017; Del Baldo 2017).

Moreover, among the pillars of Brunello's Philosophy which are consistent to the Group's Sustainable Business Model are: the awareness of the decline of consumerism in favour of a fair use of things; the rediscovery and the enhancement of pleasant peripheries; and the achievement of a fair working life.

Consuming means impoverishing and depleting, whereas if we use our resources reasonably, they have the time to grow back. The well-being of society coincides with a fair use of things, therefore a gracious, sustainable and healthy growth turns out to be perhaps more human. (*La Repubblica*, 20 September 2014)

According to his assumption that *"Beauty generates value and that everyone must feel responsible for the beauty in the world"*, the entrepreneur

has always invested energies in valorizing “peripheries”, considered precious treasure chests of traditions, norms and values, that is recognizing the value of social capital spread in local areas (Avery and Bergsteiner 2011).

Peripheries are often seen in a negative manner. However, city outskirts, such as Solomeo, are beautiful places when humanity and the dignity of the people living there can express themselves fully. We must be able to envisage and imagine a new concept of periphery, a place that respects the dignity of human beings and things alike. In ancient Greek the word ‘periphery’ signified circumference, a circle, namely the most perfect of all shapes. Peripheries must be pleasant places, where people acknowledge their identity and find meaning in their existence.<sup>2</sup>

The Project of beauty carried out in Solomeo means giving back to nature and to the wonderful landscape of the Umbrian hills covering over 80 hectares of land. (*La Repubblica*, 27 November 2014)

A third pillar triggered by Brunello is that everyone’s work represents an indispensable contribution to the common progress and the common good (Ketola 2008; Sorci 2007). “The quality of life, emotional relations and the personal lives of workers are also values to be safeguarded” (Brunello Cucinelli, Code of Ethics 2011: 4).

A fair working life rests on the same ideal principles as a fair use of things. Work, regardless of its nature and kind, should never encroach upon people’s life, their rest, the time they need to find a balance between their soul and their body. In our company, it is forbidden to work past the agreed working time. Employers should never steal the soul of their workers by depriving them of the time they need to lead a healthy life. Employees in Solomeo are invited not to send emails or to be available for business purposes past the end of their working time. And even during work, we have realised that talking on the phone rather than just

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<sup>2</sup>Brunello Cucinelli website.

communicating via email can be more effective and satisfying. In this regard, it is worth recalling a suitable statement by Saint Benedict who warned that every day we should ‘look after our mind through study and our soul through prayer and work. (*La Repubblica*, Capitalism must keep step with mankind”, 21 June 2016)

Accordingly, a distinctive characteristic of the corporate philosophy is the space reserved for conviviality, realized through several moments of collective sharing that allow a shared management enhance a collaborative leadership. Among the several tool implemented to operationalize such principle are for example the committees and the councils that favour information and relationship exchanges, such as: the “development council” (formed by the first 15 company figures that meets monthly to share the guidelines of the activity); the “council of the 50” (which broadly transmits objectives in the Group) and the “operational committees”, which meet frequently (human resources committee, development committee, architectural planning committee). The emphasis is given to moments of collective sharing of issues that affect the life of the company and translate into shared management. The councils and the committees are firstly aimed at identifying the guidelines of the company’s activity consistent to the pillars of its philosophy and secondly at enhancing ideas, projects and actions. The strategic plan is shared with all the employees, who are involved with the company’s activities and strategies through periodic meetings on a quarterly basis. The entrepreneur believes that this involvement increases the respect, awareness and responsibility of individuals towards the company and increases the level of attention, satisfaction and efficiency.

Conviviality is also favoured by the company environments that promote the development of a community founded on shared values. To this end, a cultural system has been created, including the forum of the arts (theatre, amphitheatre, philosophers’ garden) because Brunello is firmly convinced that the serene environment, the beauty of the places and the cultural activities, stimulate and the flourishing of people. Culture and beauty emphasize human creativity too. A further example

is The School of Arts and Crafts in Solomeo aimed to train human beings and dignify work focusing on “Art, culture and spirituality”, thus blending tradition and modernity and combining corporate objectives and human needs.

In this regard, the employees affirm: “*we have a canteen, great food, table service, and we pay less than three euros every minute of overtime is paid and the working time ends at a half past five in the afternoon*”. The reduced timetable derives from Brunello’s belief that rules and schedules must guarantee personal growth, without stealing time to the personal life and the family, a precious time that cannot be lost (Minoja 2015).

Our integral quality is the result of everyone’s wellbeing. And well-being is achieved with the pleasure of work but even more with life together with loved ones, people who love each other, with overall satisfaction. Work must be reconciled with personal and family life. If a man works late and, he has no sufficient time to devote to his children, his wife, for himself. He will lose the most beautiful part of life. This is why we do not leave after 5.30 pm. I personally apply this rule. If someone needs time for a particular reason, he/she does not need an authorization from a superior, as long as he/she tells and explains his need directly to his colleagues. (Brunello Cucinelli interview, in Minoja 2015)

This belief comes from afar and matured when Brunello was a boy, namely when he looked his father’s eyes that were really sad every evening. His father (an uneducated farmer) worked in a cement factory and went home downcast after a long working day, often humiliated by superiors and managers. He never complained about his salary and fatigue, but he was wounded in his dignity. In those occasions, Brunello realized that the work had to ennoble man, rather than humiliate people.

Over the years, Brunello has been honoured by national and international award (Table 3), such as the “Knight of Industry” assigned by the President of the Italian Republic and the honorary degree in Philosophy and Ethics of Human Relations by the University of Perugia.

**Table 3** Brunello's awards

1998	Istituto di Belle Arti di Perugia (Italy)—Perugia Institute of Fine Arts (Academic title)
2003	Accademia Biella (Italy) cultura "HomoFaber Homo Poeticus" (Culture Academy of Biella)
2003	USA: prize "Best of the Best" award attributed to the best companies in the world
2009	USA: "Best of the Best" award attributed to the best companies in the world
2004	Pitti Immagine Uomo (Men image): first place for the best creative talent
2009	Olivetti's Entrepreneur (Imprenditore Olivettian) award assigned by Ernst & Young
2009	Imprenditore Italiano dell'anno by Leonardo Qualità Italiana
2010	Confindustria Award for Excellence "Andrea Pininfarina" (Italy)
2010	Forum Price Textilwirtschaft
2010	Knight of the Italian Republican (assigned by the President of the Italian Republic)
2010	Laura Honoris causa (ad honorem degree) in ethical philosophy of human relations (University of Perugia, Italy)
2011	Prize "Guido Carli"
2011	Prize "Creatori di Valore" (Creator of Value)

Source Our elaboration from Brunello Cucinelli annual report

## 4 Growth Driven by a Human-Based Set of Values

In pursuing the "humanistic enterprise" people in Solomeo work to achieve a shared objective adhering to a system of "soft" intangible values that represents the living core of the entire Group. These values are not simply "stated", rather they are "lived" (Painter-Morland 2006). Indeed, the company is not conceived as "a fruit to be squeezed", but a community that must live and maintain its prosperity in the long term (Bianchi Martini et al. 2015: 13). The founder (Brunello Cucinelli) clearly stresses that the profitability of sales (usually measured by the ration EBIDTA/turnover) should not be maximized beyond certain limits, such as 19%. Exceeding these limits means that we are stressing the inputs or that the prices of the products are too high. The entrepreneur states: "*our products are expensive due to the high quality of the*

*materials, the quantity of work and the artisan component of the work*” (B. Cucinelli, in Minoja 2015: 12).

Maximizing profit means having a speculative approach in managing the company, thus favouring stockholders’ profit instead of stakeholders’ expectations. Conversely, the Group is oriented to favour a growth and a gentle capitalism, which generate healthy economic and lasting development, respectful of people and relationships, before profit (Sausser 2005). Such an approach proves successful, because the performance of the Group has been steadily growing over the years, despite the global crisis and the high competition that characterizes the sector, which is a mature sector. It is questionable whether it is replicable in other company contexts. One can argue that such an approach is detectable in other Italian companies (Del Baldo 2012b, c), belonging to other sectors. These exemplary and high performing companies seem to have a common root precisely in a model of sustainable growth that is centred, even before the competitive growth, on the respect for people and the desire to make the people who work there flourish, as well as to contribute to the local context and the environment in which they are located. In short, they are firstly marked by the desire to act as agent of civilization, while development and success are a sort of consequence of such orientation.

“Profit must be achieved in respect of the moral and economic dignity of the human being. Profit must be there, but it is not our goal to maximize it”. “The goal is to distribute the value created among those who contribute to generate it, starting with employees and collaborators. The whole process of creating value must revolve around the dignity of people. Employees must find pleasure and satisfaction in their *work*, thanks to the beauty and quality of the product and the environment where the product is created. The professional activity carried out must be adequately remunerated”. (Bianchi Martini et al. 2015: 12)

Accordingly, development is intended as a continuous, incremental and multidimensional growth that must occur step by step. “The company must last and grow in harmony over time. Ours is an industrial business. However I would prefer that one call us artisans. We said to our investor: “if you believe it is a contained and constant growth, which

goes from 8 to 14%, then you are welcome to invest in our company. If you want fast and high growth, then we do not do well for you. We want to govern growth, not be overwhelmed. (...) Money has value if it is spent on people growth. This is our goal. This is why an important part of revenues is reinvested in the company and on average one-fifth of our profits are devoted to humanity, to the restoration of churches, houses, hospitals, of those in need” (Bianchi Martini et al. 2015: 12).

## 5 Which Leadership Style for a Humanistic Enterprise?

Brunello Cucinelli likes to call his employees “thinking souls”, thus revealing the values that are featured in his company’s history: the “people-centred approach to development, the concept of work as a full expression of the human being and the care of workers”.

The founder and current CEO and President of the Group testify a charismatic and servant leadership style (Patterson 2003; Palshikar 2007) aimed at pursuing a growth based on valuing people, developing people and the surrounding community. He treats all employees and collaborators with great respect and helps them to feel that their work is greatly valued. For example, employees receive a salary higher than the industry standards (exceeding 20% the average of the sector). “Our comprehensive quality is the result of the inner quality of each and every one of us” (B. Cucinelli). Moreover, he favours opportunities for personal and professional growth within the organization and the local community. He manifests a caring for people and a spirit of attention to the motivations and needs of employees and collaborators, being attentive to trigger the best out of everyone.

Finally, he is a champion in building community and nurture the spirit of the place (the so-called *genius loci*). Brunello Cucinelli is a genuine expression of the Umbrian region and his Group is an example of “territorial company” capable to promote paths of territorial social and environmental responsibility (Del Baldo 2012a, b). He carefully safeguards the sensitivity and values of “his land”. The humanistic vision,

the search for Beauty and the passion for original handcrafted products are generated by the beauty of the landscape that recalls a Renaissance painting, with its fortified villages, churches, castles and towers standing out against the hills. Spiritual tension, a philosophy of work and the attention on workforce have their roots in an extraordinary Italian medieval history, enlightened by the religious experiences of Saint Francis of Assisi and Saint Benedict of Norcia, and by artists such as Giotto and Perugino.

## 6 Conclusion

Brunello Cucinelli is an expression of a sophisticated concept of a contemporary lifestyle. He is an entrepreneur who has been able to make an “inner journey” by finding the profound values of human action. From this journey, he has drawn the impetus for a virtuous management, which makes the company flourish in a harmonious way along the financial and competitive dimension, as well as the ethical, social and environmental dimension.

Brunello is convinced that the source of a good company lies in the spirit of human beings, capable to live and act with trust, courage, strength for being resilient in facing difficulties and avoiding to be overcome by the success. It is a spirit that preserves from the dangers of a short view, because it allows the dedication to the mission of the company, to a farsighted vision, and the values that orientate the daily work. He acknowledges that managing a company well or badly is always a fact of heart and mind, where the heart is the place of desires and the mind the place learning to satisfy those desires. Accordingly, the growth and healthy profitability of the Group derives from a model of humanistic capitalism rooted in quality excellence, Italian craftsmanship and creativity, flourishing of human resources and the community.

Therefore, empirical research helps us to shed light on the drivers of corporate sustainability management in daily business (Boons and Lüdeke-Freund 2013; Stubbs and Cocklin 2008; Roome and Louche 2016) and to understand the features of a leadership model that allow a sustainable growth and the implementation of a sustainable business



model (Salzmann et al. 2005; Schaltegger et al. 2012). Past case study analyses (Stubbs and Cocklin 2008) empirically verified that organizations adopting a sustainable business model develop internal (structural and cultural) capabilities and collaborated with key stakeholders to achieve sustainability for the socio-economic and environmental system they belong to. This takes place because societal and cultural demands for sustainable development evolve outside the economic sphere. Sustainable development denotes in fact a process where ecological, economic and social values are balanced in continuous action (Lélé 1991). Accordingly, organizational change in business enterprises (Birkin et al. 2009) rests on structural and cultural attributes and are derived from the external socio-economic environment or internal organizational capabilities (Stubbs and Cocklin 2008).

Moreover, literature suggests a relationship between sustainable business models and social value creation (Seelos and Mair 2005, 2006; Johnson 2010). Corporate social innovations provide solutions to alleviate urgent social problems and can be procured by developing self-sustaining businesses instead of profit maximizing businesses and giving space to social and environmental issues. In this regard, entrepreneurial and managerial leadership styles play a crucial role in shaping organizational culture, especially through leaders' moral behaviour and values applied to decision-making, internal procedures and external relationships (Zsolnai 2011; Melé 2012; Burns et al. 2015; Del Baldo and Baldarelli 2017).

In conclusion, while many approaches used for spreading CSR and sustainability have been (and are) incapable of linking social responsibilities and sustainability to the core business and the value creation processes (Visser 2011), a sustainable growth can be built upon the creation of value for all stakeholders and the natural environment (Abdelkafi and Täusher 2015), encompassing a wide range of changes that affect the company culture and values, skills and knowledge, and relationships with stakeholders and the wider societal and cultural system. One can argue that a sustainable growth and "a gentle capitalism" that enhances human beings are not a utopia, but a real possibility for every type of enterprise. However, such possibility can only become concrete

starting from a precise will, which must be triggered and shared by the entrepreneur and the top management and spread throughout the organization, that is the will to adhere to the philosophy of integral and multidimensional development (Jakobsen et al. 2017) that, seems, even if slowly—also “thanks to the push” caused by the latest crisis—to induce businesses around the world to strongly question and “revise” their business models.

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# 16

## Company Case Study 9: Virtues Circles and Innovation in Corporate Governance of EoC Enterprises—The Case of the First Business Park in Brazil

Maria-Gabriella Baldarelli

### 1 Introduction

This chapter focuses attention on several innovations in corporate governance, that are analysed in Economy of Communion enterprises (EoC) (Lubich 2001).

The EoC enterprises project was born in Brazil on 1991 to implement in economy and business the “culture of giving” in opposition to the “culture of having”. The EoC project (Baldarelli 2005, 2011; Bruni and Crivelli 2004; Argiolas 2014) is a tool to pursue the broader objective to develop and to reach, all over the world, the fraternity culture, that had its origins inside of the Focolare Movement (Lubich 2001;

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M.-G. Baldarelli (✉)

Department of Business Administration,  
University of Bologna, Bologna, Italy  
e-mail: maria.baldarelli@unibo.it

University Institute of Sophia, Florence, Italy

Gold 2010). During more than 25 years of the project, EoC parks had been created all over the world to experiment and to develop reciprocity, trust and dialogue (Argiolas 2014) among enterprises, that take part in it. Those are firstly considered communities of people (Baldarelli and Del Baldo 2017). In this work, we focus the attention on the case of Polo Spartaco-Brazil.

The main aspects of EoC enterprises will be outlined here briefly to help understand further reflection: *“This means that, partly, the differing models, based upon the conflicts, make space for an innovative model, which might be that of the Economy of Communion, where elements of the differing theoretical models that can be identified for the corporate governance come together. From all this, a model surfaces, which, rather than being based upon conflicts, is based upon collaboration of all the various internal and external business players. Indeed, there are two aspects qualifying this model of corporate governance from an economic stance: the first one is that these businesses have to aim towards growth and production of profit while respecting ethical principles, including honesty and compliance with the law; the second one considers the wealth of the business not as being an end in itself rather as a means, therefore, not just is the workplace comfortable and welcoming, the working hours are adequate and payment is in proportion to effort spent but also each person, who works in this typology of business, finds an air of brotherhood, directed towards the culture of giving, where communication is of fundamental importance both within and outside the business, and where the opportunities of human and professional growth are to be found at any level of the pecking order”* (Specht 1998: 6–7).

We affirm that the role of the sole manager makes space, in these companies, for a collective figure of manager, where everybody plays his own “active” role and is involved in managing the company, where, as a leader that listens, promotes and involves people, it can create new services through collaboration with others, making them able to take part (Burckaert 1999; Argiolas et al. 2010).

## 2 Innovation and Corporate Governance from the Enterprise to the Business Park: Some Notes

The EoC enterprises have an ethically directed mission (Baldarelli 2005). From the viewpoint of governance, as referred to systems of power, they acquire the capacity of sharing business experience with coherence and trust (Argiolas 2014) with other companies, whether within or external to the project, to be able to survive and develop. Indeed, the governance of a company, which has communion at its base (Baldarelli 2011) as driving principle, not only allows transmitting trust and therefore creating this “relational capital” within the business at every level and organisational positions, but especially permits spreading trust outside, even at the moment where it finds itself facing structural choices for the company, like: outsourcing production as an alternative to the acquisition of another business.

The decision-making process regarding the above-mentioned structural choices is initially complicated by a series of preliminary meetings, which permit clarifying well the positions of the interested parties, but such method of action is not carried on to voluntarily prolong decision-making procedures of the strategic top management, rather to underline that decisions are taken together, in the respect of each person-partner and all without a percentage which prevails over others. Problems are focused upon the beginning of the strategic process, going back to the previous example, but the trust that is generated creates an oiling of the future decision-making procedure, with greater possibilities of wider empowerment in full accordance with human values and therefore, the irrationality initially perpetrated, later comes back as economic convenience in the form of slimming down procedures and as a fuller responsabilisation of the various levels of the business organisational layout (Airoldi et al. 1989).

From this, we may infer that in the reflection, based upon the ownership layout, with reference to three main typologies of companies. The

first typology examines the public companies. The second type considers those companies having their capital held by few partners. Finally, the individual companies, where the “do-it-all-yourself manager” dominates. The governance of EoC companies goes beyond these concepts, which diversely qualify the *modus operandi* of the “policymaker” (Rusconi 1997). Indeed, as regards these three hypotheses, being able to speak of “relational ethics”, that is an ethics which grows by way of relationships. The relational ethics does not significantly change the organisational layout from the formal point of view. It is able to change the decision-making qualities. Relational ethics is transversally crossing each organisational level of the business and profoundly touching on its operative systems and motivating and involving personnel at various levels. This process makes the radical change of the organisational layout possible from the substantive point of view.

Besides trust, which grows throughout the company, reaches its effects outside the company too, and this leads to the facilitation of formal and informal relationships (Baldarelli and Del Baldo 2017; Argiolas 2014).

From this comes that within inter-company relations, both national and international, ethics spreads to the company networks as well (Lorenzoni 1992; Mancini 1999). Moreover, if there is a common ethics base, as in the case of the Business parks (Baldarelli and Del Baldo 2017), the network itself becomes a “moral player” in its operativeness (Rusconi, 1997: 92). The EoC park maintains, at the same time, the dignity and importance of the “moral subjectivity” of players, who actively exercise it during the carrying on of the company management.

### **3 EoC Business Parks: Conceptual Network and Case Presentation**

EoC Business parks are an interesting experience for analysing the development of inter-company relations, because in the first place they have a value network in common which mirrors the culture of communion. Secondly because EoC parks are made up of companies that are very different among themselves, which are nevertheless able to



develop economic-like synergies, such synergies are based on the sharing and on the communion of values and infrastructure.

Companies of the EoC Business parks project originated in Brazil, in the USA and Argentina, in Italy and in other countries. They comprise companies that already operating previously in other places which decide to set up in the area of the Business park. EoC parks involve companies deliberately constituted, in that area, to be part of the Park too (Baldarelli et al. 2015; Del Baldo and Baldarelli 2015).

EoC Business parks arose mainly in poorer countries, precisely to lend a concrete contribution to relieving situations of poverty of these countries. They are generally sited where there is already a residing nucleus of families which share the culture of “giving”, because the EoC park is the expression of the economic declination of this culture. Setting up an EoC Business park begins by constituting a society which, beyond committing itself to buying land in order to build the buildings for the production plants, is committed to supplying *start-up* and consolidation services to those EoC companies making up the Park.

Brazil, besides being the cradle of the first experience of companies of this EoC project, has also witnessed the birth of the first EoC Business park, in an area near São Paulo, with many environmental issues, which is called EoC “Spartaco” Business Park.

The EoC Spartaco Park covers an area of 4 hectares. There are EoC small enterprises, family owned, of different sectors, as it is described below. The company which manages it is the ESPRI S.A., which was constituted in 1993 and today numbers 3932 partners, indeed the logic of the Parks is to form companies with a large shareholder base, who manage them in such a way as to give the possibility of contributing, through buying small quotas of social capital, even to those who have little financial sums available. Later, some new enterprises had been constituted there. Such assets may be destined towards, for up to a third of the overall revenue, the relief of nearby situations of poverty, if they exist, or far-off ones. Corporate governance is divided by 4 directors: general director; financial director; administrative director and technical director. The board consider the President and deputy-president and 8 members.

The EoC Spartaco Business park includes the following production companies: La Tunica which produces clothes.

La Rotogine producing septic tanks, water tanks and plastic material, L'Eco-Ar producing cleaning products, The Prodite which distributes pharmaceutical products, Uniben Corretora de Seguros which deals in providing financing, especially through microcredit and it is growing of perhaps 15% each month, both to companies within the Business Park and to other companies, which demonstrate the need, and Pasticcino which is a company who produces cakes and biscuits for cafés.

Beyond the characteristics, which might make the EoC Parks comparable to forms of aggregation already known, we seem to single out peculiarities of the project at hand when compared to other business aggregations.

The first of the main peculiarities regards the contemporaneous extension, to many businesses in the same place, of the capacity of accumulating relational and human capital. This is pursued giving space to dialogue with periodic meetings to discuss about the state of art of partners and workers that are involved in the park. Such capacity is concretely translated, on the one hand, by an increase of productivity and therefore of the efficiency of these companies; secondly, which is a consequence of the first peculiarity, by the possibility of increasing employment and thirdly, by respecting and protecting the surrounding environment.

To confirm that which has been said, here follow some reports of local operators, one of those in charge at La Tunica is speaking: "Our objective is this: taking part in the EoC, with all its ends, but also bringing to the fashion industry a new message, a fashion which respects the personality of the person, a fashion which is also an expression of this personality. We are trying to create a family climate with them (employees), sharing meals for example, so, it is easier to get to know one another and help ourselves to resolve problems, even family and personal ones" (Ferrucci 2001).

Here are some thoughts of one of those in charge of Eco-Ar regarding environmental protection: "Water for washing is treated here and then delivered to a company which deals with its disposal. Waste products are recyclable and we sell them to companies that recycle them.

For us, it is very important to make the employees aware of issue of defence, respect for and promotion of the environment” (Ferrucci 2001: 358–359).

Finally, as regards the increase of employment and the creation of relational capital, here we tell of the experience of one of those in charge at La Prodite: “Currently, the company provides work for 4 people. Shortly, however, given the significant number of contracts, we are thinking of taking on at least another 5 people, so we will be able to help this region a little”.

And again: “...Every month we meet with all the businesses of the Business Park and with a representative of ESPRI, in order to share the difficulties encountered... for example, the question of safety which concerns us all and together we attempt to come up with a solution” (Ferrucci 2001: 357).

In such a way, the manager of Pasticcino says: “Pasticcino distinguishes itself from other companies in the industry for its way of building relationships between employees, customers and suppliers, ... and... we really need to commit to building relationships”. For example: “One day a group of Japanese people came to visit...After the tour one of them called me to himself and told me: ... do you know that I am a friend of the CEO of Starbucks? I could not believe it, years before I had sent many e-mails to them, without any answer. So I half-jokingly told him: ‘If you help me to have a meeting with him, you will be my best friend!’ So it happened. It was not only about having a meeting with him: in fact, N. gave me the key to being successful, because he suggested that I tell him how I had begun to make cookies in the kitchen of my house, and also about the EoC. And the meeting ended up being spectacular!” (<http://www.edc-online.org/en/eoc/business-parks/business-park-spartaco.html>).

The dimension of the businesses in the EoC Business park is medium-small. However the Brazilian government—noting that, compared to other areas, this area has increased employment figures over time—wanted to deepen its knowledge of the EoC project, which is also present in other parts of Brazil in a more widespread way than the EoC Spartaco Business park, in order to evaluate the opportunity to adopt it for a policy of growth and job creation and, therefore, of reduction of

unemployment which represents a grave plague in this nation. The government gave the opportunity to easily create other EoC Business parks in other sides of Brazil considering that a best practice.

The latest project in which the EoC Spartaco Park takes part is the International incubator of EoC start-up enterprises. That is a partial solution of poverty problems.

## 4 Conclusions

After having considered the first perspective under which *corporate governance* may be analysed, another aspect of the governance is highlighted which is relative to those internal control processes, both managerial and auditing, and this aspect again regards the role of the “poor”.

In fact there are the “active” presence of poor people, because they give their needs and the enterprises of the EoC park give one third of Income to try to solve poverty problems. This relationship grafts on a mechanism of cohesion, that involves, in a reciprocal and multidirectional way, all internal players of the EoC park companies, the partners, the administrators, the managers, the executives, the staff, etc.

This allows for the development and spreading of workers and employees reciprocal control, not with a viewpoint of punishment, but still with the intent of improving together all their performances. That means they are more watchful of how others workers operate. Moreover the situations of poverty develop a type of control, even if “remote”, to operate for a betterment of the quality of products for the common good too. Such quality goes well beyond of corresponding to parameters of quality certification itself. The quality is oriented towards providing well-being to the person who will have to use them, and towards maintaining efficiency. Efficiency is indispensable to be able to provide more means of sustenance to the various situations that the EoC companies are committed to sustain.

This new virtuous circle, that grafts on the internal control processes, is also useful for learning, settling and spreading of knowledge (Quagli 1995), indeed the requirements, needed for this type of problems, find

their roots in behaviours anchored to anthropological values which are judged to be indispensable (Métais and Moingeon 2001: 114).

From here it emerges that, the methods retained to be the most efficient, regard the active participation to the change of management of the company, which has to begin from “within” and if the “ethical basis” is the same, as for EoC businesses, working on this common denominator brings, in this regard, surely certain significant advantages about virtuous circles and the we-culture (Bartel et al. 2001: 369).

There are various authors that propose the importance and validity of ethical codes to partial solve conflict processes. They affirm, after having carried out in-depth research on the subject, that the codes are one of the elements that can contribute to making the company develop a “tension” towards betterment from an ethics point of view, but they are not absolutely the only elements (Fisher and Lovel 2000: 81). In EoC parks, there are enterprise guidelines to follow ([www.eoc-online.org](http://www.eoc-online.org)).

From this we deduce that, surely, the intention of realising codes of ethics means a serious interest, on the part of the business, of spreading, internally and outside, a certain way of operating which is morally oriented. Such an orientation, however, must be realised through the implementation of principles, like respect of fundamental human rights (Rusconi 1997: 242), to adopt during concrete operating. However this should be an attitude to tend towards actively and, especially, it should involve the people called to implement them, progressively motivating them (Fisher and Lovel 2000: 79).

EoC parks are the economic implementation of a Charismata of Unity and Fraternity and become transformative because communion is based on courageous reciprocity, that means to have the propensity always to be open to give without immediately, nothing to receive (Lubich 2001).

Clearly, these modifications, which exist within the company both in the mission and in the governance, have an impact upon the company tools of internal and especially external communication, not solely in unidirectional terms but within a recursive process in which each element of the model analysed feeds the others.

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# 17

## Company Case Study 10: Spreading the Culture of Sustainability—The SGR Group’s Experience (Italy)

Elisa Tamagnini and Mara Del Baldo

### 1 Introduction

This section is aimed to present the case of SGR Group, an Italian oil and gas company that has been selected since it represents an exemplary case of CSR and an innovative path of business sustainability orientation driven by a set of shared values. These values—drawn from the entrepreneurial and managerial team—shape the organizational culture and lie at the base of an intrinsic CSR approach. Moreover, the values system enhances the capability of the Group to play a key role within the local community in spreading the culture of sustainability among its stakeholders, and triggering innovative project in collaboration with a network formed by actors

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E. Tamagnini (✉)

Gruppo Società Gas Rimini SpA, Rimini, Italy  
e-mail: elisa.tamagnini@gasrimini.it

M. Del Baldo

Department of Economics, Society and Politics, School of Economics,  
University of Urbino Carlo Bo, Urbino, Italy  
e-mail: mara.delbaldo@uniurb.it



belonging to the socio-economic context, such as schools, universities, public institutions, not for profit and civic organizations.

We adopted a qualitative case study approach (Yin 1994) that allows us to answer the calls (Adams 2002; Gray 2002; Parker 2005) made for more fieldwork on social and environmental accounting research, to perform through engagement with companies and practitioners (Contrafatto 2011). Engagement research reduces the distance from the research field thus allowing the researcher to take the “standpoint of participants and *engage* in an ongoing process of negotiation leading hence to a more reflexive form of research with a deeper understanding of the research process” (Adams and Larrinaga-González 2007: 335). Accordingly, data were collected and analysed in collaboration with a company manager, namely the CSR and Sustainability officer who, since 2011, play a key role in implementing the SGR sustainability report, as well as trigger and manage several CSR projects.

The research procedure involves taking part in a number of meetings, round tables and focus groups. Indeed we carried out several semi-structured interviews addressed to both the entrepreneurial and top management and employees. The interviews have been carried out during company visits in the last three years (2015–2017). A second source of data has been obtained from the consultation of corporate websites and company documents (sustainability reports, the ethical code, and corporate publications relevant to the 50th anniversary of SGR’s constitution). All data were collected in collaboration with the company’s interlocutors, who took part to the research on the basis of a formal agreement with local universities (University of Bologna, Rimini Campus and University of Urbino). Furthermore we performed a direct observation during several meetings, workshops and conferences organized in collaboration with the company.

## 2 Company Profile

SGR Group is an Italian multi-utility and family-owned group, not listed, founded in 1956 in Rimini (Emilia Romagna Region) by A. Domeniconi. The historical company of the Group—Società

Gas Rimini Spa—(Rimondini 2009) was the first in the area to start the development of the infrastructural network to distribute methane gas from the city (Rimini) to the entire provinces of Rimini. In over 50 years of business activity (Table 1), SGR Rimini has left a significant mark on the history of the local and regional community and has grown steadily. Currently, the business areas include: sale and distribution of natural gas and electric energy; energy service and assistance in Italy and abroad; assembly and maintenance of solar and conditioning plants and sources of renewable energy; utilities technology and a congress centre (SGR Group Sustainability Report, 2017, 2018).

The Group includes several companies and serves respectively 41 municipalities in Italy and 42 in Bulgaria; it has over 240,000 and 5100 gas customers respectively in Italy and Bulgaria (Table 2). In 2018, SGR Group reached a turnover of over 409 million euro, had 476 employees and 361,943 customers. It obtained a net income of about 26 million euros, an operating margin of 33.7 million euro and 62,3 million euro of distributed value added.

Both the mission and the vision of the Group (Table 3) are structured around a set of “milestones”, that represent the corporate values: Integrity; Transparency; Consistency and Personal responsibility. The same values are expressed in the ethical code adopted since 2008 and attributable to the so-called system of perennial values (Catturi 2007) that orient the corporate strategies.

Corporate values constitute the first lever to foster social cohesion and favour the orientation towards CSR and sustainability. This orientation—shared with stakeholders—has led the company to obtain external awards (Table 4) and is summed up in the sustainability report (Gray et al. 1997, 2014; Baldarelli and Del Baldo 2013; Baldarelli et al. 2014) adopted by SGR since 2011.

The adoption of the sustainability report took place on the basis of a participative process centred on stakeholder dialogue—which has permitted the sharing of the values and principles—and on stakeholder engagement aimed to share objectives and corporate choices.

As part of the Group’s social reporting process, the international standard UNI ISO 26000—Guideline on CSR has been applied (Del Baldo and Aureli, forthcoming; UNI 2016). Concerning the

Table 1 SGR Group's history

1956	1959	1970	1990	1998
Foundation of Società Gas Rimini, the first local company dedicated to the management and distribution of gas for heating and domestic use	The distribution network begins to develop with the provision of gas to the city of Rimini	Gas distribution switched from propane/air to methane, thanks to connection to the SNAM national gas pipeline. New concessions are acquired and the distribution network expanded, not only in the Municipality of Rimini, but also in many other municipalities in Romagna and Le Marche	The company first begins to look to the international markets: Slovenia represents an interesting challenge. SGR Group enters the area of heating systems installation and maintenance for the first time	ISO 9001 adopted for certification of the Quality Management System
1999	2001	2005	2006	2007
Foundation of Utilita S.p.A., an IT company with significant competence in the Energy & Utilities sector. The SGR Group Quality Management System is certified by DNL-G	The new group headquarters and SGR conference centre open	SGR Group opens up to the foreign market in Bulgaria with the distribution and sale of gas	"Pronto Intervento" set up, to work alongside SGR Servizi in energy saving, installation and maintenance of boilers, air-conditioning systems and renewable energy sources	SGR Servizi enters the liberalized electricity market

(continued)

Table 1 (continued)

	2009	2010	2012	2013
2008 The boards of directors of SGR Group adopt a code of ethics and organization, Management and Control Model pursuant to legislative decree no. 231/01	SGR Group celebrates 50 years since delivery of its first cubic metre	TechnoTerm Engineering joins the SGR Group. A finance project is agreed with the European Bank for reconstruction and development and Intesa San Paolo	Approval of SGR Group's first sustainability report. Società Gas Rimini Group and SGR Reti implement an Integrated Safety and Environment Management System	Inauguration of the first SGR energy store
2014 Foundation of Sherden Energia, a service selling gas and electricity in Sardinia. International creative competition to design new company premises	2015 Tender awarded for the role of industrial partner of San Giorgio Energie. Foundation of Weedoo, a subsidiary of Società Gas Rimini Group, and competitor in the national energy sector	2016 Acquisition of 49% of So.I.g.a.s., a company selling gas and electricity in the Fermo area. Weedoo acquires 75% of SMG, a company operating in the liberalized gas market in the north of Milan. In Sardinia the 24 gas basin where Sherden Energia operates is inaugurated. Acquisition of 70% of Astea Energia, a company selling electricity, gas and other energy products to over 65,000 customers in the provinces of Ancona and Macerata		

Source Company Report SGR (2016: 7)

**Table 2** SGR Group today

240,858	Gas customers
84,968	Electricity customers
363.3 million	m <sup>3</sup> of gas sold in Italy
502.2 million	kWh of electricity sold
19,940	System maintenance and installation customers
5165	Bulgarian gas customers
4771	Heat management and district heating customers
90.1 million	m <sup>3</sup> of gas sold in Bulgaria
Italy	
2742	km of gas networks
269.2 million	m <sup>3</sup> of gas conveyed
Bulgaria	
851	km of gas conveyed

Source Our elaboration from Company Report SGR (2018: 11)

**Table 3** SGR Group's mission and vision

Mission	Vision
To supply energy and safe, efficient technical solutions to our local area	To commit on a daily basis to sustainable development, encouraging the use of alternative sources and the intelligent use of natural gas and electricity
To develop and improve a robust, far-reaching and sustainable link with the local community	To encourage a cultural process based on shared ideas and values, in order to enrich our range of services and support projects that put people first
To guarantee quality and efficiency at the right price, by providing ever-better services for over sixty years	

Source Our elaboration from Company Report (2016: 5)

methodology, the report has been prepared according to the guidelines of the Global Reporting Initiative, whose aim is to increase the focus on stakeholders (GRI 2013, 2014). In this regard, the President said: *“The sustainability report is the result of an analysis which renews a process of dialogue with all the protagonists of the system and the context in which the SGR Group operates and which contains challenging objectives on which we will concentrate our efforts. It is the story of a live experience with the territory, the community and our stakeholders”* (Micaela Dionigi, SGR Group President).

SGR Group has always considered CSR and sustainability an integral part of its mission, strategies and politics and the foundation to build

**Table 4** SGR Awards (2016)

Top Utility Awards—5th edition—First classified in the “sustainability” category	The award is attributed to the company with the best performance among 100 companies under examination. SGR Group has been awarded for the best results in terms of environmental sustainability and social responsibility, through the assessment of parameters, actions and company policies implemented in these areas <a href="http://www.toputility.it/">http://www.toputility.it/</a>
PMI Welfare Index—First classified in the “commerce and services” category	This index assesses the level of corporate welfare in small and medium-sized Italian companies The assessment takes into account three factors: the extent and content of the initiatives implemented for each of the 10 areas of Corporate Welfare, the way adopted to involve employees and manage their welfare choices, the originality of the initiatives and their distinctiveness in the Italian scene. <a href="http://www.welfareindexpmi.it/welfare-index-pmi/">http://www.welfareindexpmi.it/welfare-index-pmi/</a>

Source Our elaboration from *SGR Company Report (2016)*

and enhance solid relations with stakeholders (Gray et al. 1997, 2014). Since 2008 it has implemented processes, tools and procedures which represent the pieces of mosaic of responsible and sustainable business management. The choice made of drawing up a sustainability report in 2011 (SGR sustainability report 2012) is part of a process that started several years before but which was not formalized.

We are known as an innovative and dynamic multi-utilities company, respectful of the environment which is greatly tied to the territory and the community. (*SGR Group Sustainability Report, 2015*)

As gathered from the interviews and meetings with various internal stakeholders (both employees and responsible for marketing, organization, quality, safety and environment), it emerges that SGR puts a basic question before ideas, strategies and actions: “Are we dealing with an effective answer with regards the evident or latent expectations of one or more categories of stakeholder?” As the President states (see: the “letter to our stakeholders”, *SGR Group Company report, 2016*), underlines the

aforementioned orientation: “*We have arrived at our sixth Sustainability Report, and in these recent years have developed a business awareness that has enabled us to find a consistent and balanced way of operating that takes into account both ethical values and business projects. This is testimony to our commitment to make our objectives and results accessible and transparent to our stakeholders, in order to build the trust we need*” (M. Dionigi, President of SGR drawn from SGR Corporate Report, 2016: 3).

In this regard, the sustainability report describes the value added produced and distributed by the Group as per the GRI-G4 guideline indicators (GRI 2013) (Table 5). The value added is a parameter that represents the company’s ability to create value and distribute it among the various stakeholders categories: human resources, public administration, shareholders, finance providers, business and the community (GBS 2007, 2013).

In 2016, the SGR Group distributed to stakeholders in the local area €45.8 million, equal to 75% of the total value added. The value added

**Table 5** Distribution of value added

Category of stakeholders	Contents	Euros	%
Human resources	Salaries and wages, cost and other personal expenses	19,132,477	31.4
Company	Wealth retained within the SGR Group through self-financing based on a carefully designed dividend policy	17,948,115	29.4
Public administration	Payment, distributed in the form of direct and indirect taxes, net of any contributions received	15,123,416	24.8
Shareholders	The amount set aside for the finance-providing	8,221,029	13.5
Shareholders	Shareholders in the form of dividends and for the banks payment for short-term and long-term capital	484,308	0.8
Community	The amount gifted as donations. In 2016 social, cultural and sporting events were also sponsored for a total of euros 190 thousands	77,827	0.1

Source Our elaboration from *SGR Group Company Report* (2016: 13)

created and distributed in the local area consists of the economic value produced that was spent in the areas served by SGR Group, where the company has historically been present in Italy (Emilia Romagna and the northern Marche Regions), in addition to its more recently “acquired” areas such as Bulgaria and Sardinia (Italian island). The most significant part of the value added distributed in the area is represented by employees’ salaries (€19.1 million, 41.7% of the value distributed in the area). The employees come from and are settled in the local area, providing a constant link with the communities served.

### **3 The Willingness Educate: The Educational Responsibility of SGR Group**

Over the years SGR Group has nurtured an increasing awareness of its “educational responsibility” towards the use of energy. In 2017, it launched an important industrial development projects in some areas of Italy, involving and promoting innovation and competition in the local economies. Some projects aimed to enhance energy efficiency have been crucial in fostering responsible consumption choices. Accordingly, some areas of development (detailed in the following sections) have been classified as leading projects due to the importance of the stakeholders and their social impact: (1) SGR for Culture; (2) SGR for Schools; and (3) SGR for Sport. As the President affirms:

The underlying assumption for this project is the same as the one that led to its foundation around sixty years ago: faith in people and in their ability to develop a shared sense of belonging and joint responsibility capable of providing the strength to be forward-looking and to tackle the challenges of the future with optimism and faith in one’s own abilities. (M. Dionigi, President, Letter to our Stakeholders, SGR Corporate Report 2016: 3)

The Group can be considered a company “of the territory” (Del Baldo 2010) being particularly active in spreading throughout the local context the culture of sustainability through a wide variety of initiatives.



Indeed, it represents a key actor of a model of sustainable local/territorial governance promoted by a network of public and private operators (the so-called actors) that activate tools of participation in the socio-economic fabric and pathways to sustainable development aimed at the common good (Del Baldo 2010, 2013; Baldarelli et al. 2017).

#### **4 Material Aspects and SGR Group's Disclosure on Management Approach (DMA)**

This section briefly summarizes the material aspects that have been derived from the materiality analysis and the actions undertaken to satisfy both the company and the stakeholder's expectations.

SGR Group is at the centre of a wide and articulated virtuous circle, that requires an ongoing interaction within all the actors based on the respect of a common set of ethical principles, adopting the same economic metrics and maintaining a constant link with the territory and the environment, to address the themes of Corporate Social Responsibility on shared bases.

SGR Group attributes great emphasis to the careful reading of stakeholders' expectations and the definition of the material themes, which form the basis of the process of elaboration of the sustainability report. The sustainability report is annually preceded by the identification and analysis of the relevant topics for both stakeholders and the company. The consultation and involving of stakeholders was (and is) fundamental for drawing and implementing the materiality matrix (Fig. 1) which is a key tool to pursue an effective strategic management of sustainability. Coherently, the construction of the materiality matrix has been based on a process aimed at: identifying internal/external stakeholders and the priorities for both the stakeholders and the company; mapping the stakeholders and their priorities through their engagement; assessing the importance of significant aspects in relation to potential effects on value creation and the impact on strategy, performance and future prospects; prioritizing the aspects on the basis of their importance; and providing



the company management, the indications provided by the GRI and the benchmark with other companies in the sector. Secondly, the themes identified were evaluated by internal and external stakeholders (company management, top management, customers, suppliers and stakeholders representing the local community). The relevant topics were then evaluated (assigning a score ranging from 1 to 5) by the Group's top management through an interview addressed to 17 managers (including Chairman, Deputy Chairman, Chief Executive Officer and all function managers). In addition, stakeholder questionnaires were distributed during public events. The final scores were calculated as the arithmetic average of the assessments expressed by stakeholders. The joint evaluation carried out by top management and the stakeholder has given rise to the analysis of materiality, relative to topics exceeding an average the score of 3. These last were discussed in the sustainability report. Below the material areas are briefly described, as well as the relative actions.

#### **4.1 Creation of Economic Value**

Create economic value means having the ability to produce wealth, that is sustainable value over time. This result expresses the will and effort of the SGR Group in creating, through the growth in profitability, energy efficiency and stakeholder satisfaction.

*Effectiveness and monitoring:* great attention is paid—in addition to financial targets—to actions aimed at improving the risk management. Among the actions undertaken in 2016, 2017 and 2018 one can cite the growth and distribution of added value among the various stakeholders.

#### **4.2 Quality of the Services Provided, Attention to the Customer, Security and Continuity of the Gas Distribution Service, Fairness and Transparency of Commercial Policies**

Attention to the services quality has always represented a core issue among the strategies of the Group. Coherently, the correctness and transparency towards the customers and the citizens have always been

considered a cornerstone of the Group's activity to build and maintain lasting relationships.

*Effectiveness and monitoring:* great attention is paid—in addition to income targets—to actions aimed at strengthening capital strength and improving the risk and liquidity profile. Among the actions undertaken in 2016, one can cite: the disbursement of social bonus, the service for complaints, the joint conciliation service and the diffusion of the online desk on SGR service on the website.<sup>1</sup>

### 4.3 Initiatives Benefiting Employees: Employment, Work-Life Balance and Company Welfare, Health and Safety at Work

Creating a beneficial working environment is a key necessity since SGR Group firmly believes that a competitive edge is the result of the successful reconciliation between family, personal needs and work commitments. Therefore, special initiatives have been developed to help achieve this balance (Table 6).

**Table 6** Human resource initiatives and actions undertaken in 2016

Initiatives addressed to employees	Actions (2016)
Summer business hours	Constant internal and external training activities
Summer camps	
Relaxing at lunchtime	100% of employees involved in welfare initiatives
Fish buying group	5 free weeks of stay in summer camps for 52 children of the SGR employees
Company facilitator	
Children in the office with mum and dad local farmers' market	3 children have used the company creche
	9814 hours of training provided (23.6 average hours per capita)
	54 new internships in 2016
	200 workers involved in the annual meeting with the Chairman and CEO

Source Our elaboration from *SGR Group Company Report (2016)*

<sup>1</sup>For example, 10,584 customers have been registered for the Bollett @ click service of SGR Servizi.

In addition, the Group is constantly engaged in recognizing employees' merits and achievements. The development of human resources is constantly accompanied by communication initiatives that facilitate the carrying out of activities, encourage the sharing of objectives and the staff involvement.

#### 4.4 Anticorruption

The fight against corruption is a key concept for the sustainable development of SGR that pursues and bans corruption practices to ensure transparent and safe growth of the entire Group. The behavioural rules on which the activities are based rest on: technological and management innovation; integrity; consistency; transparency and personal responsibility. Specific tools have been introduced to manage the internal and external governance system (Table 7).

#### 4.5 Environment

Being fully aware that the territory in which the Group operates constitutes the main environmental asset to be respected and protected, SGR undertakes innovative energy efficiency initiatives aimed at optimizing the use of energy, preserving the environment and reducing the impact of its activity (Table 8). In 2016, the production of electricity from

**Table 7** Tools and action addressed to the governance system

Tools	Action undertaken in 2016
Ethical code Organization, Management and Control Model; Policy for Quality, Environment and Safety; and Quality Management, Environment and Safety Systems; Sustainability Policy	35 employees took part in training on the organization, management and control model and the code of Ethics model update (D.lgs. No. 231/01)

Source Our elaboration from *SGR Group Company Report (2016)*

**Table 8** Action addressed to energy efficiency and renewable sources (2016)

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- Partnership with the local bank continues to finance projects for the energy saving
  - Implementation of an educational project on the topic of Energy Education in collaboration with the University of Rimini
  - Energy efficiency for residential customers (condominiums and businesses): Energy management
  - Consumption configurator
- 

Source Our elaboration from *SGR Group Company Report (2016)*

renewable sources and recycle respectively amounted to 812,775.59 and 5,581,239 kwh. In addition, several certification has been implemented (such as the new UNI EN ISO 14001).

## 4.6 Supply Chain Management

Sustainability is an important driver also for what concerns purchases and relationships with suppliers. Among the actions undertaken in 2016, the Group performed several preliminary meetings with certifying bodies for the implementation of a system of qualification and selection of key suppliers.

## 4.7 Energy Consumption and Company Waste Management

The strategic objectives implemented are relative to the following issues:

- containment of atmospheric emissions and pollution phenomena soil, subsoil and water, with particular attention to the reduction of impacts on climate change;
- efficient use of resources, optimizing the use of natural resources and energy;
- protection of biodiversity and ecosystems;
- recovery and recycling of waste.

Accordingly, specific actions have been undertaken in 2016 (Table 9).

**Table 9** Actions addressed to energy consumption and company waste management (2016)

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5.5 GWh electricity produced by cogeneration
812.8 MWh electricity produced by photovoltaics
70.5 tons of special waste produced, of which 4.6 t dangerous, all managed by third-party companies specialized in disposal or recovery

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Source Our elaboration from *SGR Group Company Report* (2016)

## 4.8 Listening and Involvement of Stakeholders

The Group has founded a corporate culture that has always tried to best express the values of sustainability and social responsibility, to the point of turning them into integrated elements of its strategic thinking and business operations management. The identification of stakeholders and their subdivision into categories have been drawn from a collection of information on the ongoing activities and relationships within the company, using the interview method. For each category of stakeholders, the expectations and their degree of influence on the company policies have been detected and incorporated in a structured and codified way. This analysis involved a transversal team formed by people belonging to different areas of the organization: human resources management, customer area, communication and marketing, administration, finance and control and technical areas. In addition, during 2016, initiatives to involve institutions, local communities and new generations were intensified, with the aim of better understanding the topics of interest and preventing possible critical issues.

To complete the work, specific business commitments have been identified and planned for each category of stakeholder. Through a census of the company interlocutors, the stakeholder map was defined and, for each category, the following features have been identified: composition and presence of objectives of particular interest; themes considered as priorities; listening, dialogue and consultation activities carried out during the year.

## 4.9 Support for Initiatives and Projects on the Territory

The SGR Group's commitment to the local community involves the establishment of relations, events and project that mirror the values rooted in the Company's culture. In 2016, the SGR "for" project was launched, comprising: SGR for Culture, SGR for School and SGR for Sport (*SGR Company Report, 2016: 27*).

The continuous interaction with the institutions and the local community is a key element of the company's growth strategy. Precisely for this reason the Group is committed in a proactive dialogue with the territory, based on respect, transparency and mutual trust in order to generate a shared positive economic, social and environmental results. In addition, dialogue with national and supranational institutions linked to energy and the environment plays a fundamental role in the development of all the Group's activities.

SGR supports a multitude of projects that generate a shared value in the communities in which it operates and stimulates the growth of people and the territory (Table 10). The educational initiatives promoted by the Group are an important tool for disseminating the culture of sustainability among the young generation, as pointed out in the following.

**Table 10** SGR actions undertaken in 2016

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Collaborations with Universities and Research Institutes
Support for cultural and sporting events
SGR for School
SGR for Culture
SGR for Sport
Solidal SGR
Participation in national working groups on the main topics of interest for SGR
6234 students involved in educational projects

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Source Our elaboration from *SGR Group Company Report (2016: 27–32)*



**Table 11** SGR for School

Pre-schools: Energia-ia-o	In the 2015–2016 school year: 112 nursery schools visited; 5600 books donated; more than 7700 children involved in educational games with the Fire Fairy
Primary schools	My food is: In the 2015–2016 school year 54 school classes and 1192 children took part to this educational project aiming to provide information about local products and genuine food
Middle schools	“Segugio” and “Defender”, the gas safety friend: a project developed to raise awareness and address attention about the role played by gas in our everyday lives In the 2015–2016 school year 66 classes took part, involving 1522 young people
Secondary schools	Energy Education Every year a stimulating format and events are proposed to raise awareness and focus the attention of young people on issues relating to sustainability (i.e., the value of energy resources and environmental assets) and involve 11 secondary schools in the area, 47 classes and 930 students. The classroom events were developed in collaboration with Master’s Degree Students in Economics and Engineering, from the University of Bologna

Source Our elaboration from *SGR Group Company Report* (2016: 27–32)

#### 4.10 SGR for School

*“For us thinking about young people means offering good educational models. The many projects we have put in place demonstrate our daily commitment to the implementation of responsible behaviors on the part of the key players in the economy and society in the coming years. The relationship between schools and business is crucial in order to enable young people to plan their futures”* (SGR Group Company Report, 2016: 30). Some projects are as follows summarized (Table 11).

#### 4.11 SGR for Culture

SGR Group directly invests and actively participates in the sociocultural growth of the local area through numerous events and cultural projects.

As stated in the report “*for us is a precise duty and important issues. Every day we improve our business model and develop a culture inspired by the value of social responsibility. The principles of equal opportunities and equality at work underpin our policies and enable us to encourage talent, interest and participation*” (SGR Group Company Report, 2016: 27).

## 4.12 SGR for Sport

A sense of belonging, loyalty and respect are the values that have led SGR Group to develop important sporting partnership “*We like the idea of being able to help stimulate young people’s emotions and passion by means of the positive values typical of sport. Our aim is to integrate emotions and passion within the company, improving the business environment, productivity and encouraging teamwork*” (SGR Group Company Report, 2016: 32). Accordingly to this statement, several partnership have been developed with local and regional sport centres and teams, as well as small sport organizations.

**Table 12** SGR Solidale’s areas of involvement

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Social and socio-health care
Safeguarding, promotion and enhancement of artistic and historic heritage
The promotion of culture and art
The safeguarding and enhancement of the environment

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Source Our elaboration from SGR Group Company Report (2016: 29)

## 4.13 Solidal SGR (SGR Solidale)

The SGR Solidale Charity Trust is a Onlus (a not for profit and social utility organization) legally recognized by the Italian government founded in 2013. The Onlus provides support and fund-raising for local, Italian and foreign entities operating in several areas (Table 12).

## 5 Conclusion

In an interview addressed to the President of the Group, Micaela Dionigi—who is a charismatic leader and reference point for the company—values emerge which have been inherited from the founders and interpreted in coherence with a changing internal and external environmental context. Combining humility with tenacity, determination and the spirit of sacrifice, she started working in the family business from the bottom and thanks to her passion, energy and a great capacity for listening and interacting, she established herself as Chairperson. Her relational-based approach translated into the principle of the “door being open to each collaborator” has been transferred to the organizational culture of the Group marking the centrality of relations which, in turns, rests on the centrality of the person: “*Over the years the organization has become less hierarchical and increasingly more orientated towards team work, aiming to seek a dynamic balance between the personal and team dimension, and between work and life*” (SGR President, interview December 20, 2015). This leadership style has positively affected the sustainability orientation of SGR Group and inspired a multitude of CSR projects during the years, starting from the implementation of the sustainability report and the creation (in 2010) of a specific organizational position [the CSR manager and Sustainability officer] charged for the sustainability-driven projects. The CSR/Sustainability officer represents a “corporate presidium” of sustainability, a sort of “relational engine” for the stakeholders engagement and dialogue, who collaborates and interacts on a daily basis with the President, the top management and other officers.

To summarize, we can point out three main features derived from the analysis. First, the Group orientation towards CSR and sustainability is thus the result of a coherence between the mission, the governance and the accountability tools adopted by SGR. In addition, the leadership drives the company towards a long-term development and emphasizes mutual trust and transparency, that enhance corporate reputation (Baldarelli and Gigli 2014): SGR “wants to be the company you trust to its customers and the best place to work” (SGR Group President, May 2015).

Secondly, the relationship approach driven by the female president contributes to strengthen relationships with customers and employees and, more general, stakeholders, rendering SGR Group able to listen, interpret and provide a reply to their expectations. In this regard, the results of a national survey made by the oil and gas authorities aimed to monitor the service level of Italian companies point out that the Group score is over than the national average. Moreover, due to the focus on values, relationships and the rootedness to the local community, SGR Group is an example of a “territorial company” (Del Baldo 2010) which spreads the culture of sustainability and enhances the common good within the socio-economic fabric through a wide variety of initiatives held in collaboration with public, private and not for profit organizations.

Third, if we consider the typology of social responsibility models adopted by Italian companies (Unioncamere 2003) that distinguishes five types of orientations: cohesive, multi-certificate, conscious, in transition and sceptical companies, the SGR Group can be considered a “cohesive company” that testifies a strong sustainability orientation (Gray 2000).

Finally, the analysis of the case allows us to affirm that SGR is a company that contributes to create, through its activity, a more civil economy (Zamagni 1995; Bruni and Zamagni 2004; Gui and Sugden 2005; Zadek 2006) and the progress of the eco-efficiency and eco-justice through social and environmental education projects addressed to young generations.

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# Part V

## Staff, Human Resources (HR) and CSR Perceptions





# 18

## Overview: Employee Perceptions in Innovation-Driven SMEs

Stéphanie Looser

Hackman and Oldham noted that to reach a motivated state at work, the employees' job should have the following attributes: first, skill variety refers to the range of skills and activities necessary to complete a position or job (Hackman and Oldham 2005: 152). Task identity is the dimension that measures the degree to which the job requires completion of a whole and identifiable piece of work (Hackman and Oldham 2005: 157). Employees who are involved in an activity from start to finish are usually more satisfied (Ambos et al. 2006: 300; Briscoe et al. 2009); for example, writing an entire report would be more satisfying than just formatting it (Hackman and Oldham 2005: 57; La Guardia and Ryan 2007: 1210; Mank 2010: 37ff.). Task significance looks at the impact and influence of a job; note: jobs are more satisfying if people believe that they make a difference and are adding real value to

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S. Looser (✉)  
University of Surrey, Guildford, UK  
e-mail: s.looser@surrey.ac.uk

colleagues, the organization, or the larger community, e.g. the scientific community (Hackman and Oldham 2005: 157). Autonomy describes the amount of individual choice involved in a duty, means more autonomy leads to more satisfaction (Holtbrügge and Schillo 2011: 5ff.; Holtbrügge and Mohr 2011: 101ff.). If people are involved in making decisions, instead of simply being told what to do, they are more likely to be pleased (Hackman and Oldham 2005: 168; Mendenhall and Stahl 2000: 256). And lastly the option to gather feedback: this dimension measures the amount of information an employee receives about his or her performance, and the extent to which he or she can see the impact of his work (Hackman and Oldham 2005: 157). The more people are told about their performance, the more interested they will be in doing a good job (Hackman and Oldham 2005: 162).

## 1 HR Management Task, Strategy Steps

Within the HR management field, a number of writers have considered various aspects of the working environment that should be taken into account by staffing strategy and policy (Allianz Global Investor 2010). From a strategic point of view, it could be said that four strategies are generally imaginable: a localization strategy, where companies show a high responsiveness to local habits (Berkowitz 1965: 112; Deresky 2011: 125ff.); an international strategy by transferring valuable domestic products and competencies to foreign markets; a global standardization strategy, by realizing experience curves and location economies; or a transnational strategy by doing all these things simultaneously (Hill 2011: 605). Obviously, all steps in HR management—which is concerned with people, culture, incentives, and control in general (see Fig. 1)—should be congruent with the chosen strategy. As the last chapters showed, there is a chain-linking, particularly regarding the nexus of growth, strategy, innovation with a company's approach, manifestation, and culture of CSR-related values and virtues.



**Fig. 1** Responsibilities of human resources adapted from Hill (2011: 605)

The literature is dealing (e.g., Blum 2006: 235; McNulty and De Cieri 2011: 911) with international HR tasks—which is important regarding the next case study that presents an internationally operating, innovation-driven start-up company—broadly breaks down into tasks relating to the preparation and training of expatriates—the outgoing side—the expatriate experiences “over there”, as well as further organizational issues such as the integration of employees from abroad—the so-called inpatriation—and culturally related compensation issues.

To concentrate on the part mainly relevant to the case study company “greenTEG”—namely the incoming side—Rothwell (2005: 320) for example examined the skills required to successfully integrate employees from a variety of countries and generated a ranked list which is useful as a basis for training activity and indicates that the conveying of a feeling for local customs and culture is very important, followed by the given opportunity and an individual interest to gather language skills. Besides flexibility and adaptability, sensitivity to cultural differences is also valued highly (Rothwell 2005: 317). Point to intercultural social skills training as being a key part of “cultural sensitization” and important for expatriate-employee well-being and integration (Deal and Kennedy 2000: 37).

## 2 International HR Management Tasks as Insights into Internationally Common CSR Approaches, Attributes, and Specifications—greenTEG AG

### 2.1 Abstract

The aim of this case study is to analyse the international human resources (HR) management activities at greenTEG AG. greenTEG AG was founded in 2009 as a spin-off of the Swiss Federal Institute of Technology (ETH). The company develops, manufactures, and markets thermal sensors for heat flux and laser power/position measurements and provides consulting on the thermal integration of its products. Today, greenTEG supplies OEMs as well as scientists in corporate and university labs around the world with its unique products. The greenTEG (2019) team consists of 15 specialists in engineering, materials science, physics, and electric engineering. All sensors are fully developed and manufactured in Zurich, Switzerland.

“Together” is an outstanding programme, established first at ETH, however successfully transformed from greenTEG to their small-scale company size, which supports stage fellows from abroad by support given to them during a potential culture shock. greenTEG’s trailblazing approach “to see the new and unfamiliar as a catalyst for scientific and technological advancement” is not a novelty in general, however to embedding this detail into corporate culture is hardly seen in a start-up Company (Andrew et al. 2010). Even though huge differences in the backgrounds and circumstances of employees make it quite impossible to satisfy everyone, greenTEG is nevertheless confident to introduce alternative ways of thinking by having a culturally diverse workforce working together in peace, free from culturally based restrictions. The founders strongly believe by model absolute equality amongst all employees and other stakeholders to prepare the company in the best-ever way, e.g. regarding future innovation waves, such as the 6th Kondratieff cycle: “Eco-Trends” in the areas of nanotechnology and

biotechnology as well as a paradigm shift in the healthcare sector are, for instance, drivers of future sustainable economic growth—thus, key research topics that are already congruent with greenTEG’s corporate culture shown in the current daily business!

## 2.2 Future Challenges of greenTEG

The question though for greenTEG is how to be best prepared for this huge opportunity to perform outstandingly and how to reach a crucial and essential pole position in the global war for talents, which is why this chapter comes up with a number of recommendations, which on the one hand support the “Together” programme, however create new drivers of motivation on the other. “CULTURAL X-CHANGE-DAYS” are, for instance, designed to better integrate spouses—an often-neglected factor regarding inpatriation—and to foster appreciation between all ethnic groups represented. As greenTEG’s corporate culture that embeds responsibility on the individual level is a key driver to fill many of the so-called Sustainable Development Goals (SDGs) issued by the United Nations to be matched by all nations by the year 2030. As greenTEG is a state-of-the-art technology-based company, they asked for consultancy regarding state-of-the-art CSR measures. For them, quality is quite important regardless.

## 2.3 Measure 1: Social Security

“Away from temporary to permanent contracts” is a further measure (based on considerations inspired by Deci and Ryan’s “Self-Determination Theory” and Hackman and Oldham’s (2005: 151ff.) “Job Characteristic Model”), which greenTEG attempt, so as to should bring calm into foreign researchers’ personal situations. With almost 40% of employees coming from abroad, temporary contracts may lead to conflicts, fears, and dissatisfactions that further affect the daily teamwork in the labs as well as profit-yielding relations with industry partners—hence, affecting employees’ motivation in general.

## 2.4 Measure 2: Support Assurance Regarding Job Security

Another measure is based on Adam's (1965) "Equity Theory" and tries to reveal and exploit the fact that a slight increase in greenTEG's aspirations to look for future job opportunities (e.g. with partner companies, institutions, on prospective new projects or at affiliated institutions) might as well generate an increased commitment from the staff side until the equilibrium state is reached again.

## 2.5 Measure 3: Action-Oriented Cultural Exchange

Lastly, a "culture knitting event" is designed to unify and bond staff. By ETH and its strong history in the backhand, outstanding culture and values are the foundation of these holistic action-oriented cultural measures (Mikula 1980: 27ff.; Sappinen 1993: 9; Schermerhorn 1999: 251). The aim of such events is to create a work force that draws a cultural and image consistent picture of greenTEG towards outsiders.

## 2.6 Conclusions

In the end, this paper concludes that despite external market pressures and critical challenges, greenTEG has a variety of substantial internal—due to a well-integrated though diverse workforce—and external—due to an upcoming innovation wave—opportunities that, if wisely and appropriately used, could lead to greenTEG holding the status as a CSR lighthouse—which is remarkable as they are already market leader regarding thermal sensors for heat flux and laser power/position measurements.

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# 19

## Company Case Study 12: Employee Perceptions in Innovation-Driven SMEs—D-Orbit

Giorgia Nigri and Giuseppe Lentini

### 1 Introduction

Since the second half of the twentieth century, CSR has grown significantly (Garriga and Melé 2004). Participants in the CSR debate created a number of models, arguments and theories of what constitutes a firm's responsibility to society (Godfrey and Hatch 2006) and pointed out that today economic and social value must necessarily be held together (Nigri et al. 2017). For this reason, boundaries between profit and nonprofit company forms and assessments are increasingly blurred, converging toward new forms of hybrid organizations (Billis 2010) that mix elements, value systems and action logics of various sectors of society. On one hand, we find organizations employed in

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G. Nigri (✉) · G. Lentini  
LUMSA University, Rome, Italy  
e-mail: g.nigri@lumsa.it

G. Lentini  
e-mail: p.lentini@live.it

the social sector that behave in a more business-like way and, on the other, business organizations that progress a social agenda in addition to their profit remit to deliver returns to shareholders (Hemingway 2005). Benefit Corporations and B Corps, with their reinforced commitment to CSR practices and a binding mission to generate a public benefit, are a clear example of the convergence of for-profit companies toward a strong CSR focus (Nigri et al. 2017).

This phenomenon brought to an important shift in business focus that is empowering companies not only to declare their intent to be ethical firms but to submit proof of that commitment (Wilburn and Wilburn 2014) and communicate it properly to stakeholders (Montecchia et al. 2016). Communication is a cornerstone to gain the advantages of CSR initiatives because stakeholders must be informed about the company's social dimension. To achieve desired organizational outcomes, it is important to have not only the right practices in place but appropriate employee perceptions of those practices (CAHRS 2011). Companies need to become aware of the power of perception, learn what circumstances are likely to cause misperceptions and learn how to manage and improve employee perceptions (McConnell 1994).

Italy became the first country outside the US to pass Benefit Corporation legislation and introduce the *Società Benefit* (Law 28 2015). A Benefit Corporation is a legal tool used to create a solid foundation for long-term mission alignment and value creation, meeting higher standards of accountability and transparency. It protects the company mission through capital raises and leadership changes, creates more flexibility when evaluating potential sale and liquidity options and prepares businesses to lead a mission-driven life post-IPO. On top of the legal tool, certification is also available (B Lab 2018a). Benefit Corporations and certified B Corps are often confused. B Lab, the non-profit third party that certifies B Corps and that developed the Benefit Corporation structure, offers corporations (benefit and to-be-benefit) a free reporting tool, the benefit impact assessment (BIA), to meet their statutory transparency requirements. While many Benefit Corporations use the BIA to create a free benefit report, they do not need to reach a

particular score, nor have their performance verified or audited (B Lab 2018b) since their purpose is long-term.

Benefit Corporations and Certified B Corps have created a network of enterprises that believe in *business as a force for good* (Honeyman 2016) and employees are central as internal stakeholders to convey the message. Benefit Corporations offer a new standard for businesses that want to be socially responsible, and tech start-ups could be the catalysts for positive change since they can develop new technologies and create trends through websites and social media (Gilpin 2014). Institutional theory suggests that when organizational environments change dramatically as they have in many scientific research fields, new organizational forms are likely to arise. Among high-tech firms, the hybrid form may survive where more purist commercial firms fail (Scott 1994, 2001; Scott et al. 2000). An innovative Italian start-up<sup>1</sup> that in recent years became a Benefit Corporation is D-Orbit. D-Orbit aims at redefining how commissioning and decommissioning, the initial and final phase of a space mission are performed, addressing current shortcomings, such as the risk of collision of defunct spacecraft, creating value in the process (D-Orbit 2016).

Starting from these premises, the aim of the study is to evaluate employee perceptions in an innovation-driven small and medium-sized enterprise through an empirical case study on D-Orbit, a high-tech Benefit Corporation. In order to achieve this goal, D-Orbit's Benefit Reports and Annual Impact Report were analyzed and an in-depth interview with D-Orbit's Quality and Impact Manager was carried out.

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<sup>1</sup>Innovative start-ups (*Start-up Innovative*) are limited companies that must be headquartered in Italy, must be incorporated from no longer than five years, must not be listed, cannot have more than five million euros of annual output value, cannot distribute profits and must carry out development, production and marketing of innovative products or services with high technological value. Like BCs, SIs and SIaVSs (*Start-up Innovative a Vocazione Sociale*) have to publish an annual report. Research has shown that SIaVS and Benefit Corporations have much in common and that most Italian SI and SIaVS tend to become BCs after five years (Castellani et al. 2016).

## 2 Employee Perceptions in Benefit Corporations and B Corps

A Benefit Corporation is ‘legally obligated to pursue a public benefit in addition to its responsibility to return profits to the shareholders’ (Hiller 2013: 287). It is a for-profit entity that has voluntarily and formally committed to creating social and environmental benefit, in addition to its for-profit motive (Nicholas and Sacco 2017). The purpose of this new type of organization is to enhance corporate social responsibility by providing legal protection to management that wants to both maximize shareholder income and pursue a social or environmental agenda (The Public Benefit Corporation Handbook 2017).

Becoming or incorporating as a legally recognized Benefit Corporation is not the only way to achieve the Benefit Corporation status. In states and countries where the law is still not active, B Lab, a third-party nonprofit organization that certifies Benefit Corporations, is present with its certification process (Alcorn & Alcorn 2012). The first step toward certification is through the benefit impact assessment, which assesses the performance of companies benchmarking them against best practice (B Lab 2016). The rating measures the impact on the following areas: Workers, Community, Environment, Customers and Governance which are weighed considering the impact they may generate, utilizing a mix of all those standards and certifications that a company could obtain. Through an online platform,<sup>2</sup> top management (preferably the CEO) and a team of selected employees, supervised by a Benefit Impact Manager (BIM), answer specific questions and provide supporting documentation which is then assessed and calculated by the algorithm developed by B Lab’s Standard Advisory Council (SAC), a group of independent members, selected on the base of their deep industry or stakeholder expertise, that adequately represent the diverse interests covered by the assessment<sup>3</sup>; the result is a number between 0

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<sup>2</sup>[www.bimimpactassessment.net](http://www.bimimpactassessment.net).

<sup>3</sup><https://www.bcorporation.net/what-are-b-corps/the-non-profit-behind-b-corps/standards-advisory-council>.

and 200, where 80 or above proves that the company generates a positive impact in several areas and can be certified as a B Corp.

One of the main areas of the BIA focuses on employees (Workers) as major stakeholders. In detail, regarding Workers, the impact measurement focuses on: (1) *salaries*, levels of remuneration are verified comparing the maximum and minimum wage perceived by full-time employees and the benefits granted to executives versus those granted to lower levels; (2) *additional benefits*, social security, health services, flexibility, work-life balance and stock options are a few examples and (3) *training and employee engagement instruments*, such as a manual for employees and satisfaction surveys (Honeyman 2016). Employees are fully employed in the certification process through events (Fratelli Carli), surveys (Nativa) and diverse activities (Ben & Jerry's community service, Greyston Bakery's work-life balance solutions, TMI's continuous learning program and Patagonia's positive work environment creation, just to cite a few examples).

### **3 D-Orbit: Sustainable Outer Space Through Sustainable Down to Earth Employee Engagement**

End-of-life satellite decommissioning is quickly becoming a concern, and today more than 6000 satellites are in space, of which only 1000 are still operational. Besides the legal requirement, removing satellites at the end of their product life cycle is becoming necessary to reduce the risk of defunct spacecraft collision that could severely damage our space assets compromising most of the services that are used on Earth every day (such as GPS navigation systems, telecommunications, disaster prevention and weather forecast platforms just to mention a few).

Luca Rossetini and Renato Panesi, D-Orbit's founders, met at a Technology Entrepreneurship program in Silicon Valley sponsored by Fulbright and, after an internship at the NASA Ames Research Center, transformed Luca's idea into a business venture. D-Orbit, the name derives from the start-up's mission, de-orbiting satellites, was then

founded in 2011 in Milan thanks to Quadrivio Capital Sgr's investment.<sup>4</sup> The project attracted further investment and support from the aerospace industry and was selected by the Regione Lombardia and Unioncamere to participate in Expo 2015 in the start-up area of the Italian Pavilion. Today D-Orbit is market leader in satellite fleet management and develops state-of-the-art technology that can be installed on spacecraft and launcher stages and removed in a quick, safe and sustainable manner. The company has grown and spread among its administrative headquarters in Sesto Fiorentino, the manufacturing plant in Lomazzo and offices in Milan, Florence, Washington and Portugal.

D-Orbit certified as a B Corp in 2014 and varied its statue shortly after to become a *Società Benefit*. Its mission is to give the opportunity to space operators to have a positive impact on society, through an effective and convenient solution for space pollution and to preserve a sound space environment both for business purposes and for future generations. D-Orbit believes that business and environment are not mutually exclusive but that businesses have an opportunity to be environmentally sustainable on an unprecedented level.<sup>5</sup> The team went from 2 to about 30 people, aerospace professionals, almost all under the age of 30, including the Chief Technical Officer (CTO), with a combined 40+ year experience in the space industry and attachment to sustainability principles. As Renato Panesi states, *it's the people who realize the idea, people that are trained, motivated, reliable. The value and strength of D-Orbit is first and foremost its team.*

The empirical part of the research will try to analyze how the person-organization fit (in terms of value and goal congruence) provides greater meaningfulness and psychological attachment, which leads individuals to a higher level of employee engagement when employees believe that company practices are motivated by the organization's concern for high-quality service and employee wellbeing (Memon et al. 2014). Employee attitudes and behavior, both at the individual and unit level, are shaped by their beliefs of the motivations driving company

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<sup>4</sup>Personal communication with D-Orbit.

<sup>5</sup><http://www.generativita.it/it/news/2017/03/16/con-d-orbit-linnovazione-italiana-sbarca-nello-spazio/227/>.

practices. These attributions can greatly influence Organizational Citizenship Behaviors (OCBs)—spontaneous, cooperative actions on the part of employees that go beyond their formal job requirements. If employees attribute HR practices to a company philosophy based on seeing employees as an asset, organizational performance will be high (CAHRS 2011).

## 4 Methodology

In order to evaluate employee perception, through their level of engagement, D-Orbit reports were analyzed utilizing the Worker BIA indicator (minimum score for eligibility = 80 vs. maximum score = 200),<sup>6</sup> focusing on the Workers indicator and the Annual Impact Report.

An in-depth guided interview was then conducted by Giuseppe Lentini with Matteo Trotti, D-Orbit's Quality and Impact Manager in order to achieve a holistic understanding of the interviewee's point of view (Patton 1987) on how the BIA process involves employees creating higher levels of engagement.

## 5 Results

D-Orbit has a main appraisal area *workers* and has grown significantly from 2014 to 2016, placing itself above the B Corp median, maintaining very high-levels even though the team keeps growing significantly at a 60% rate (from 15 employees in 2015 to 24 in 2016) (Table 1).

The Annual Impact Report points out that among the activities and benefits the company provides, the three main categories are flexibility, telecommuting and training. The team has a clear overview of company goals and invests in the development of its personnel (270 hours of

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<sup>6</sup>As mentioned above, the BIA measures the overall impact of a business on all of its stakeholders where a score of 80 or above means that the company generates value. The BIA evaluates the worker, environment, customer, community and governance categories, and the overall business model. In the D-Orbit case, only the worker category was taken into consideration.

**Table 1** Benefit impact assessment *worker* scores extracted from D-Orbit's benefit impact report

BIA indicators	2014	2016	Median
Workers	18	25	18
Compensation, benefits & training	12	18	12
Worker ownership	2	1	1
Work environment	3	3	3

Source Our elaboration

training overall) so that they can substitute and support each other and have a good work-life balance accommodating work schedule, family and personal needs. The goal is to reach 16 hours of employee training per person in a growing team. Most importantly, not only do they focus on introducing benefits and welfare but D-Orbit constantly measures how these benefits are perceived through employee engagement indicators to evaluate where they can intervene to better the work environment. They do this through a formula that measures satisfaction via a 360° evaluation, offering the possibility to perform an assessment of the employee coming from peers and direct reports<sup>7</sup>; their goal is to raise satisfaction from 2 to 4, once again a very impressive target considering that the team keeps adding new members.

Matteo, like many of his coworkers, was hired as a graduate. Being a small start-up and a team composed of few people, Matteo was hired as a mechanical designer, back in 2013, but was also quality and product assurance junior manager. Today, he has pretty much retained all that and is now also a BIM taking care of the B Corp certification process and employee alignment to the goal. The level of commitment and engagement to the mission is high and broad ranged. As Matteo puts it:

On one hand there has been some sort of luck in finding very capable people, both young and less young, who helped the youngest to learn the profession because we were all hired just out of college, so with lots of good intentions but little and confused information. On the other hand, all the people working here in D-Orbit are absolutely focused on their work. I can truly state that they like what they do, everyone remains

<sup>7</sup>People Satisfaction KPI =  $\sum$  employee satisfaction score/total number of employees.



focused on their goal, which is to make space an accessible, sustainable environment. There are some problems obviously, but that's normal when you live almost 10 hours per day in the company, it's part of the routine. The mission helped us a lot, especially in the early years, when we were few and everyone did everything. Even the founder, Luca Rossetini, took the car and went to pick up the pieces from the various suppliers around Italy, to give us the chance to assemble in time what we were working on. We were all united to achieve the same objective.

It was almost straightforward for D-Orbit to become a B Corp due to their strong prosocial mission. The certification process though helped to enforce the internal employee engagement since the process involved the company and its employees completely: *no one in the company comes and tells you to do this or that in order to complete the assessment, you have to go at it yourself and do it for the company*, Matteo likes to repeat that. Working on the benefit impact assessment and benefit report helped the perception of the goal and engagement grow, *the first time it was more personal. Let's say that I devoted 90% of the time and effort needed myself. I would ask other people about the required information but I followed most of the steps alone. In 2016, on the other hand, it was deliberately a much more unified and 360° process. I, of course, was the focal point but the responsibility and involvement remained in the various departments (also because we were finally beginning to have departments)*. Being part of the B Corp community also augmented engagement including more of D-Orbit's stakeholders in the process (internal and external). Matteo talks regularly with other benefit impact potential and current managers and other B Corps to better the company's value chain and find new solutions, *we are also very involved in events and seminars as they enhance the sense of community*.

## 6 Implications and Limitations

D-Orbit has a very clear goal and is focused on its mission. It aligns its employees to its objectives and in general improves the involvement and awareness of its team in relation to the B Corp movement placing them

at the center of the process. D-Orbit team members are empowered to define their working schedule and work remotely to achieve company and personal goals. A D-Orbit employee feels part of a family, of a positive work environment, and knows that personal achievement brings an increase in financial performance, to the launch of new products on the market but also to a better and safer environmental impact for the world through sustainable space but also through contributions to local economy, education and the community.

This impact is also perpetrated throughout their value chain. They set up a bi-directional feedback system between the company and independent suppliers and an evaluation methodology to measure social and environmental performance. Thus, this includes not only the employees but also suppliers and independent contractors. D-Orbit involves all its stakeholders, and they appeared on national TV and participated in all the major Benefit Corporation events setting an example, portraying that the innovation that makes D-Orbit the best in the market is also the drive that makes it the best for the world.

The B Corp movement doesn't offer particular fiscal advantages, tax breaks or state subsidies but has created a reputational and institutional network which generates swift trust mechanisms (Grandori 2016; Meyerson et al. 1996), supports its members creating synergies and promotes 'civil good'. D-Orbit has been an active participant in the Italian network from its start, thanks to the vision of its founders and the guidance of its benefit impact manager. The company passed the B Lab audit and has improved its overall BIA score from 84 to 96<sup>8</sup> in 2 years' time setting an example for other companies wanting to pursue certification.

The present chapter aims to be illustrative, rather than exhaustive or definitive, cutting the path for future research. Future research directions should extend the analysis to a larger sample of B Corps in other sectors and industries. Also, an analysis on how the impact affects the beneficiaries would also be a great contribution to literature.

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<sup>8</sup><http://bcorporation.eu/community/d-orbit>.

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# Part VI

How European Is Intrinsic CSR?



# 20

## Overview: Intrinsic CSR Across Europe

Stéphanie Looser

The process of globalisation and international trade reflects increased business complexity and demands for corporate citizenship with the aim of greater transparency. Traditionally, governments were responsible for improvement of living conditions, but today, society's needs have stretched the capabilities of states. Thus, the private sector as key creator of value and managerial resources is the principle growth engine and has a duty to contribute to equitable and sustainable economic growth. Corporate social responsibility (CSR) recognises this role of business as an active partner in a world of shrinking resources and, thus, scarcity. At the same time, this raises a discussion on what role business in society plays.

In general, companies can profit from a strategic engagement in CSR by reducing costs and risks (e.g. energy-saving and environmentally sound production practices), by gaining competitive advantages

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S. Looser (✉)

University of Surrey, Guildford, UK

e-mail: s.looser@surrey.ac.uk

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W. Wehrmeyer et al. (eds.), *Intrinsic CSR and Competition*,

[https://doi.org/10.1007/978-3-030-21037-3\\_20](https://doi.org/10.1007/978-3-030-21037-3_20)

(e.g. investor relations management), by developing reputation and legitimacy (e.g. transparency practices), and by seeking win-win outcomes (e.g. charitable donations to education and stakeholder engagement).

Many studies point to SMEs as a crucial actor within CSR with high engagement due to personal, trust-based values, and a regional anchor. This regional foundation seems to effectively punish irresponsible practices. Because such idiosyncrasies are reported from ample countries this situation should be further investigated to better understand SMEs' social impact far beyond explicit and formal CSR systems. Increasing formalisation represents namely a great concern for SMEs giving rise to the prejudice that informal (or implicit) CSR is worthless and to the situation of SMEs being judged as irresponsible due to a lack of formal instruments. Hence, closer scrutiny is needed to differentiate between explicit/strategic and implicit/non-strategic approaches and it should be assessed whether there is a CSR approach distinct for SMEs, which supersedes national patterns.

## **1 How European Is Intrinsic CSR?**

### **1.1 Abstract**

Thus, this section asks: Is there a global approach to CSR that can be found in SMEs from different cultural backgrounds, independent from their market economies, language regions, religion, legal/political systems? Or are there regional approaches to CSR and if so, what are their origins or determinants? Might they eventually be local culture, political habits, or markets? To what extent do the identified CSR agendas allow categorisation according to explicit/implicit CSR?

Other cross-national studies mainly looked at Multinational Enterprises (MNEs) or focus on differences in governmental policies fostering CSR but seldom on CSR in SMEs in relation to their economic and cultural background. This section seeks to close this gap by enabling an understanding of how parameters such as supranational



SME values and tradition rather than market economy or institutional frameworks influence small business CSR.

Since Switzerland has a long history of SMEs, which make up most of Swiss companies, the idiosyncrasies of their CSR and the apparent informality of their underlying business model are of great interest considering further advancements and thus should be compared to other cultural contexts to understand how the Swiss SME model may be received in other settings.

## 1.2 Theoretical Framework

Matten and Moon (2008) especially looked at differences bound by cultural contexts. According to them, differences in CSR can be explained by “national business systems” determined by historically grown institutional frameworks. They identified four key components of historically grown national institutional frameworks: the political system, the financial system, the education and labour system, and the cultural system. How these sub-systems are weighted and combined to a national framework evolves from “societal effects” and “varieties of capitalism”. The latter distinguish “liberal market economies” and “coordinated market economies”.

The broad lens on market economies enables the understanding of institutional similarities and differences among industrialised economies since national, political economies can be compared by reference to the way in which firms adapt or to be precise develop relationships with several attributes (Table 1).

Whereas the USA, UK, Canada, Australia, New Zealand, and Ireland are liberal market economies and Germany, Japan, Sweden, and Austria are more coordinated based on partnership of representative social and economic actors under the leadership of governments. As a consequence, the two types have different distributions of capital, differing capacities for innovation and tend to employ differently. Liberal market economies coordinate their activities by markets and hierarchies and competition on the basis of low costs and major product and technological innovations. Coordinated market economies operate with

**Table 1** Varieties of capitalism (Hall and Soskice 2001)

Attribute	Liberal market economy	Coordinated market economy
Mechanism	Competitive market arrangements	Non-market relations
Equilibrium	Demand/supply, hierarchical	Strategic interactions
Inter-firm relations	Competitive	Collaborative
Mode of production	Direct product competition	Niche products
Legal system	Complete and formal	Incomplete and informal
Institutions' function	Competitiveness, free movement of inputs	Monitoring, sanctioning of defectors
Employment	Full-time, general skill, short-term, fluid	Shorter hours, specific skills, long-term, immobile
Wage bargain	Firm level	Industry level
Training and education	Formal education	Apprenticeship system
Unionisation rate	Low	High
Income distribution	Unequal (high Gini index)	Equal (low Gini index)
Innovation	Radical	Incremental
Comparative advantage	High-tech and services	Manufacturing
Policies	Deregulation, anti-trust, tax-break	Encouraging information sharing and collaboration of firms

non-market mechanisms, e.g. informal networks or corporatist bargaining (Hall and Soskice 2001). Their competition is driven by state-of-the-art quality products and innovations in production processes aimed at efficiency (Hall and Soskice 2001). These two models are opponent poles of a spectrum; hence, nations are located alongside this continuum and even within these two types, and there are significant variations. The theory of “varieties of capitalism” predicts that socio-economic performance is in general better if countries distinctly fit to one or the other type. Countries, like the Mediterranean ring or small countries, that fall somewhere between these poles are seen as “hybrids” and should hence not perform as well (Hall and Soskice 2001). This conclusion was challenged and adjusted especially for the case of small countries, like Denmark or Switzerland (Hall and Soskice 2001), which represent a paradox for much of the capitalism literature.

While Mediterranean countries have strongly embedded domestic markets, small countries tend to be economically more open than large countries. Thus, relative to the size of their economies, some small countries are highly engaged in international trade and commerce. Whereas large countries can set the rules of economy to best fit their needs, small ones must be capable of flexible adjustment in order to respond to global challenges, e.g. shorter product life cycles, rapidly changing production and information technologies, volatile financial markets, and increased international competition (Campbell and Pedersen 2005). Other explanations may be found in the structure of their economies, which is primarily determined by highly competitive small businesses, well coordinated in their informal, trust-based networks, saving therefore transactions costs, often market leaders with specialised niche products and at the same time competing on a global scale where liberal market rules are playing.

This argument is supported by many studies on developing countries demonstrating that neither a liberal nor a coordinated market form (notably state planning) is a guarantee for sustainable development and modernisation for industries. Often something in between, a hybrid, is useful where public and private sectors interact strategically, neither neglecting market signals but identifying negative externalities and developing appropriate response strategies. Other studies found that centralised states (as for instance France) heavily influence economic sectors, dictating CSR issues, e.g. working hours and minimum wages by regulation and laws. A country's state policies to promote CSR may play an additional role, as could be shown for European countries in general being aware of CSR due to the debate in the 2001 European Green paper supported by the OECD guidelines and UN Global Compact (Matten and Moon 2008). European countries are also often bound to local supply chains. In general, free-market oriented societies rather incentivise responsible business practices and show less direct interventionism (Sorge 1991: 170).

It can be concluded that organisations are not only determined by legal systems, more importantly, they are shaped by informal rules or common knowledge acquired by participants due to their country's history and culture. According to institutional theories, nations with

an organisation then also develop complementary institutions in other spheres (e.g. countries with liberal stock markets have less labour protection and vice versa). The activities or existence of trade unions and industry associations are deciding as well and the levels of corporate taxes are also crucial, e.g. as they foster or hinder fraud and corruption. Differences in market economies lead to different reactions on shocks. Companies are becoming socially balancing actors by continuously adapting to such changing circumstances (Matten and Moon 2007).

Notably, there are other theories on market economies: some of them distinguish five types (market-based, Mediterranean, social-democratic, continental European, and Asian). Others concentrate only on Europe (i.e. Anglo-Saxon, Continental, Nordic, and Mediterranean). Although this paper adopts the system of varieties of capitalism distinguishing welfare systems, degree of state interventions, and market regulations, and most importantly the degree of inter-firm relations, it also pays respect to other clusters as they are represented herein by studies from these cluster countries.

To answer the herein stated section questions and to develop hypotheses on CSR similarities/disparities in SMEs retrospectively, the concept of the organisational field and its mechanisms, like for instance “rationalised institutional myths”, should be considered as well. The organisational field is a term based on the perspective of neo-institutionalism, where the introduction and dissemination of management systems by organisations that interact in an organisational field are an institutionalisation of the unfolding systems.

The underlying theory of isomorphism assumes that organisations are similar in their structure as they introduce the same management concepts (DiMaggio and Powell 1983). There are three mechanisms of institutional isomorphic change: coercive, mimetic, and normative. Possible sources are listed in Table 2. Due to isomorphism (DiMaggio and Powell 1983) and mimetic processes (Meyer and Rowan 1977), companies should become like their direct environment.

By doing so, these organisations aim to maintain or increase legitimacy in their organisational field; while in fact they are increasing their isomorphism. In other words, they are getting more similar to raise legitimacy. Furthermore, the introduction of new management concepts

(e.g. formal CSR instruments) in existing industries can lead to both challenges and opportunities for organisations (Meyer and Rowan 1977).

To summarise, the theory of institutional frameworks points to a dichotomy of liberal and coordinated market economies. Accordingly, the former should evolve an explicit version of CSR, whereas the latter is supposed to develop a more implicit agenda. Combining this system with the concepts of organisational field and isomorphism predicts homogenous CSR approaches within a market economy, or to be precise within one country. Whether this applies for all organisations and companies is matter of analysis herein. The next section, however, sheds light on defining factors (i.e. language and codification) and key drivers (i.e. motives and intent) of the predicted dichotomous system of implicit and explicit CSR depending on market economies.

### 1.3 Implicit and Explicit CSR: A Dichotomy

Explicit CSR is determined by individualism, discretionary agency, incentivising responsive actors, liberalism, network governance, policies providing discretions, and isolated actors. Such components are rooted in liberal market economies, where deregulation, privatisation, and highly competitive markets based on low cost/mass production create the need for explicitly formalise and communicate CSR (cp. Table 2). This develops explicit approaches, which assume and articulate responsibility for some interests of society in response to stakeholder pressure (e.g. by consumer, civil societies). This normally consists of voluntary programmes and strategies by corporations, which combine social with

**Table 2** DiMaggio and Powell (1983)

Coercive isomorphism	Mimetic isomorphism	Normative isomorphism
Results from: Dependencies	Results from: Environmental uncertainty	Results from: Professionalisation
Formal and informal pressure	Ambiguous goals Unintentionally diffused	through formal education
Monitoring and sanctioning of wrongdoers	models through employee transfer or turnover	Professional networks across which new models diffuse

business value, thus, comparably to CSR as “business case” it is driven by the assumed positive relationship between corporate social activities and financial performance and the aim to maximise profit. It often involves partnerships with governmental and non-governmental organisations (e.g. the Marine Stewardship Council or the ISO 14000/26000 series) to increase legitimacy by improving image, market share, or profit. Explicit CSR rests on corporate discretion rather than reflecting governmental authority, broader formal or informal institutions, or societal needs. Thus, in a system of explicit CSR, CSR is formalised (codification), aimed at external recognition (language), has a strategic purpose and goal (intent), and a commercial pursuit (motive) (Table 3).

Implicit CSR, on the contrary, is determined by values, norms, and rules (i.e. codification) as result of formal and informal institutions filling wider interests and concerns of society (motives and intent). Such institutions can be traced back to non-market relation and collaborative networks fostered by policies and systems in coordinated market economies (cp. Table 2). Often autochthonous institutions (i.e. firm ties with the political base, universal trust in state and authorities, or

**Table 3** Implicit vs. explicit CSR (Matten and Moon 2004; Matten and Moon 2008)

Dimensions	Implicit CSR	Explicit CSR
Intent	Company has a role within wider formal and informal institutions for society's interests and concerns	Corporate activities to assume responsibility for the interest of society
Codification	Driven by values, norms, and rules, which results in embedded, internal and codified rules and CSR seen as a “moral activity”	Consists of corporate policies, programmes, strategies and formalised instruments (certificates, standards, code of conducts), results in CSR as “business case”
Motives	Motivated by societal consensus and expectations on company contributions to society	Motivated by incentives and opportunities perceived from stakeholder expectations
Language	Do not communicate their policies, activities using CSR language	Advertising of CSR by an extensive use of CSR language

traditionally on the Catholic Church) account for such market systems. Thus, implicit CSR is seldom explicitly described as CSR (cp. language), rather it evolves in the form of codified norms, rules, and (unwritten) laws (Matten and Moon 2008). Set in the context of normative vs. strategic CSR, by having an implicit approach to CSR it is normative and seen as “moral activity”. In other words, here implications for the social responsibilities of business are implicit, whereas the societal norms, networks, organisations, and rules could be to some extent explicit.

The primary differentiation criterion concerning CSR is communication (or precisely language): companies having an explicit CSR agenda issue CSR reports and use CSR in communicating their policies and practices to their stakeholders while those practising implicit CSR would be more discreet and less demonstrative because they normally find it difficult to formulate “the way we do our business”. There might also be a discrepancy between what is communicated: explicit companies report formally about CSR and respective activities, while implicit companies discuss rather their values (Midttun et al. 2006: 369ff.). A further differentiation criterion is “intent”: although implicit CSR can result in similar practices as an explicit agenda, the former is not conceived as a voluntary and deliberate corporate decision but rather as a reaction to or reflection of society’s demands, while explicit CSR is the result of a strategic decision of companies. Explicit CSR describes the organisation and is “espoused” whereas implicit CSR defines it and is “enacted”. With increasing privatisation and liberalisation comes an increase in demand for more explicit CSR as the economic power is shifted to actors with global orientation and the need to legitimate their business by espoused, explicit CSR and away from traditional, autochthonous institutions. This section concerns whether this concept also applies for SMEs with a habitual local orientation on their customers, deeply embedded within their communities.

Notably, as section here is inherently qualitative, it is difficult to offer quantitative measures for such distinctions. As said regarding market economies this is rather a difference of emphasis and not a dichotomous distinction between the two approaches. Matten and Moon (2007) recognise that companies from the USA, which primarily evolve explicit

CSR based on their liberal market economy, also show implicit elements, i.e. workers' rights. Comparably, European companies are not implicit in regard to absolutely every business operations, because there is clear evidence of a rise in the number of issued sustainability/CSR reports. Another aspect to take into account is that section on CSR is mainly done within, together with, and in relation to large companies and MNEs. Therefore, it cannot be concluded that the same effects play for small businesses. Some studies support, for instance, that explicit CSR in Europe is mainly a topic for large companies, e.g. and SMEs rely on their long-standing informal networks rather than on explicit and formal policies. The local church, the "Stammtisch", membership in Chambers of Industry and Commerce, and the traditions of the dual education system (i.e. apprenticeship system as it is called within this section and in the context of Switzerland) are among others the driving forces within SMEs. The next section will outline such differences in more detail.

Overall, it can be concluded that due to different societal and cultural effects, diverse cultures of capitalism, different education, labour, and financial systems CSR should vary over countries in its explicit/implicit. Hence, it is crucial to conduct cross-national comparative studies on CSR, because every country has a distinct economic, social political structure, is shaped by its unique history, has own interests and institutions, which in their sum should evolve unique CSR. This seems to be valid for the context of larger companies; however, other results point to smaller companies having an implicit CSR independent from their market economies they are embedded in. This deserves further scrutiny. Even what CSR means for SMEs is not yet so clearly assessed, nevertheless, the huge number of SMEs and their boundaries with local communities, their social capital and embeddedness cannot be ignored. The unique competitive challenges, institutional constraints, hurdles, threats, but also opportunities SMEs face when it comes to CSR need a closer look.

## 1.4 CSR in Europe

Switzerland, officially known as the Swiss Confederation, has a stable, prosperous economy based on high-tech products and services. Its



wealth is mainly borne by the economic backbone of SMEs. Indeed, the majority (99.8%) of all companies are SMEs, which employ about 70% of Swiss labour, contribute 20% of export value, and 60% of Swiss GDP (FSO 2013). Although Switzerland is home to several large multinational corporations (e.g. Nestlé, Novartis, ABB), its predominant economic sector is manufacturing largely of health and pharmaceutical products, specialist chemicals, and scientific and precision instruments. These goods are mainly produced by Swiss SMEs which are often niche actors, highly specialised, and, although not widely known, in many cases world or at least Swiss market leaders. Hence, Switzerland is regarded as the land of the “hidden champions”, on the one hand in an economic sense, related to its highly specialised and quality-oriented SMEs, however also with respect to CSR, as for instance shown in the Swiss Corporate Sustainability Report or other studies, e.g. Switzerland has a long tradition of people and stakeholders sharing the viewpoint of CSR as “moral activity” and as “implicit part of the day-to-day business”. Many companies tackle a myriad of responsibilities in terms of corporate volunteering, preserving environment, supporting communities, or conserving resources in the pursuit of universal benefit. The explanation for the heightened awareness of CSR issues in Switzerland may lie in its political/historical background.

Switzerland is a federal parliamentary republic, and hence federalism is one of the most influential features in the Swiss state. The central government must pay respect to 26 individual cantons, with regard for their budgets, languages, unique geographies, social practices, etc. Switzerland is characterised by a form of direct democracy where the citizens retain the civic rights to challenge any law passed by parliament (by referendum) and introduce supplements to the federal constitution (by initiatives). Although predominantly German-speaking (the other linguistic and cultural regions are French-, Italian-, and Romansh-speaking), Switzerland is not shaped by an ethnic or linguistic identity. Instead, the strong sense of community or identity evolves from a common historical background and deeply embedded tradition, shared values, its direct democracy and federalist system, and from “Alpine symbolism”, making it almost a reactionary country. Moreover, the principles of subsidiarity and liberalism determine

the relationship between state, economy, and third sector (professional associations). As the state is traditionally weak, there is a strong incentive for the other sectors to organise themselves. Thus, Switzerland has a strong third sector and philosophical, economic, political, and social interdependencies are very important to the Swiss. Overall, and considering the small domestic market in Switzerland, its economy is a hybrid with strong liberal attributes. Apart from that, it is the birthplace of the Red Cross, another reason for its long tradition in third sector movements, and has a long history of “armed neutrality”. In other words, it was not involved in either of the World Wars and can therefore rely on traditional businesses with an uninterrupted mode of family capitalism and “Mittelstand”/small business culture. As another facet of economic and political neutrality, Switzerland is notably not a member of the European Union (EU) or the European Economic Area, and business is mainly embedded in local value chains.

Responsible values are widespread, anchored in tradition, and sometimes also in “mission statements”, although CSR activities are in most cases not openly communicated. This might be related to the cultural context of decency, direct democracy, and federalism, where the community counts and not the individual. Such insights cannot be achieved without looking at *the values, beliefs, and ethics of Swiss small firm owner-managers*.

## 1.5 The CSR–SME Relationship

A common assumption made about SMEs is that this sector is homogeneous and that the defining characteristic is size. Others found the exact opposite and outstanding heterogeneous working structures and sizes, ranging from micro-enterprises to medium-sized firms (Fassin 2008: 370ff.).

Due to this heterogeneity and despite many other defining, mostly qualitative, aspects this study adopts a quantitative definition of SMEs issued by the Federal Statistical Office: SMEs have not more than 250 employees and their turnover does not exceed Euro 50 Mio or the balance sheet total does not exceed Euro 43 Mio. Within the SME category, small businesses have less than 50 employees and have

a turnover or balance sheet total that does not exceed Euro 10 Mio. Micro-businesses are defined as not to have more than 10 employees and a turnover/balance sheet total of not more than Euro 2 Mio.

While size might be a factor, there are internal and external issues, which contribute to the explanation of characteristic as well behaviour. The most common SME form—so as in the case of Switzerland—is the owner- or family-managed company, where ownership and the centre of control are congruent. Hence, this person or circle of persons has the legitimacy to decide upon company resources, for e.g. CSR-related programmes and this allows some freedom and autonomy in decision-making. Often SMEs have strong interrelations with the communities in their village or small town and their leaders are more seen as “Unternehmer” than as managers, personally involved due to the family business or personal interest in the success of the traditional company. They are paying lot of attention to interpersonal relationships. SMEs’ community activities are often informal, fragmentary, and not based on a CSR-related strategy; and although they have often slacker control systems, less reports, and fewer control procedures, they have a strictly long-term orientation based on trust and reputation needs. Owner-managers are usually aware of activities that effect their employees, customers, suppliers, etc. and SMEs often emphasise responsible business practices since they want to “do the right things”. Despite this fact, SMEs are often unaware of the technical term “CSR” and they do nearly never report on their “doing right things”. Different section findings point to the fact that owner-managers do not judge it as important to talk about their social activities: their argument is, apart from others, that the actors whom they direct their activities to are aware of their contribution, and that is sufficient to them. Moreover, the absence of social reporting might rather manifest their social attempt than a showcase. In other words, SMEs have an unconventional, silent, sunken, sub-surface, or, well, implicit approach to CSR, which might be responsible for the preservation of the philanthropic conception and emphasising CSR among SMEs might be even counterproductive considering their altruistic setup.

By contrast, MNEs for instance rely much more on formal rules, contracts and are run by networks of regulated contractual exchange,

while they have much more power to protect their claims and professional resources to enforce their legal protection. For SMEs, the stabilisation of mutual expectations by trust offers a much more valuable business condition, because a social network might be a source of informal binding to trading partners, suppliers, and customers to stick to their promises, to pay their bills on time, and to offer access to legal institutions. SMEs often rely on tips, informal information out of the network and benefit from the mutual exchange of favours, obligations, and expectations. On the first sight, this is an advantage; however, the resulting obligations might also be a threat for future business moves.

Notably, such idiosyncratic business pattern of non-market relations, strategic collaborative interactions, informal information gathering and sharing, however also the monitoring and sanctioning of defectors, resembles a coordinated market economy as described in Table 1.

Many publicly traded companies are forced by their shareholders to spend most of their attention to maximise shareholder profit, which is one of the most significant aspects distinguishing SMEs from large companies. Many SMEs are namely attached to a substantive, non-financial mission or craft that a family has long embraced and come to take pride in. To many owner-managers the mission is personal, in terms of family-tradition—often more related to the family's history and reputation representing the continuity of the family's contribution. The emphasis is often on concrete technological or social accomplishments rather than on short-term financial results and these mission statements were not simply slogans but “steadfast beacons” that shape strategy, capabilities, and resource allocation. As aforementioned, this resembles a non-strategic CSR approach, rooted in the avoidance of irresponsibility based on the discretion and incentive of the owner-manager to forgo today's return for the sake of the future. According to many studies, e.g. SMEs are in most cases not small versions of big companies, and often more human management, shorter control distances and, thus, a greater level of honesty and integrity can be assumed and their actions do not solely point to economic targets and profit ratios.

Above all, the SME–CSR relation is biased in several dimensions: a first bias concerns the professionalisation of business in recent

decades; hence, a common element of such movements is “expanding formalisation”. Mission statements, CSR/sustainability reports, policies, code of conducts, audits, and evaluations are the result. This increased need for explicit communication of CSR activities gave rise to the impression that CSR or a sustainable business practice is worthless without its external reporting and extensive formalisation. Moreover, a lucrative market of reporting and audit was established by consultants and service companies to provide new tools and reports based on financial principles/accounting standards and therefore a genuine hypocrisy of CSR communication elapsed. This gap between the initial concept of CSR developed on ethical concerns, which most of SMEs fill by their family or long-lasting values, and the part of CSR that is auditable (following Global Reporting Initiative (GRI), etc.) is a real concern for SMEs and the danger of being judged as not responsible due to missing external reports is substantial for SMEs. In other words, the simplistic conclusion might unfortunately be that because SMEs do not report on CSR, they consequently have no CSR or at least cannot be evaluated on that issue.

As shown later in the context of Switzerland, many SME leaders have in the priority in fact a very social approach to their employees, a strict orientation towards long-term continuity, and the goal of “survival of the firm” just to pass the business to their children. To attract and keep employees and collaborators, who might earn more employed at MNE, SMEs create on the contrary a friendly atmosphere. This addresses the fallacy that procedures made for MNEs can be transferred to SMEs without acknowledging the fundamental differences between those businesses and CSR initiatives must consider the variability of SMEs’ managerial characteristics. However, current CSR movements have not yet proposed appropriate solutions and SME owner-managers fear that future initiatives will result in imposed formalisation (including the bureaucratic burden), with sole benefits for consultants and statistics of officials. The possibly greatest fallacy in the rationale for expanding formal CSR is the assumed success of CSR in increasing ethical behaviours, seen as widespread among MNEs. CSR reports (as expression of explicit CSR) are often used as communication tools to influence people’s perception of the company and to enhance legitimacy among

stakeholders—and if not selected by an audit they have limited value, although even an audit does not warrant absolute value. This fallacy exactly resembles the argument of espoused explicit CSR without genuine impact and enacted implicit CSR as manifested moral. The former's relevance for society and SMEs is highly doubtable. This is especially valid for pressure in supply chains, where most SMEs get in contact with MNEs. Many SMEs experience daily that, although business leaders are talking more and more about responsible business, shareholder value and profit maximisation are still the only genuine driving forces. Issues of globalisation, safety, personnel, the pressure on subcontractors, the indecent treatment of suppliers by multinational commodity chains, and of mergers and acquisitions (often with serious consequences for staff) illustrate the inconsistencies between CSR in theory and practice. Additionally, CSR does not always imply absolute progress without drawbacks and increased regulation does not at all deter all wrongdoing. For instance, regulation and legislation could cause compliance but could also produce resistance in management behaviour as regulated actors try to find holes in the system and therefore evade detection. As learned from SMEs in the UK, such movements of destroyed intrinsic social values and voluntary CSR attempts were discovered exactly due to the implementation of strict regulations and duties to report upon CSR.

In terms of motivators for CSR or sustainable engagement, the literature has identified several broad groups. Although potential monetary benefits from energy efficiency savings might be limited, besides competitiveness, abidance, and value-driven ecological and social concerns, is compliance with regulations in general seen as a measure to initiate pro-responsible engagement. In fact, many SME owner-managers consider the savings as well as their impacts as not significant and that improving practices will cost, rather than, save them money. Especially in European countries is CSR often regarded as another Anglo-Saxon term for something self-evident, because local cultural contexts built on small business culture already provide a “prima facie solution” for the specific “problem” of corporate responsibility. On the other hand, apart from external pressure, values and personal commitment about proper conduct of business are reported to

be the most important motivators within SMEs. Unlike managers of large companies, founders of SMEs often build firms that fit their personal mindset and philosophies. Since they often have greater strategic and operational discretion over their (own) company, and it is usually within their power to implement their own values to permanent organisational visions and culture, personal and business ethics are more closely aligned in SMEs than in large companies/MNEs. Ethics and religious beliefs (concerning the latter see next section—especially studies from Italy) are the most consistent reasons behind socially responsible approaches within SMEs. However, it is difficult to categorise SME owner-managers into value categories and their response to social issues depends to a large extent on their attitudes, social pressure, and other personal or external factors.

Surely, the greater degree of autonomy enjoyed within SME management, enhanced flexibility and capacity to react due to limited size and the multi-functionality of SMEs' employees is noteworthy. SMEs are closer related to the community, which, coupled with negligible impacts on markets, has created terms like "silent CSR", "sunken CSR", or "unconventional CSR" (Lepoutre and Heene 2006). In other words, CSR-related contributions linked to SMEs are often described as non-formalised, non-systematic, and unstructured, on the other hand contributions of MNEs are calculated, planned, systematic, quantifiable, and measurable, and explicit.

To summarise, there are a lot of peculiarities in SMEs' business, on the one hand regarding opportunities and threats due to CSR regulations or resource-related issues, on the other hand in regard to values, family background, and the huge disparity among SMEs suggesting that there is no "typical SME".

This section explored theory on CSR, literature on CSR in SMEs, and on how CSR is bound to cultural/historical contexts. The next section especially looks at CSR in Switzerland and the impact SMEs may have, because section on this interplay is still rare, not only in regard to Switzerland. This could be traced back to the absence of "a consolidated and generally accepted model in regard to the CSR–SME relationship".

## 2 Conclusions

To conclude, the following SWOT analysis gives an overview over collected strengths, weaknesses, opportunities, and threats SMEs face within the CSR stress field. It therefore brings about various explanations on why the SME–CSR approach has evolved as it is and why there are similarities among SMEs from different cultural contexts and types of capitalism (Table 4).

**Table 4** SWOT analysis of SMEs seen from a global comparative point of view

<i>Strengths</i>	<i>Weaknesses</i>
SMEs are more flexible and agile due to their size and to change behaviour may be easier in SME than in large companies	SMEs are dependent on trust, reputation, and long-term partnerships
SMEs have minimal formal structures and control systems, less reports on transaction, overall fewer procedural burdens	Lack of awareness of business benefits
SMEs have strong relations with region and communities	A gap between perceived and actual costs
High amount of social capital: stabilisation of mutual expectations, collective action, insurance, and access to relevant information, tips, support	Resource pressures (time, manpower, money)
Employee-related activities and strategies in the areas of job satisfaction, better working conditions (e.g. health protection, safety in operations), work-life-balance, equal opportunities and diversity, advanced training, employee participation and communication policy, fair wages, and benefits are easier to establish	Immediate pressures to survive economically
Improved processes and products can arise out of the good	"Lack of know-how and know-who", e.g. how to make the business case and where to find technical support
Long-lasting and narrow customer relations	Reluctance to external help or being too slow
Cost savings and productivity gains arise from the more efficient use of resources, e.g. due to limited size of SMEs	Lack of business cases, tools, measurement, and verification processes aimed at SMEs (instead of at large businesses)
	Lack of awareness about social and environmental impacts and lack of good records to prove own CSR
	Lack of access to state-of-the-art CSR reporting tools
	Organisational blindness and reluctance of patrons to change traditional business model

(continued)



Table 4 (continued)

<i>Opportunities</i>	<i>Threats</i>
CSR allows for important network opportunities	Limited rewards for responsible business practice so far
Product and market innovation, diversification and differentiation, and competitive edge are needed as well as more sources for innovation and creativity in business	Market speed and technological change require flexible and engaged employees, which calls for attracting, retaining, and developing committed and motivated staff
Anticipation of legislation and experience of compliance practices enhance the chances of long-term success	Economic stagnation forces SMEs to find new sources of revenue and markets so that winning and retaining customers is important
Society-related activities and strategies like social integration on the local level, improvement of the local infrastructures, donations to municipal facilities (e.g. schools, sports clubs, hospitals, ecological groups, etc.)	Being a good community member maintains the licence to operate from the local community
Market-related activities and strategies, like improved product quality and security, offering voluntary services, fair price policy, ethical marketing, prompt paying of bills, enforcement of responsible standards along the value chain, establishment of local or regional business associations	SMEs need to respond to pressures from banks and insurers
Environment-related activities and strategies in the area of environmentally friendly products and manufacturing, efficient use of resources, reduction of waste and emissions, eco-check of suppliers, informing stakeholders on environmental issues	SMEs need to have a good reputation with various stakeholders (employees, customers, suppliers, etc.)
CSR can enhance staff motivation and retention, which leads to more operational readiness and willingness to learn	The role of small businesses play perceived by society has changed in a positive way, they are less overlooked yet
CSR enhances the perception of the company by the public, which improves access to new employees, market and network relationships, and chances for loan granting	Given the limited resources of SMEs, cost and efficiency savings through reduced insurance and landfill costs are welcomed
	Takeovers
	Customer pressure towards formalisation
	Regulatory changes towards more formalisation

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# 21

## Company Case Study 13: Mass Production and Luxury Segment Partners That Meet the Stipulation of “No-Contracts”

Stéphanie Looser and Seraina Mohr

### 1 Introduction

A common assumption made about SMEs is that this sector is homogeneous and that the defining characteristic is size (Windsor 2006: 96ff.; Banerjee 2008: 60ff.). SMEs vary a lot by sector, technology or size.

This study defines SMEs by size: SMEs have less than Euro 50 Mio turnover (Euro 43 Mio balance sheet total) and less than 250 employees. Within the SME category, small businesses have less than 50 employees and have a turnover or balance sheet total that does not exceed Euro 10 Mio. Micro-businesses are defined as not to have more than 10 employees and a turnover/balance sheet total of not more than

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S. Looser (✉)  
University of Surrey, Guildford, UK  
e-mail: s.looser@surrey.ac.uk

S. Mohr  
Institute of Tourism ITW, Lucerne University of Applied Sciences and Arts,  
Lucerne, Switzerland

Euro 2 Mio. However, size only delineates, it does not fully characterise, SMEs.

The most common SME form—so as in the case of Switzerland—is the owner- or family-managed company, where ownership and the centre of control are congruent (SRF 2013). Hence, this person (or circle of persons) has the legitimacy to decide upon company resources, e.g. CSR-related programmes, and this allows some freedom and autonomy in decision-making (Suchman 1995: 601ff.; Swiss Post 2018; Switzerland Global Enterprise 2014). Although they often have less formalised control systems, less reports and fewer control procedures, they have a strictly long-term orientation based on trust and reputation needs (Fassin 2008: 371).

Above all, less formalised standards or procedures do not necessarily mean “less strict”. Owner-managers are usually aware of activities that effect their employees, customers, suppliers, etc., and SMEs often emphasise responsible business practices since they want to “do the right things” (Fassin 2008: 369). Despite this fact, SMEs are often unaware of the technical term “CSR”, and they hardly ever report on their “doing the right things”.

Different research findings (Von Weltzien Hoivik and Shankar 2011; Von Weltzien Hoivik and Melé 2009: 560) suggest that owner-managers do not judge it as important to talk about their social activities. Their argument is, apart from others that the actors, to whom they direct their activities, are well aware of their contribution, and that is sufficient for them (Wilson 1986: 20ff.). Moreover, the very absence of social reporting might be felt to make manifest their social ethos better than a public showcase would (Windsor 2006: 96). This fits well the insights from the stakeholder analysis (cp. Section 3.4.2).

Consequently, SMEs have an unconventional, silent, sub-surface, practice-oriented or, well, intrinsic approach to CSR, which is responsible for the preservation of the philanthropic conception, and in some cases, emphasising CSR among SMEs might be even counterproductive in the light of their altruistic set-up (Williams and Schaefer 2013: 175ff.).

By contrast, many publicly traded companies are often forced by their shareholders to spend most of their attention to maximise shareholder profit, which is one of the most significant aspects distinguishing SMEs from large companies (Tamajón et al. 2013: 39ff.). Shareholder-owned

companies have a much more diffuse audience to satisfy, and their CSR purpose is not due to internal practices or preferences but needs to be justified and demonstrated (in cost and effect). Thus, CSR here is policy oriented. So, while SME owner-managers do not have the need to communicate their CSR, MNEs have this duty a priori, because the CSR purpose is in response to (or justification of) external stakeholders.

Many SMEs are pursuing a substantive, non-financial mission or craft that a family has long embraced and take pride in (Van Marrewijk 2003: 95ff.). To many owner-managers, the company mission is personal, and, in terms of family-tradition, often more related to the family's history and reputation representing the continuity of the family's contribution to society (Williamson et al. 2006: 326). The emphasis is often on concrete technological or social accomplishments rather than on short-term financial results.

Their mission statements are not simply slogans but “steadfast beacons” that shape strategy, capabilities and resource allocation (Wilkinson 1999: 206ff.). As aforementioned, this suits a non-strategic CSR approach, rooted in the avoidance of irresponsibility based on the discretion and incentive of the owner-manager to forego today's return for the sake of the future (Swiss Post 2018).

According to many studies, SMEs are in most cases not small versions of big companies since their actions do not solely point to economic targets and profit ratios. In order to attract and keep employees and collaborators, SMEs create, for instance, a friendly atmosphere (Fassin 2008: 371). Their CSR programmes rely on unwritten, cultural norms where honesty and integrity are key aspects. Many SME leaders have in the first priority in fact a very social approach to their employees, a stronger orientation towards long-term continuity, and the goal of “survival of the firm” so as to pass the business to their children (Wood 1995: 197; Wood and Brewster 2005: 265; Sterr 2012: 95).

Similar patterns were also shown in the stakeholder analysis for the Swiss context (e.g. Case study 1) and are further outlined on a world-wide scale in this chapter's overview. At the same time, succession and the quality of the successor are significant issues for SME lead actors.

The SME-CSR nexus is biased in several dimensions: one bias concerns the professionalisation of business in recent decades; hence, a common element of such movements is “expanding formalisation” (Fassin 2008: 369).

Mission statements, CSR/sustainability reports, policies, code of conducts, audits and evaluations are the result (Ulrich 2001; Fassin 2008: 365). This increased need for explicit communication of CSR activities gave rise to the impression that CSR or a sustainable business practice is somehow “less” without its external reporting and extensive formalisation (Fassin 2008: 371).

## 2 The Case of “RTC Ltd.”: A Historical Perspective

RTC Ltd. is a typical Swiss small-sized company, located in the beautiful landscape of Appenzell with more than 80 years of history (Zefix 2019). RTC is one of the worldwide leading companies in producing and distributing phosphorescent pigments for the watch industry. They are highly qualified and trail blazingly innovative, so they are the main supplier, besides other products, of luminous materials for the global watch industry. Further, they have cooperation with related sectors all over the world, still in search of new opportunities, to cooperate. They started in 1934 with luminous pigments for the watch industry. During all these past years, they have been developing new and safer types of luminous materials and importing our knowledge in new activities and products.

Today, they are proud to have great competence in various products and technologies ranging from the strongest afterglow pigments to labelled compounds in medical research. They offer a broad range of high-end products, just to name some:

- Swiss Super-LN high-performance luminous pigments for the watch industry.
- Fluorescent colours.
- Decontamination service for the disposal of radioactive waste.

- Scintillation screens for neutron imaging, in tritium handling technology, in scintillators production and in the application of fluorescent colours.

Luminous pigments for the watch industry have a long tradition in Switzerland. Starting from radium paints early last century to fully environmental-friendly high-tech ceramics, e.g. Swiss Super-LN Grade X1, shows the significant development this sector has taken within few years. Nowadays, all Swiss and most of watch brands from abroad exclusively use Swiss Super-LN, which a family-owned company located on a farm in the middle of the Swiss Alps—named RTC Ltd.—would be able, to be honest, thanks to the limited quantity needed, to produce in one batch on one day worldwide. Nevertheless, this is a company secret or at least it was.

Until the early 1960s, radium-luminous compounds were widely used by the timepiece and aviation instrument industry. However, realising the risk of radium, RTC as first mover started in the late 1950s to develop a new due to tritium self-luminous compound, so to replace radium completely. With its very low radiotoxicity and leaving no direct radiation outside of the watch, tritium luminous compound was a perfect alternative.

Thirty years later in the early 1990s, Super-LN, non-radioactive and high-performance phosphorescent pigments were developed and immediately introduced to the entire watch industry. After that, the production of radioactive luminous compounds found its (healthy) end.

Today, all exclusive and well-known watch brands use Swiss Super-LN for their application on hands and dials. This 100% Swiss-made pigment is not suffering any decay and guarantees full performance over the lifetime of the watch. Further, as it assures full night legibility of timepieces, it is the standard watch of many special forces from all over the world.

As the case shows successful globalisation without the sacrifice of values and virtues, as well as that regarding state-of-the-art research and outstanding products (that are to some extent “just basic” in the watch industry), mass production (i.e. Swatch) shows no difference regarding business practice, values, etc. as luxury segment customers. Same is also valid regarding Indian as well as Chinese watch sector companies.

### 3 Idiosyncrasies of GLOBALISED Swiss Small Business CSR

To start with some general observations, most Swiss SMEs are highly specialised niche actors benefiting from the competitive advantage of “Swissness” as one of the most valuable brands in the world according to VanAuken and Ireland (1985: 770). The latter was also especially emphasised by exporting companies—such as RTC. RTC’s declared goal is to provide equal quality abroad as they do so in Switzerland.

This vision and their trust-based values (e.g. handshake quality) drive their business, even if they are operating in areas with lower responsibility standards (China, India, etc.). The CEO of RTC summarised their internationalisation and related partnerships as follows:

[...] all our international trade partners from China, India, or Thailand rely on business sealed by handshake [...]

He added that trade collaborates from abroad whose business often as well as mass production of luxury segment watch industries has—independent from their legal status. However, what seems to be a substantial impact factor is their long-lasting history, a strong basis for the emphasis on ownership, or to be precise, ownership-within-tradition (which means family and local culture), whereas size and capacities astonishingly do not seem to matter.

These identified, overarching features, the findings, indeed, point at an idiosyncratic Swiss model of CSR that is influenced by visions and inspiration with corporate self-restraints aimed at general welfare. The majority has CSR on an individual level with personal motives.

[...] It is just standard to help poor or jobless people in the village [...]

[...] Since I am aware, my parents taught me to take care of others because we as busi-ness owners have a life-long responsibility for our region [...]

[...] since I remember we always employed handicapped or socially weak and infortune people [...]



As the case shows successful globalisation without the sacrifice of values and virtues, as well as that regarding state-of-the-art research and outstanding products (that are to some extent “just basic” in the watch industry), mass production (i.e. Swatch) shows no difference regarding business practice, values, etc. as luxury segment customers. Same is also valid regarding Indian as well as Chinese watch sector companies.

According to many owner-managers, the role of their mothers and/or wives is crucial. In the eyes of the sons/husbands, these women are the “hidden company leaders”, caring for staff with deeply rooted ethical values and high expectations towards their husbands/sons on how to lead the company in a proper way.

For some companies, Christian values are the basis of their CSR, whereas for the others it is rather pragmatism, philanthropy and their responsibility as “Unternehmer”. Either way, the highly sophisticated CSR agendas appear because of evolution and not strategic at all. In one case, family-led SME was sold to a listed MNE, which is a family-owned business with over 150-year tradition.

Astonishingly, the daughter company had neither to introduce any formal reports nor had it to change any business practices, since the “mother” sees a clear advantage in keeping in-formality and the daughter’s traditional values. This is a clear contradiction to what is normally reported to happen after an acquisition by an MNE, as many owner-manager stated. This supports the above-mentioned arguments:

1. **ownership and small business culture** are deciding elements,
2. which in turn are **independent from size, capacity and national boundedness** of the business.

For all companies that were forced to do a certification in the supply chain of an MNE, this was an “easy task” for them, because they did the required activities for decades and, therefore, had the related documents in any form.

Some owner-managers emphasised that, when they were forced to do formalisation (i.e. reports, certification), they do this, but reluctantly and only motivated by opportunism.

[...] if customers ask for a standard we fulfil this wish without much motivation to do more than necessary to get the contract [...]

This means that formalisation does not enter their values or mind-set. Accordingly, this reveals an option of strategizing CSR without the sacrifice of culture and moral. Some of them see an advantage in promoting their business values and therefore they issue CSR/sustainability reports, however this is just because they start to talk about their business.

[...] the way we do our business deserves wider recognition [...]

The reason for this development towards more external communication seems to be that they see responsibility as part of education and cannot be implemented in a later stage as adults. Consequently, they are not reporting in an accountability framework to wider stakeholders.

As soon as ownership is shared with, e.g. shareholders and the owner is no longer the sole leader, CSR could turn into an “external and superficial thing”. This statement was made by the former patron of another company under research. He sold his company to an MNE and is still very “sad” about the immediate and substantial changes this brought to his company’s culture and inherent values.

Similar can be reported from SME all over the making CSR, in a sort, a strategic attempt there. In other words, to separate capital and management leads to formalised CSR (e.g. to reports) and the before intrinsic motivation to do even more CSR seems to get lost.

[...] this report has the sole aim “to cover my ass” and, honestly, after one year the only thing we did related to CSR was writing this superficial piece of paper

In some cases, higher educated leaders (e.g. by a Master of Business Administration [MBA]) tried to introduce rationalised and explicit modes. But this only seems to happen when they have shared ownership and are mostly seen as “managers”, but if they are MBA trained and at the same time children of the family business, they prefer to stick to what their parents built up without any formalisation. In fact, these were the most militant opponents of any formalisation or change in their traditions.

Many SMEs operate literally without an executive floor with their CEOs sitting among their employees, clearly pointing to owner-managers seeing themselves more as co-workers than as bosses and to informal, flat, lean, and, thus, agile, companies.

This should at the same time answer research question 3: “What are the key drivers, peculiarities, and dynamics of the Swiss CSR business model?”

The most significant results from the Delphi process can be summarised as follows:

Indeed, ownership is one of the deciding attributes of Swiss SMEs leading to a business steered by visions and not by profit, making ownership the most influential component of the key driver “leadership”. To add a description of the company’s political and economic relationship with the state was found to be essential. The involved companies agreed on “liberalistic”; i.e., Swiss SMEs prefer to do business without state steering, regulations and governmental formalisation.

Furthermore, the participants see leadership as their personal trait that cannot, or only to some extent, be trained. Notably, this distinguishes managers of MNEs from owner-managers of SMEs. The latter, as stated by participants, is vision led, value and task-oriented aiming at company advancement, whereas the former is profit driven without any personal relation to the company.

About the key driver “employees” many participants strongly emphasised that in contrast to the commonly held opinion of owner-managers as “little dictators” the relationship to employees is based on democracy and subsidiarity following the model of political Switzerland. Thus, “democratic” is a novel and, according to them, the most important adjective herein. Arguably, not in all companies ***absolute democracy is deployed***; however, leaders not owner-managers have at least a participative approach respecting and taking the opinions of their employees (in some cases on an informal level) into account.

The high entry barriers of their specific markets, built upon their specialised niche products, were a further hitherto unmentioned point. These entry barriers are a consequence of the ability of Swiss SMEs to customise their products from pure “hardware” to systems including services

and solutions that make it very difficult for competitors to enter those marketers' solutions. These comprehensive packages are the result of constant innovation driven not by basic research but by customer desires (Switzerland Global Enterprise 2014; World Bank 2017). Thus, Swiss SMEs and especially their owner-managers are very close to their customers (see also statements below related to the "in-formality" of organisations).

"Agility" is the catchword that was brought to discussion to replace debased "flexibility". Accordingly, this adjustment was performed since the "agility" describes more precisely the mental mobility, the ability, and skilfulness Swiss SMEs demonstrate to react to their environment and search new and/or additional niches if needed and useful. Mental mobility and organisational agility cover "innovation" and "multi-functionality" as well, other key terms mentioned in the discussion that emphasise the duty to immediately react on customer demands while suffering from high fixed costs due to small-scale production of specialised niche products (as aforementioned).

The importance of "Swissness" as a success factor was emphasised by many companies and, therefore, added as key driver of "quality". At the same time, "Swissness" is seen as some sort of import protection. The significant efficiency of Swiss SMEs is, among others, a consequence of market pressure and high fixed costs leading to streamlined production processes and high-end solutions (systems and/or business development).

"Breeding" and educating their workforce is a further crucial success factor. Thus, it was a profound desire of the participants to add the apprenticeship system as a distinct component, and related arguments are stated below. "To give something back" (*to get something back later*) is driven by community-oriented reciprocity and, thus, primarily a survival strategy of self-improvement and organisational evolution and less likely a purely altruistic motive. Reciprocity, in general, refers to a social rule that says we should repay, in kind, what another person has provided us (Teece 2010: 175). This sense of future obligation associated with reciprocity makes it possible to build continuing relationships and exchanges as "new business horizons" (Tilley 1999: 240) in "sharing economies" (Timmers 1998: 4f.).

### 3.1 Do Not Forget Reciprocity: There's No Such Thing as a Free Lunch

Reciprocal actions of this nature are important to social psychology as they can help explain the maintenance of social norms. A person who violates the reciprocity norm by accepting without attempting to return the good acts of others is disliked by the social group. Individuals who benefit from the group's resources without contributing any skills, helping or resources of their own are called free riders. Both individuals and social groups often punish free riders, even when this punishment results in considerable costs to the group. So, it is unsurprising that individuals will go to great lengths to avoid being a moocher, free-loader or ingrate—thus there is a strong link to social capital (Bowen 1953). However, social capital is not painless “good”—it often bears the component of “the good, the bad, and the ugly”. The latter are urgent sanctions in the form of whistleblowing, avoidance, signing off, etc. of any related stakeholder group (e.g. customers, communities, employees, etc.).

However, the fact that SMEs around the world seem to have a common basket of values, virtues, independent from their culture, kind of capitalism, political system, etc., which all can be traced back to a certain long-established level of trust, is a phenomenon in today's uncertain times.

The same argument is valid whether SMEs are mass producers or small quantity quality niche players. The area of tension is determined by the principle-agent issue—and the question what reasons the business has. Furthermore, the SMEs business is competitive and do not forget any mistake as marginal is might-have-been. Thus, to be an SME owner-manager is a life of sacrifice, sorrows, pains and loneliness. Some significant statements underpin this conclusion:

[...] I once decided to run this company though I was aware of sacrificing a lot of comfort, money and adopt a lot of stress, sweat, and blood running this company [...]

[...] My life is dedicated to risk, insecurity, abandonment, and loneliness; however, you cannot imagine how much envy I daily experience for my libertarian lifestyle

E) focused on tight, long-term, trust- and democracy-based relations to Employees,

[...] on a daily base I am in close contact with my employees, therefore the whole staff celebrates the daily coffee break at 10 o'clock [...]

[...] we treat all employees equally, thus, we have full transparency in regard to all our salaries, and bonuses [...] we strictly execute majority votes for every management decision and anyone has the option to use its veto against management attempts [...] (

[...] I work physically among my employees on our various construction sites in order to personally take care of my staffs

[...] we try to teach them how to integrate into Swiss society, that's not easy since most of our employees are coming from countries that are currently or were recently in war against each other [...] we try to establish peace between them [...]

P) on niche Products (specialised, small scale production with high entry barriers),

[...] In the past 30 years we are Swiss market leaders, but in the next year I have to put all my effort in finding new niches [...]

[...] We are world market leader and developed this production process [...] (company 4)

[...] On a worldwide scale, we are the only one having this knowledge and thus we are the only supplier of such a combination of product and service [...]

[...] driven by networks and informal, flat Organisations (therefore agility),

[...] I personally take care of all our suppliers and customers in the market hall in order to foster relationships; however, this is very informal mostly leading to a coffee break or a beer after closing time [...]

[...] we always take decisions together with our employees since in times of risk or under pressure a majority always takes the better decisions than an individual [...]

[...] in the summer we organise a huge barbecue for all our customers [...]

Qu) and by efficient “Swissness” Quality.

[...] smaller companies have in the long run no other choice than to rely on high-quality products, thus, our survival is determined by our ability to be as efficient as possible with the world’s best products [...]

[...] this is about our wish to be as efficient as possible [...]

E) The owner-managers foster Education, e.g., the apprenticeship system, to “give something back” and establish their ethics during the process of work socialisation.

[...] one third of our employees are apprentices, only by this we safeguard that we are not running out of qualified employees. However, this is a continuous process of training [...]

[...] We have always educated apprentices; by this we secure our own staff and the level of education that is needed to fill this very complicate production process. Furthermore, I try to implement in these young people the seeds of trust, quality, ethics and a sense of responsibility for themselves but also for society and environment [...]

[...] I established an education because there is no adequate education supplied by the public system [...]

In sum, the SME business l appears to be characterised by soft assets, such as networks, by the nexus of mission and value-set, by a system of initiatives and integrated behaviour, by proximity, and informal, flat organisational structures, by the aspiration and ambition of craftsmanship or excellent service (instead of profit), by community involvement (Fassin et al. 2010: 430), by recruiting from the local community, by the willingness to grow slowly and steadily (i.e. temperance and prudence), by the avoidance of atomic markets and finally by the mental set-up and

sociological tradition of the stewardship concept. As these attributes are aligned with social capital, others (e.g. Fassin 2008; Fassin and Van Rossem 2009: 575; Fassin et al. 2014: 440ff.) conclude that the mismatch between practitioners' interest in "good business" and the actual "poor outcome" (mostly driven and in some way "biased" by the profit-making motive based on the shareholder approach) can be explained including the virtue ethics perspective, as found for instance in Swiss SMEs. Furthermore, in Swiss small companies owner-managers are not just doing what is just—as noticed by the capability theory—but they try to create a working environment that encourages employees to flourish and find fulfilment in their job (Teece 2010: 180ff.; UNGC 2010).

## 4 The Necessity to Survive: A Hatchery of Responsible Innovation and Globalisation

In general, SMEs are seen to be a timely limited side effect, often broken due to their only (dying) cash cow and no rising star in their obvious portfolio (Timmers 1998: 4f.; Travail Suisse 2018). However, in many cases, SMEs, i.e. their owner-managers, are by no means myopic. In other words, they are often early adapters or even trendsetters who have taken measures, i.e. rising stars in the portfolio, so as to become top-shots to have two to three viable new products as survival kit for the company, their families and themselves.

Further, their business strongly relies on reciprocal, trust-based deals. Many SME owner-managers—as well as RTC—emphasised that they only do business within the family business network and would rather sacrifice a deal, contract and the opportunity to make a deal if business partners asked for costly formalisation by a contract and did not rely on the handshake between them. They stressed that their international trade partners (SMEs, e.g. from China, India or Thailand) rely on this trust-based business practice as well. In other words, their traditional values determine also their global business and supply chain.



Another example is often publicly communicated core elements, such as the equal treatment of all employees, transparency in all respects (especially performance indicators, salaries and bonuses) and majority votes where every employee has the option of a veto against management.

The existence of such idiosyncrasies is also verified by the statements of many stakeholder groups, first and foremost by government support of the fact that SMEs are led.

Various results from research (Del Baldo 2010a, b; Uhlaner et al. 2012: 415) and from the interview with RTC confirm that the integration of disabled people into the staff is an ordinary practice of SMEs. This shows their adherence to the stewardship concept—including loyalty in the case of hardship.

Many SMEs have handicapped (up to one-third) employees, who are simultaneously fully accepted by their co-workers, who confirmed to appreciate highly this socially responsible detail of their daily work. This orientation of taking responsibility for others goes definitely beyond CSR as “façade” and the “business case” mantra of CSR providing better value for shareholders. By SMEs bearing the Swiss apprenticeship system—about 200'000 apprentices are employed at SMEs (SRF 2013; UNGC 2015), such expressions of personal ethics at work are deeply embedded during the process of work socialisation and responsible business practices are established from the start of employees' careers.

## 5 Conclusions

The development of an ethical groundwork by experience points consequently to the guidance by virtues (i.e. practical wisdom, justice, friendship, courage and temperance) and morale.

Considering the above, it is evident that more research is needed to explore further efforts on CSR virtues and on how these virtues can be applied in the Swiss small business context. Examples of such virtues are:

1. practical wisdom (prudence) that helps identifying the right thing (Vallentin and Morsing 2008: 8f.; 12; 24; 27). Prudence is normally based on three sources: knowing the company, having a clear hierarchy of end-means business, being aware of the structure of the company, the competitive and social environments, human resources, their aspirations, corporate values and operational mechanisms (Del Baldo 2013: 135; Baumann-Pauly et al. 2013; Torugsa 2013: 391).
2. Other virtues are: 2) justice (friendship),
3. courage (fortitude) and
4. moderations (temperance), all of which are required by repetition of acts.

The former refers to benevolence and care for the good of others and compromises all virtues about human relations (honesty, loyalty, gratitude, generosity and solidarity). The latter regulates human inclination with moderation of satisfaction and pride for the present or future results (Del Baldo 2010a, b, 2013: 132). Courage means the pursuit for what is good to the company in spite of obstacles in an appropriate way (Del Baldo 2013: 131).

The publicly available reports and related studies suggest that running an SME is more of a lifestyle decision to chase innovation and visions rather than primarily a wealth-maximising strategy. Often, SME owner-managers are envied for this libertarian lifestyle, even though they sacrifice economic security to pursue their ideal. They stated that responsibility and altruism are often important elements of their upbringing and such ethically aware behaviour is not a commercial strategy but a habitual characteristic of their business.

This is strongly supported by RTC's CEO mentioned the peculiarly "parallel" educational world of family business children within the worldwide family business network. His children went to private schools that foster the strengths of the children and do not try to fix issues of weak school performance. These schools teach social responsibility for instance by letting the pupils clean the school house, organise and cook lunch, and look after the smaller pupils during school breaks.

By doing so, they learn on the one hand to negotiate with food suppliers, but also to bear responsibility for their fellow students' nutrition, health and security, for the tidiness of the place where they study, and to have a relation to the "real" working life. By personalising such duties,

ethically responsible behaviour is increased in contrast to most public Swiss schools, where cleaning and cooking duties are passed on to workforces often belonging to a lower social class. Later, children of family business owners are mutually exchanged in traineeships and educated in companies that belong to the network (e.g. in China, India and USA) in order to be aware of cultural differences that may serve their later role as leader of the family business.

This in part explains the relative ease with which SME owner-managers are operating often highly developed and far-reaching CSR programmes (Turker 2009: 193ff.; UBS 2012a, b), but do not link these activities with the “bottom line”, nor are the activities necessarily formalised and publicly presented.

For this reason, they have high legitimacy and social support based on their philanthropic profile, their function as societal pillars and their long-term continuity passing the business down to their children, all of which are layers of legitimacy (Suchman 1995: 574) as noted in Section 3.2.

Overall, SMEs show high investment in social capital, which leads to regionally strong networks to customers, who mutually rely on the SMEs’ traditional image. Due to these regionally grown supply chains, SMEs are often more sustainable for the same product because of shorter transportation distances.

Such corporate cultures expressed by values of prudence and loyalty, trust and ethics result in staff turnover rates of only 3% or less and within organisation 8, for example, in employee relationships that have been lasting for three generations. Moreover, due to their limited size (UNGC 2009a, b, 2012), SMEs are very innovative and capable of adapting new trends very quickly, accounting for the Swiss market leadership of many SMEs.

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# Part VII

## Synthesis and Conclusion





# 22

## Synthesis: The Future of Innovation, CSR and (In-)Formal Management

Stéphanie Looser, Walter Wehrmeyer  
and Seraina Mohr

### 1 Introduction

The last chapter of “Intrinsic CSR and Competition” in its multifunctionality covers to some extent a summary, takes conclusions, shows gaps and potential for further research and has other quite specific prior functions. They are rooted in the broad area of research—ranging from foundational research (i.e. intrinsic and extrinsic motivation, the former’s legitimacy, the still rampant superstition of the latter’s power, or to be precise, its causality to enhance a company’s financial

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S. Looser (✉) · W. Wehrmeyer  
University of Surrey, Guildford, UK  
e-mail: s.looser@surrey.ac.uk

W. Wehrmeyer  
e-mail: w.wehrmeyer@surrey.ac.uk

S. Mohr  
Institute of Communication and Marketing, Lucerne University  
of Applied Sciences and Arts, Lucerne, Switzerland

performance), to post-financial crisis popular research regarding heritage, values, the importance of staff, its motivational level, entrepreneurship, motivation, etc. (Kaptein 2011).

To answer these questions, two content analyses of all case studies' texts were conducted: (1) a "standard" qualitative content analysis following the rules of Legewie's global analysis (1994) and Mayring's (1996, 2003) qualitative content analysis; (2) an automated content analysis (ACA) using a software (i.e. Leximancer). This approach shows significant benefits (see Sect. 4).

## 2 Synthesis: The Business Model Puzzle

Firstly, this book's aim, endeavour, as well as ambition is to identify and explore a Meta Level Conceptual CSR Framework, seen as Meta Business Approach and/or Business Model. Further, how the crucial success factor, i.e., "innovation", is taken into account should be answered as well.

Although the dichotomy "intrinsic vs. extrinsic" or "nonformal vs. formal" management activities were questioned by different authors' case studies, this is an overarching issue, simply given by the title and its (still continuing) discussion.

### 2.1 Synthesis: Ontology vs. Evolution

Secondly, this Framework's capability is to cover two other areas of interest regarding business frameworks and as a consequence (in-)formal management: the ontological aspects (i.e. origins, definitions, components and taxonomies of the business model; the relationship between the business model and strategy); and the evolutionary aspects (i.e. the business model innovation; the open business model; and the sustainable business model) (Di Tullio et al. 2018). Results suggest that, despite substantial academic interest, an agreed conceptualisation of the business model is still lacking. Hence, this study aims to uncover, classify and integrate the main units of analysis from the topics and chapters above.

### 3 Synthesis: Intrinsic Motivation vs. Tacit Knowledge?

To follow values, virtues, family tradition, while being world market leader in the luxury segment, postulates innovation as THE crucial success factor within a company's business model. Or, to realise that employees working for companies belonging to significantly different sectors have comparable—in the meaning of convertible—skills, processes, thus knowledge, shows “tacit” knowledge (Koskinen et al. 2003).

Tacit knowledge represents knowledge based on the experience of individuals. It expresses itself in human actions in the form of evaluations, attitudes, points of view, commitments, motivation, etc. Usually, it is difficult to express tacit knowledge directly in words (Koskinen et al. 2003), and often, the only ways of presenting it are through metaphors, drawings and different methods of expression not requiring a formal use of language. Regarding daily business, many SME owner-manager, his family members, experts, scientists, etc. cannot express clearly all they know and are able to do, and how they make their decisions and come to conclusions.

Moreover, this chapter addresses the question from what kind of motivation—assumed to be intrinsic to match the goal of motivation combined with knowledge—the case studies' social engagements provide the proper work context for tacit knowledge acquisition and sharing to take place.

### 4 Methodology

This study, based on case studies written by this book's authors, is epistemologically linked to social constructivism since it assumes that reality is constructed by human beings interacting in a cultural setting (Scott 1995). Grounded theory is the appropriate approach to research such settings since it enables to seek out and conceptualise the latent social patterns by using an inductive approach of generating substantive codes from collected data (Mitchell and Jolley 1992; Creswell 2007). Later, it is possible to develop theories leading to the next sequence of

data collection increasingly focussed on the deduction of further questions (Patton 2002). Considering this hermeneutical integration of rival theories, new insights and additional third-party sources are consulted and included whenever useful, achievable and/or necessary.

#### 4.1 Case Studies' Analyses: Synthesis "Ontology vs. Evolution"

The case studies were analysed following the aim Sect. 2 described regarding Business Frameworks related to (in-)formal approaches (Di Tullio et al. 2018).

These are the *ontological aspects*:

- Origins
- Definitions
- Components
- Taxonomies of the business model
- The relationship between the business model and strategy

as well as the *evolutionary aspects*:

- The business model innovation
- The open business model
- The sustainable business model

#### 4.2 Case Studies' Analyses: Synthesis "Intrinsic Motivation/Tacit Knowledge"

A key part of this new story is renewed interest and revitalised research on the idea of corporate social responsibility. In the light of numerous well-publicised problems and scandals involving large corporations whose highly formalised CSR systems failed to prevent anti-social and illegal behaviour, there is growing interest in informal processes and relationships—that are based on tacit knowledge (Koskinen et al. 2003) and driven by intrinsic motivation—that foster organisational cultures

that embed and exemplify CSR. This book's 13 case studies and their inherently different approaches investigate the processes, values, relationships, etc. that make up informal CSR-oriented organisational cultures. Thus, it aims at identifying key drivers and dynamics of different management systems as well as business models.

### 4.3 Qualitative and Automated Content Analysis

In the first step, the essays were analysed by Legewie's (1994) global analysis and Mayring's (1996, 2003) qualitative content analysis. This process allowed cross-case comparisons to identify patterns and construct typologies as suggested by Patton (2002). This helped to relate the identified patterns to other observations or research results. Table 1 outlines the different steps of analysis:

Until stage 8, the methodology is interpretative at several levels, which might be a draw-back on the study's objectivity. To tackle these weaknesses and further heighten the quality of this study the rich Case Study texts were also analysed by automated content analysis (ACA) software, namely Leximancer, to help mitigate human biases since this

**Table 1** Working steps regarding the goal to reach a meaningful synthesis

Working steps	Oriented at
1. Orientation, i.e. scanning the essays for signalling words and statements	Legewie (1994)
2. Activation of context knowledge, i.e. remind situation in the classrooms, explaining remarks that were necessary, etc.	Legewie (1994)
3. Working through the texts, i.e. careful reading and marking significant statements about future concepts, transition pathways and management	Legewie (1994)
4. Structural content analysis, i.e. categorise themes and contents; thereafter sequence and arrange statements to concepts	Mayring (1996, 2003)
5. Concentrating content analysis, i.e. paraphrasing, generalising	Mayring (1996, 2003)
6. Summarise text and support by quotations	Legewie (1994)
7. Run the Leximancer analysis Leximancer, search and explained congruities and nonconformities	Hasson et al. (2000)

allows an independent, objective, systematic, category-based examination of individual statements.

The combination of a software tool like Leximancer (with to some extent grounded theory like approach) with a qualitative content analysis yields useful information for further research.

## 5 Findings

### 5.1 Synthesis Results: “Ontology vs. Evolution”

The case study coding delivered interesting linkages between the theoretical aspects of ontology and daily business practices. Some significant statements are added; other codes are overarching topics mentioned by a number of case study-involved leaders, employees, etc. (Table 2).

In general, the case study texts are very rich regarding quotes that clearly show some tendencies towards ontology—or even, to be precise, fundamental ontology. However, as the cases were related to very specific topics, for instance attitudes, behaviours regarding their employees, virtues/values as business drivers, etc.

Regarding evolutionary settings of business models, a clear-cut relation between intrinsic CSR, SMEs and innovation as business driver could be stated (Table 3).

### 5.2 Synthesis Results “Intrinsic Motivation/ Tacit Knowledge”

As tacit knowledge is hard to identify apart from human actions in the form of evaluations, attitudes, points of view, commitments, motivation, etc., this synthesis is mainly based on codes given during the transcript for expression of emotions (shown, e.g., by gesture or facial expression). To set codes already during the process of transcription is a smart way to catch statements made with a chuckle, or if interviewees got stressed by unusual questions, if they avoided eye contact by any reason, etc.

Usually, it is difficult to express tacit knowledge directly in words, and often, the only ways of presenting it are through metaphors, which

**Table 2** Synthesis' results: "Ontology vs. Evolution": ontological aspects

Concepts	Codes	Theory	%
Origins	"I have no idea why we treat our employees like family members"	Ontological aspects	2
	The advent of the Internet		3
Definition	<ul style="list-style-type: none"> <li>the reduction of transaction, communication and collaboration costs</li> <li>efficiency of economies of scale</li> </ul>	Ontological aspects	5
	"Something like "VOODOO""		2
	It was like this has been like this, and I do not want to be the first to break this rule		1
	From the 1990s, in the context of the "New Economy"		3
	Engaged due to family tradition		
Components	<ul style="list-style-type: none"> <li>Determined by virtues and value</li> <li>Determined by the stewardship concept</li> <li>"To be a good craftsman"</li> <li>Responsibility and altruism are often important elements of their upbringing</li> <li>Ethically aware behaviour is not a commercial strategy</li> <li>A habitual characteristic of their business</li> </ul>	Ontological aspects	2
	A "system" of activities		3
	Customer category:		
	<ul style="list-style-type: none"> <li>Who are our customers, and what do we offer to them that they value?</li> <li>Customer relationship</li> </ul>		4
	<ul style="list-style-type: none"> <li>The infrastructures and the network of partners (that are necessary in order to create value and to maintain a good customer relationship)</li> <li>all our international trade partners from China, India, or Thailand rely on business sealed by handshake</li> </ul>		
	<ul style="list-style-type: none"> <li>Channels</li> <li>Since I remember we always employed handicapped or socially weak and infortune people</li> </ul>		

(continued)

Table 2 (continued)

Concepts	Codes	Theory	%
	<p><i>Organisation category:</i></p> <ul style="list-style-type: none"> <li>• Personal ethics at work</li> <li>• Deeply embedded during the process of work socialisation and</li> <li>• Responsible business practices are established from the start of employees' careers</li> <li>• Choices and consequences</li> <li>• The ways of working together to address recurrent tasks in a consistent way</li> <li>• Interactions</li> </ul> <p><i>Financial category:</i></p> <ul style="list-style-type: none"> <li>• Do not link these activities with the "bottom line"</li> <li>• Revenues</li> </ul> <p><i>Strategy category:</i></p> <ul style="list-style-type: none"> <li>• a lifestyle decision to chase innovation and visions</li> <li>• Mission</li> <li>• Forms of knowledge</li> </ul>		20
			4
			7
Taxonomies of the business model	<p>Taxonomy emerged as an explicit logic of classification, developed first by Plato and Aristotle</p> <p>Proposition of a taxonomy based on revenue models</p> <p>Taxonomies refer to the different way to create value</p> <p>Relationship between the firm and the value chain</p> <p>The activities are not necessarily formalised and publicly presented</p> <p>Strategy is distinct from the business model</p> <ul style="list-style-type: none"> <li>• Strategy may be reflexive and is competitor- or environment-centric</li> <li>• Business models are inherently non-reflexive and opportunity-centric</li> </ul> <p>Creative Destruction</p>	<p>Ontological aspects</p> <p>Ontological aspects</p> <p>Ontological aspects</p> <p>Ontological aspects</p> <p>Ontological aspects</p> <p>Ontological aspects</p> <p>Ontological aspects</p> <p>Ontological aspects</p>	5 4 4 1 1 4 6 2



**Table 3** Synthesis' results: "Ontology vs. Evolution": evolutionary aspects

Concepts	Codes	Theory	%
The business model innovation	<p>"Since 30 years we are Swiss market leaders, but in the next year I have to put all my effort in finding new niches"</p> <p>"On a worldwide scale, we are the only one having this knowledge and thus we are the only supplier of such a combination of product and service"</p> <p>It was like this has been like this, and I do not want to be the first to break this rule</p> <ul style="list-style-type: none"> <li>• In particular, we promote the reduction of CO<sub>2</sub> emission from our building</li> <li>• One day, green solutions should make one-third of our business</li> <li>• Ultimately, our performance depends on people. And that is the reason why CSR is a good thing to do</li> </ul>	Evolutionary aspects	2 5 2 1
The open business model	<p>I established an education because there is no adequate education supplied by the public system</p> <ul style="list-style-type: none"> <li>• this report has the sole aim "to cover my ass"</li> <li>• honestly, after one year the only thing we actually did related to CSR was writing this superficial piece of paper</li> </ul>	Evolutionary aspects	3 2 3
The sustainable business model	<ul style="list-style-type: none"> <li>• Since I am aware, my parents taught me to take care of others because we as business owners have a life-long responsibility for our region who are our customers, and what do we offer to them that they value?</li> <li>• the way we do our business deserves wider recognition</li> <li>• I see CSR as my personal contribution to the social good of society!</li> </ul>	Evolutionary aspects	4

is an option using MAXQDA for coding. MAXQDA offers a set of pictograms or emoticons to express “hidden” information nevertheless. Especially regarding this point, Leximancer as a backup analysis is very suitable.

As shown, intrinsic motives are in many cases key drivers regarding the social dimension of CSR. To elaborate the nexus between intrinsically motivated actions and in the case of need-related tacit knowledge, socially intrinsic motivation seemed to be a suitable anchor of proof. “People-oriented” was identified to be a core concept of the social dimension of CSR.

The analysis of the Swiss and German Case Studies using the re-clustering function “change to social relation map” and “people” delivered an interesting visualisation (see Fig. 1). Interestingly, as “different”

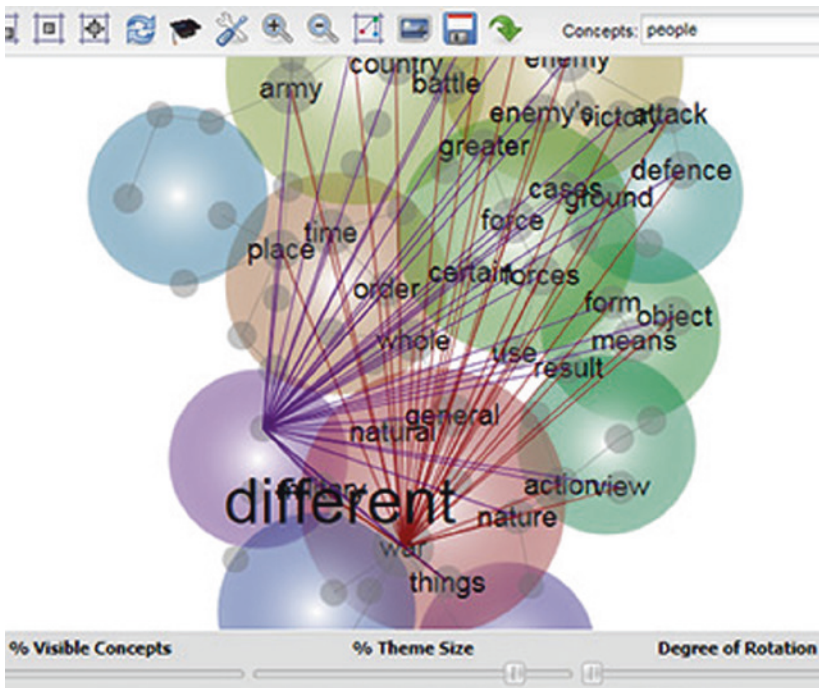


Fig. 1 “Intrinsic Motivation/tacit Knowledge” visualisation using Leximancer

Related Word-Like	Count	Likelihood in %
Spirit	9	9
Military	16	6
Natural	11	5
War	57	5
Taken	7	5
Called	5	5
Country	25	5
System	6	5
Lines	9	4
whole	19	4
History	4	4
Army	28	4
Mind	6	3
Different	8	3
Armies	5	3
Enemy's	13	3
General	16	3
Means	17	3
Cases	10	3

Fig. 2 Ranking of tacit knowledge aligned with "people" (issued by Leximancer)

seems to be an important concept for these companies given “people” as core concept of intrinsic CSR motives.

The German and Swiss cases were chosen due to language issues, since Leximancer is sensitive regarding many languages, including Italian; however, it cannot analyse a mixture of language sets.

Figure 2 shows the ranking of related words, their count and likelihood. These parameters were the result of the first analysis step regarding intrinsic motives for CSR of the mentioned cases and social activities.

## 6 Conclusion

Due to focusing on two specific synthesis, it can be concluded that an intrinsic approach is neither a hurdle nor a break on being innovative. By contrast, as small companies are often financially independent, moreover with ground, buildings, company material, etc. belonging to them, they have in many cases free financial measures as well as the eager to integrate their companies forward or backward, to differentiate, to come up with new products.

The parameters determining a “Meta Level Conceptual CSR Framework”—as a core aim of this book—are identified. However, the puzzle’s pieces bear quite generic names. The reasons why are profound as well as banal. Banal, since the case studies’ SMEs are highly agile—as precondition to be innovative. Further, they are belonging to different sectors, with divergence regarding cultural background, age, language, religion, etc.

As many of the SMEs under research stated that “Strategy is distinct from their Business Model”, the relation between the former and the latter seems to be floating, thus culminating in profoundly different manifestations. As a consequence, even compared to “50 Business Models to Adopt or Adapt” (2017) this synthesis concludes with a three-dimensional set-up. This is defined by the level of tacit knowledge, the relationship between ontological and evolutionary aspects, and the level of intrinsic motives. The latter is seen to have a correlation with tacit knowledge; however, the direction of causality or the

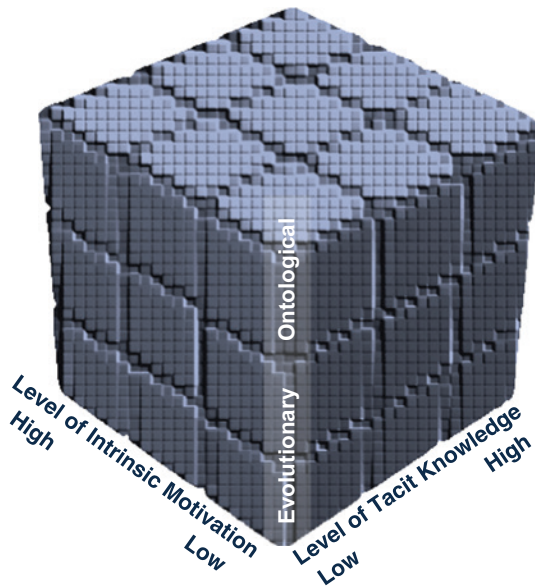


Fig. 3 “Three-dimensional SME-CSR business model”

determination by a latent variable is not clear-cut at this stage. The identification of (non)causality seems to be playground for further research (Fig. 3).

As the interest in new business models, built on ethics, morale, intrinsic motivations implicit communication, agility, as well as on ongoing innovation, has increased since financial and state crises, the time for SMEs to become genuine lighthouses seems to have come.

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