



PALGRAVE STUDIES IN SUSTAINABLE BUSINESS  
IN ASSOCIATION WITH FUTURE EARTH

# Place Based Approaches to Sustainability Volume II

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Business, Economic,  
and Social Models

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*Edited by*

Mara Del Baldo · Maria-Gabriella Baldarelli  
Elisabetta Righini

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Palgrave Studies in Sustainable Business  
In Association with Future Earth

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Mara Del Baldo  
Maria-Gabriella Baldarelli  
Elisabetta Righini  
Editors

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The Editors

Mara Del Baldo

Maria-Gabriella Baldarelli

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After completing her Masters in Economics and qualifying the exam for professorial eligibility she joined as Assistant Professor of Economics. There she got an opportunity to gauge economic issues from a higher pedestal. Soon she realized that economics as a subject is losing its essence to this monetary world and becoming a mere race for money. The youth is lagging in ethics and values and is directed only towards “profit-making” at any cost. She then decided to take up doctoral studies to voice her thoughts more prominently.

She has a keen interest in environmental economics, sustainable development, spirituality, religion, culture and values. She has participated in various national and international conferences where she has put forward her views on the same. She strives to work in the direction of “Spiritual Economics” and contribute towards the making of a sustainable world.

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# 1

## Introduction

**Mara Del Baldo, Maria-Gabriella Baldarelli,  
and Elisabetta Righini**

Sustainability has become an essential aspect of modern society as we strive to protect the planet and ensure the well-being of future generations. While many sustainability efforts focus on global solutions, it is essential to recognize the unique characteristics and needs of a particular location, including its natural resources, cultural heritage, and social dynamics, in achieving sustainable development. Place-based sustainability is a concept that emphasizes the importance of local ecosystems and communities in promoting sustainable development. It recognizes that each place has unique environmental, economic, cultural, and social characteristics that require tailored solutions to address challenges. This

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approach prioritizes the involvement of local stakeholders and the integration of traditional knowledge and cultural values.

Sustainability is not just about protecting the environment; it is also about ensuring that economic and social systems are equitable and resilient. Place-based sustainability acknowledges that all these systems are interconnected and must be considered together since environmental conservation and socio-economic development are not mutually exclusive but rather complementary objectives.

Place-based sustainability practices try to operationalize Pope Francis's vision, which calls for a new economy, the Economy of Francesco, "one that brings life not death, one that is inclusive and not exclusive, humane and not dehumanizing, one that cares for the environment and does not despoil it".

According to the call for the ecological transformation of humankind, the contributions included in the two volumes *Place-Based Approaches to Sustainability*, namely Volume I—*Ethical and Spiritual Foundations of Sustainability* and Volume II—*Business, Economic, and Social Models* explore theoretical and practical models that integrate the sense of the place, ethics, and spirituality in new ways of organizing of economic and social life, to tackle with the material and spiritual aspects of the present economic and environmental crisis.

The contributions have been presented during the Annual SPES Conference, which took place at the University of Urbino on 19–21 May 2022. They deal with the most relevant topics relating to sustainability, place, and spirituality in their several and complex interconnections.

The contributions included in Volume I cover the following topics:

- Aesthetics and grace in our relationship with nature
- Limiting the scale of the economy relative to the ecosystem and restraining uneconomic growth
- Developing ecological consciousness in organizations
- Working models of place-based sustainability
- The inner connection between ecology and social justice as a framework and compass for the economy

The contributions included in Volume II deal with the following:

- Purpose-driven and benefit corporation: emerging insights and perspectives for sustainability
- Good practices of ecological accounting and auditing
- The role of business in society and nature for achieving sustainable Earth
- Responsible business and Earth spirituality
- Frugality and simplicity in consumption and production.

Overall, the contributions provide possible replies to the following questions: *What is Place-Based Sustainability? Why is Place-Based Sustainability Important? How Can Place-Based Sustainability be Achieved?*

Answering the first question, place-based sustainability can be defined as a holistic approach to sustainable development whose purpose is to create sustainable communities that are resilient, adaptive, and capable of meeting their needs while protecting the environment and maintaining social and cultural integrity.

Regarding the second point, place-based sustainability is critical since it recognizes that local communities are often the primary stewards of natural resources and have the most significant impact on the environment. Therefore, it is essential to involve them in sustainability initiatives to ensure their needs are met and their perspectives are considered. Second, place-based sustainability acknowledges that what is consistent to one community may not work in another. Therefore, it is essential to tailor sustainability initiatives to the specific needs of each location, including its natural resources, cultural heritage, and social dynamics.

Finally, answering the third question, place-based sustainability promotes collaboration and partnerships among multiple actors. Sustainable development requires the participation of various stakeholders, including government agencies, non-governmental organizations, community groups, and individuals.

**Volume I**—*Ethical and Spiritual Foundations of Sustainability* is dedicated to analyzing place-based sustainability in its ethical and spiritual aspects.

The “journey” from the “economics of place” to “place-based economics” is explored in the **first chapter** by *Luk Bouckaert* who effectively points out that the economics of place primarily envisages place as an instrumental good used to maximize human utility, while place-based



economics underpins a proposed alternative that views place as an existential good that creates meaning and identity for people. In this vein, the existential sense of “place” is explored, starting from Martin Heidegger’s definition of the human being as being rooted in a specific place to reconstruct the tragedy of the commons and recontextualize the Aristotelian model of place-based economics.

The need for continued work in reframing how to see, interact with, and respond to the environment is further deepened in **chapter 5** by *Leslie Hermann* who suggests that within the world of environmental conservation, a powerful tool to motivate care for the environment can be drawn from the field of aesthetics. Against those who are critical of using aesthetics in environmental ethics, the author argues that the aesthetic-moral notion of “fittingness” holds normative potential for changing human behavior, directing people attention to the local ecology, and eliciting an ecological neighborhood.

A similar approach is supported in **chapter 10** by *Mali Nevo*, who points out the role of nature for children as a meaningful prism for eco-social sustainable transformation. She elaborates on the concept of “Giving nature a place” adopting the eco-appreciation perspective approach (EAP) useful to cultivate children-nature relations (CNR) that contribute to child’s well-being, as well as to the welfare of the ecosystems. Human-nature relations represent a significant source of hope, inspiration, and spiritual growth and attitudes ingrained in childhood are often carried to adulthood, discovering new directions for organizations needed for sustainable Earth.

The importance of ecological consciousness in corporate social responsibility is further marked in **chapter 12** by *Madhumita Chatterji* who claims the contribution of both the public and private sectors to pursue CSR and achieve true sustainability of the planet. To this end, businesses are called to relook at CSR from a very different lens and start visualizing it from three main perspectives (the inner corporate level, the intermediate national level, and the extreme global level) and differentiate between philanthropic activities and institutionalized responsible practices. The incorporation of CSR into their production, operation, and distribution practices, triggering may require a change in their value chain (internal and intermediate levels) or a complete overhaul to impact the ecosystem, at a global level.

Following this line of reasoning, the concept of “right livelihood” forms the object of *Robert Elliott Allinson’s* chapter inquiry (**chapter 2**). The key to Buddhist economics is hidden in the practice of the Eight-Fold Path. In Mahayana Buddhism, spiritual enlightenment cannot be attained until the entire world has attained it. The author emphasizes that the economic path must be properly chosen because one cannot achieve the goal of universal compassion, without “right livelihood”, which underpins a concept to be understood as the practice of economic activity directed to the elimination of suffering in its most urgent cases, that is, in the world’s most disadvantaged people and places.

The Buddhist perspective consistency with the place-based sustainability construct is further addressed by *Ernest C.H. NG* (**chapter 9**) who highlights the relevance of Buddhist economic to the theoretical and philosophical framework of place-based sustainability by discussing the relationship between its community of spiritual practitioners, saṅgha, and its local place. The author introduces two Buddhist traditions’ practical models of place-based sustainability: an ancient model of agricultural Chán Buddhism and a contemporary spiritual community of Plum Village in France and its global network. Through these case studies, he demonstrates how economic, social, and spiritual life can be organized in response to the dominant economic mode, eliciting implications for contemporary place-based sustainability research based on their challenges and successes.

The role of “friendship” in solving the socio-economic and political issues of the twenty-first century is deepened in **chapter 11** by *Gerrit De Vylder* who discusses the potentiality of friendship—a constitutive element of the human fabric—to tackle the social side-effects of neoliberalism including stress, depression, burn-outs, and the vast concentration of wealth and decision-power. To balance the abuse of power and the obsession with “large-scale” the author argues that friendship will be critical, and, like argued by many thinkers inspired by Eastern and Western philosophies, he claims that the antidote is the promotion of small-scale development, based on small- and medium-sized enterprises, or Gandhian village industries.

Sustainable human progress represents the core mission of STIR (Stichting Transformation, Indexation and Research), founded in 2009 by *Jean-Paul Close* as a research NGO aimed to implement a human-centered society vision and model (Sustainocracy) by applying core

natural human values as a shared responsibility of both people and institutions: positive health, safety; co-creation; awareness; basic needs. This alternative societal approach—presented in **chapter 3**—has been conceived to transform the human route from self-elimination into sustainable human existence. The author proposes interesting reflections about the combination of factors and core conditions (identity, authenticity) that got the regional development of the city and region of Eindhoven to start adopting this mindset and how it gradually expands across more municipalities in the Netherlands and internationally.

In **chapter 6** *Alessandro Montrone* and *Cecilia Chirieleison* address attention to Benedictine spirituality that presents several aspects tightly linked to a sustainable view of human activity. The Benedictine monasteries that during Middle Ages became places where the whole community could thrive socially and economically while respecting the environment, are good example of place-based sustainability grounded on spirituality, capable to inspire modern corporations. Drawing on archival evidence they investigate the Saint Peter's Abbey in Perugia (Italy), focusing on their sophisticated accounting methods that were closely linked to a spiritual search for the whole community's well-being, from the perspective of place-based sustainability.

Following this perspective in **chapter 8** *Giorgia Nigri*, *Luis Fernando Ramirez*, and *Roberta Sferrazzo's* new light on CSR strategies through a civil economic approach deeply linked to a Christian relational vision by introducing Civil Economy principles and practical applications. The growing need to transcend traditional ethics of intentions calls for an integration of business ethics and spirituality in the workplace. To grasp this concept, their examination of the roots of Protestant Anglo-Saxon capitalism in comparison to the Latin and Civil Economy traditions yields intriguing theoretical and practical implications for management and organizational studies. The contribution provided by the religious cultural heritage to a faith identity is further marked by *Alberto Fabbri* in **chapter 7** by focusing on cultural heritage of religious interest and its relevance in the social and juridical dialogue in Italy. Cultural goods of religious interest are seen as a way of affirming the identity of the religious community. The protective and promotion actions of the spiritual heritage contribute to sustain the different identities expressed by the religious goods. The significance that the cultural heritage acquires can thus become a fundamental means through which policies of spiritual integration and social group coexistence can be implemented.

Finally, the educational issues are deepened in two chapters. In **chapter 4** *Doirean Wilson* addresses the topic of education to place-based sustainability that represents the most critical changes confronting educational institutions, traditionally focused on cognitive skills, such as knowledge and understanding, rather than affective outcomes, such as students' values. Based on these premises, her research identifies university students' preferred learning and teaching approaches and methods, as well as their motivations and perceived barriers to learn. According to the findings drawn from the empirical study, respect—recognized as a culturally situated—was one of the most important factors in enabling university students to feel at home in their learning environment and nurture a sense of belonging.

The common good university and the search for an alternative path for business school education is the core topic of **chapter 13**, where *Mara Del Baldo*, *Gherardo Girardi*, *Hayden Hubbard*, *Knut Ims*, and *Tamas Veress*, point out the need to rethink the educational concepts that frame today's higher education institutions since that makes a business school or a university holistically prosocial and eco-oriented is the capability to contribute to the common good. With this vision in mind, they survey five higher educational institutions—in Hungary, Italy, Norway, the UK, and the US—in their efforts toward the common good by analyzing their mission statements and deconstructing their strategies. The insights deriving from the study contribute to the discussion on what the common good—place based, or universal—is and how it has been/can be operationalized by business schools and universities.

Which is the role of business in promoting place-based sustainability? Which are the possible approaches adopted by organizations to promote and achieve it? Searching for answers to this query, the contributions included in **Volume II**—*Business, Economic, and Social Models*—offer insightful perspectives on the role of companies.

In this vein, Benefit Corporations (BCs) and B-Corps are regarded by *Federica Palazzi*, *Annalisa Sentuti*, *Francesca Sgrò*, and *Massimo Ciambotti* (Chap. 2) as a business model that denotes hybrid organizations capable of balancing charitable and profitable goals. The results of the empirical study focused on Italian benefit corporations show that among the expected benefits a priority is assigned to the environmental impacts,

employees, territory, community and the civil society, as well as to promoting innovation, collaboration and sustainable practices, processes, and technologies.

Another actor of place-based sustainability, especially relevant in emerging countries where they significantly affect economic integration is represented by SMEs, which form the object of the study presented by *Huseyn Mammadov* in Chap. 4. Focusing on the current opportunities and obstacles SMEs face in Azerbaijan, he analyzes the government's program aimed at enhancing the effectiveness of SMEs' possible solutions. The author argues that these measures are still insufficient, thus calling for the implementation of different incentive approaches to support the development of SMEs.

In turn, the role of the banking sector is investigated in Chap. 5 by *Giulia Napolitano*, who addresses the relationship between corporate social responsibility and investors' behavior and the correspondence between socially responsible strategies and relations with stakeholders. The study helps to understand the critical role of finance in addressing global challenges such as huge economic and social inequalities and climate change, as well as counteracting the negative effects of previous economic models. The analysis reveals the growth of sustainable finance both in terms of volume of assets managed and the growth of Sustainable Responsible Investment (SRI) community.

Environmental sensitivity and consciousnesses are essential components of social business, defined by Muhammad Yunus "as a business which is created solely to solve a social or environmental problem". In Chap. 6 *Elisabetta Righini* expands on the fundamental principles and construct of social business, highlighting their contribution to build a world of "three zeros" (zero poverty, zero carbon emission, zero unemployment), their critical role in achieving sustainability, and their critical function for local development, being particularly attentive to the issues and needs of the territory and community to which they belong. However, as the investigation of the Italian legal context demonstrates, this function also necessitates rediscovering the legal and institutional system.

"How does the 'collective' value co-creation process develop and is represented in place-based purpose-driven companies?" To answer this question in Chap. 8 *Maria-Gabriella Baldarelli* and *Simona Ceraulo* introduce

a place-based purpose-driven case aimed to capture the elements of the business model and the relationships between the mission, governance, and accountability. They deeply investigate the complex phenomenon of corporate behavior capable of generating place-based value through a co-creation process, using an interdisciplinary approach that connects management, business strategy, and accountability.

In Chap. 9 *Patrizia Ghisellini, Ivana Quinto, Renato Passaro, and Sergio Ulgiati* empirically analyze the circular economy model and its contribution to spreading a broad vision of production and entrepreneurial activities that integrate the impacts on the natural environment and all stakeholders. Their research assesses the CE implementation, certification tools used, and aspects of the local environment and community in a sample of circular start-ups. The findings show that circular start-ups can be classified into four clusters based on how they apply the different principles and aspects of the CE (circular design, reduction, reuse, and recycling) and that the majority of the start-ups have a strong connection to their local natural environment and community.

Shedding light on organizational and business evolution in Chap. 10 *Luciano Pilotti* analyzes innovative emergent organizations with expressive potential as a source of creativity and collaborative intelligence in responsible companies. He claims that to rebuild a sense of corporate belonging as a common good, a deep transformation is required, based on: strong forms of direct and indirect participation in the creation of value; new forms of creativity at the service of employees; an “ecology of prosperity” for a new “human flowering”, capable to drive the transition from techno-centric to anthropocentric approaches that put at the core not only people’s skills, but also the valorization of emotions, feelings, and passions.

In a similar vein *Andrea Paesano and Mario Riso*’s research, presented in Chap. 7, investigates the relationship between the spirituality of Pope Francis’s new economy and the human-centered approach of society 5.0. Can industry 4.0 technologies in the society 5.0 paradigm help achieve sustainable development and contribute to build a society in which everyone has equal access to opportunities for economic growth and well-being? The study, which is based on a qualitative and exploratory process, contributes to shedding light on the relationship between the Economy

of Francis's mission and the "society 5.0" paradigm to realize sustainable development and identifying the related critical aspects.

Finally, frugality is the topic addressed in Chap. 3 by *Harshita Sharma* who presents the result of a survey carried out during post-Covid-19 restrictions to analyze the implementation of frugality in consumption. Following the restrictions people got to experience frugal living and learned about the benefits of this way of life. Frugal living contributed to both their individual and macroeconomic growth. Limited consumption not only helped people financially, but also contributed to gain inner peace and satisfaction and live a much more contented and happy life, helping people make rational decisions and control their desires. Therefore, economic model and equation for sustainable economic growth presented by the author aim to emphasize frugality as a necessity of the modern world rather than an option.

## 1 Place-based Sustainability: A Way Forward

Under different perspectives, theoretical backgrounds, and methodological perspectives, the contributions in the volumes point out the need to overcome the dominating configuration of today's economy and move toward a more substantive design of the economy built on sufficiency. Practicing sufficiency "requires more substantive organizational forms that radically alter the underlying structure of currently dominating configurations of formal economizing. This means (...) introducing smaller scale, locally adaptable, culturally diverse modes of substantive economic activities" (Zsolnai, 2002, p. 661). Natural ecology is based on human economy Francis's message: the intrinsic value of all creatures of God should be respected, and economic practice must reflect this recognition. This view applied to economics results in a materially more restrictive and less individualistic economy.

The emergence of phenomena such as globalization and digitalization have given rise to the belief that the local dimension should be considered outdated, as only a delocalized and universal economic model, with the

creation of a global single market and new virtual proximity relations, could make possible the full development promised by new technologies. However, more recently, new trends have emerged which favour the rediscovery of the strategic relevance of places, as contexts of relationships grounded on common resources in the economic, political, and cultural spheres. While globalization is based on a top-down approach that reduces places to purely standardized portions of the totality, place-based research studies about sustainability suggest to reconsider sustainability and progress using a bottom-up approach. The place-neutral approach, which supported the benefits of concentration in large urban centres, proposing a universal model for growth, based mainly on high rates of productivity and wealth, is therefore gradually dropped in favor of a new place-based approach that puts the “capital” of the places, with its peculiarities, in the foreground. The local ecosystem represents a community-based model of value creation with long-term horizons, being based on long-term relationships, and therefore necessarily inspired by sustainability criteria. One of the critical benefits of place-based sustainability is that it promotes community involvement in sustainability efforts, fostering responsibility and collaborative approaches. Moreover, it recognizes the value of traditional knowledge, and sustainable practices developed over generations.

This approach, however, should not be understood reductively in a localistic sense, since it involves finding new formulas resting on the interrelationships between social, economic, and environmental systems to link global transformations to local communities and generate a more equitable and resilient future for all.

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# 2

## Italian Benefit Corporations: An Investigation on the Purposes

Federica Palazzi, Annalisa Sentuti, Francesca Sgrò,  
and Massimo Ciambotti

### 1 Introduction

Benefit Corporations (BCs) and B-Corps have introduced a new business model, in which organizations can balance altruistic and lucrative purposes (Del Baldo, 2019) and this denotes their characteristic of being hybrid organizations (Gamble et al., 2020). These hybrid organizations are a crucial element of a structural change involving our societies (Blasi & Sedita, 2022).

Benefit Corporations, known in Italy as *Società Benefit*, have been introduced with Law No 208/2015, to govern for-profit companies that pursue general and specific public benefits, in addition to an economic goal (Gazzola et al., 2019; Nigri et al., 2020). Instead, B-Corps refers to

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all those companies that have requested and obtained the homonymous certification, introduced by the American B-Lab, based in Pennsylvania. The B-Lab company certifies organizations that voluntarily meet the highest social and environmental performance standards, transparency, and accountability (Paelman et al., 2020).

In Italy, there are 926 BCs (Il Sole 24 Ore, June 29, 2021), mainly located in Lombardy, Lazio, and Emilia Romagna. B-Corps were 140 with a total turnover of 8 billion euros and 15,000 employees at the end of 2021 (ANSA, February 21, 2022). It is a strongly growing phenomenon that, in 2020, it was subjected to an acceleration.

Personal or business motivations may drive for-profit companies to become Benefit Corporations or to obtain the B-Corp certification (Gehman & Grimes, 2017; Roth & Winkler, 2018). Personal motivations are guided by the entrepreneurs' personal values that, regardless of gender, are mainly values of social justice, safeguard, high sense of autonomy, and caring attitudes toward people and their community (Palazzi et al., 2022).

To meet transparency and accountability duties, Benefit Corporations have to declare their purpose and benefit goals in their bylaw and, to provide an annual report concerning the corporate performance achieved in terms of creating of social well-being (Law 208/2015). However, the Italian law is still generic regarding what purposes BCs have to declare and studies providing empirical evidence on this theme are scarce (Mion & Loza Adauí, 2020).

Therefore, this study aims to explore the purposes of Italian Benefit Corporations, utilizing a content analysis of goals contained in the company bylaw for 383 Italian Benefit Corporations (available at <https://www.societabenefit.net/>). In detail, the research question is the following:

*(RQ1) What are the declared purposes by Italian BCs?*

This chapter is structured as follows: Section 2 presents the theoretical background, Section 3 describes the research methodology, and Sect. 4 illustrates the study's findings. Lastly, the conclusion proposes a discussion of the results, the implications, and the limits of this work.

## 2 Theoretical Background

In Italy, BCs have been introduced with Law No 208/2015, to govern for-profit companies that pursue specific public benefits and economic goals (Gazzola et al., 2019; Nigri et al., 2020). BCs set up and should achieve purposes able to positively affect society, community, and the environment. They can operate in several sectors of activities: the production and distribution of products, services provision, or other economic opportunities for low-income or underserved groups of people or communities, the creation of job opportunities, the environment safeguard, the improvement of human health, arts, sciences, or advancement of knowledge (White, 2015).

The choice to become a Benefit Corporation represents the will to communicate the enterprise's commitment to CSR explicitly. Thus, BCs pursue a public benefit, balance the stakeholders' interests, and produce an annual report assessing the firm's CSR performance (Cooper & Weber, 2021). They should provide a comprehensive, credible, independent, and transparent annual report on their social and environmental performance. Each organization can choose any standard, such as the Global Reporting Initiative, Green-Seal, Underwriters Laboratories, ISO-26000, and Green-America (Hiller, 2013). In Italy, the more used standard by BCs is B Impact Assessment (Cantele et al., 2021). Some BCs do not employ any standard, and others have used international standards such as GRI, ISO26000, or Sustainable Development Goals.

Benefit Corporations constitute a manifestation of the firm's altruism, according to Ventura (2021). These hybrid organizations seem to be, from a law perspective, more efficient than non-for-profit organizations because they do not have the limit of non-distribution of residual earnings, and they are characterized by a more profound and long-lasting impact on the environment and civil society (Ventura, 2021).

B-Corps are organizations that meet specific socially responsible standards assessed by a certification entity named B Lab (Hiller, 2013). The B Lab was founded in 2006, and it evaluates companies through the "B Impact Assessment" (BIA). The BIA is a score that ranges from 80 to 200 points and is attributed to companies' performance across five broad

categories such as environment, employees, customers, community, and governance (Hiller, 2013; Nigri & Del Baldo, 2018). Each organization can obtain the B Lab's certification even without becoming a BC. In the same way, Benefit Corporations could not be certified by the B Lab. Therefore, the main difference is that Benefit Corporations don't have to be involved in the assessment process, carried out by the B Lab every three years (Del Baldo, 2019). Benefit Corporations have to face only the verification related to the transparency requirements (Gazzola et al., 2019).

Becoming a Benefit Corporation or adopting a B-Corp certification may lead to benefits such as improving consumer trust, enlarging the ability to attract financial resources and talented employees and, fostering managers/entrepreneurs to make decisions in the interest of different stakeholders (Lacmanovic & Milec, 2018). However, adopting the legal status of Benefit Corporations does not lead to obtaining any fiscal or financial advantage. The reasons driving this transition are voluntary (Mion & Loza Adauí, 2020). Shahrokhi et al. (2022) investigated the B-Corps' performance pre and post-certification, measuring the effect of social and environmental governance scores on corporate performance. The findings do not detect significant differences in performance pre and post-certification.

B-Corp certification could be a helpful tool to guide companies toward sustainability, mainly small- and medium-sized enterprises (SMEs) (Carvalho et al. 2022). It could allow shifting from an intuitive approach to a structural approach to sustainable practices.

Moreover, these organizations can be considered purpose-driven, considering that they explicitly pursue a blended mission that combines economic, social, and environmental goals (Mion & Loza Adauí, 2020). BCs have to declare their purposes in the bylaw, which will be the object of analysis of this work.

But what does corporate purpose mean? Traditionally, the purpose of a business is to maximize profit (Friedman, 1962, 1970). Corporate purposes of the largest multinational companies from 2020 have changed in favor of stakeholders and shareholders because of the Covid-19 pandemic (Mayer, 2021). Some argue that satisfying all stakeholders' interests could reduce shareholders' profits, while others assert that stakeholder and shareholder interests are complementary (Garcia-Torea et al., 2016; Chen

& Marquis, 2021). Changing from a narrow focus on shareholders to a broader focus on community, employees, and environment requires a shift in the purpose, corporate strategy, and governance (Freeman, 1984; Chen & Marquis, 2021).

The purpose is “a concrete goal or objective for the firm that reaches beyond profit maximization,” according to Henderson and Van den Steen (2015). The corporate purpose is “to produce profitable solutions to the problems of people and planet” and “not to profit from producing problems for people or planet” (British Academy, 2018; Mayer, 2018; Mayer, 2021). The purpose should be associated with the well-being of shareholders, society, and the natural world (Mayer, 2021). Additionally, a purpose is precise when specifies “what problems it is seeking to solve, whose problems are, how it will solve them, when and why the company is well suited to solving those problems” (Mayer, 2021).

Misani (2021) asserts that “a purpose should distinguish a business in a recognizable manner; express important meanings for society; be measurable, at least potentially; be shareable also by non-primary stakeholders.”

According to the law, BCs must provide the “specific purpose of public benefit” within their corporate purpose concerning community, environment, culture, and stakeholders. However, the identification of common benefits in the bylaw could be generic. This characteristic would increase the discretionary power of directors. The more public benefit is identified and defined in detail, the more directors are obliged to follow the indications; conversely, the more public benefit is generic, the more directors may choose how to pursue it.

### 3 Research Methodology

The content analysis is the research method used to examine the purposes declared in the bylaws by Italian Benefit Corporations within the scope of a qualitative research approach.

Krippendorff (2012) defined content analysis as “a research technique for making replicable and valid inferences from data according to their content.” The content analysis aims to enable understanding (Campbell,

2017), starting from a more complex text (in our case, the content of statutes) through the coding. Content analysis instruments are helpful to measure volume by sub-category and total narrative, considering words, sentences, paragraphs, or themes.

Throughout the data analysis, the content of statutes was hand-coded by using a matrix, on a spreadsheet. The initial concepts in the raw data were decomposed into simpler constituent elements described using the statutes' language or simple descriptive phrases. Then, elements have been classified in categories and grouped in main topics. Finally, the frequency of each topic has been measured.

All authors defined the coding rules together. The authors codified the text of the statutes separately. After that, the authors discussed the results and solved eventual coding doubts.

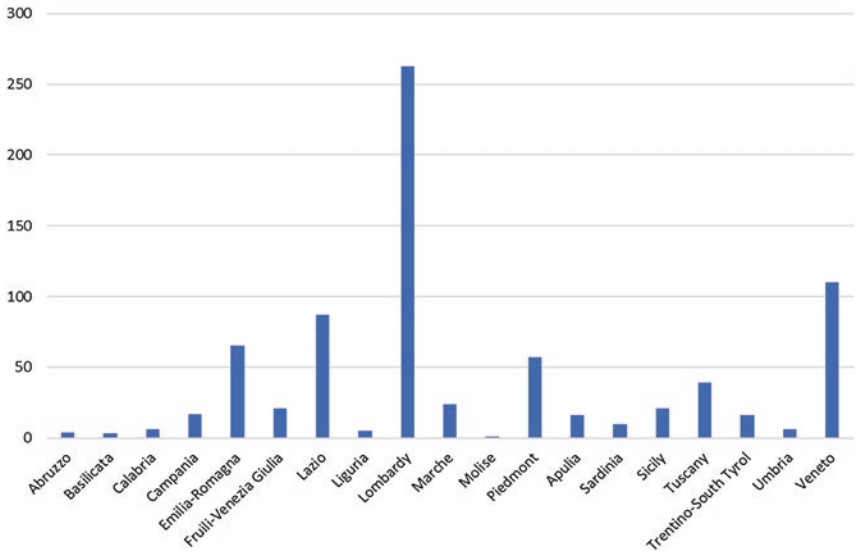
This study examines the purposes of 383 Italian Benefit Corporations (available at <https://www.societabenefit.net/>).

## 4 Findings

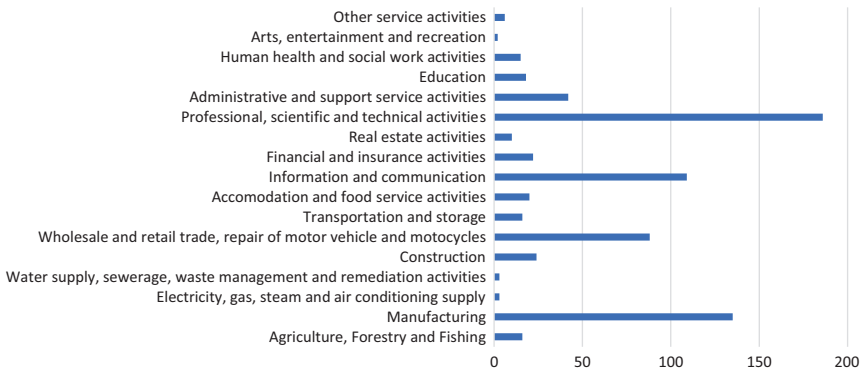
The Benefit Corporations phenomenon is evolving continuously. We employed the database AIDA (Bureau van Dijk) to describe BCs in Italy. We extracted the dataset on April 28th, 2022 (up to date on April 20th). We searched for companies with the words “benefit corporation” in the corporate object and active. We found 771 BCs in the database. The BCs are mainly located in the North and Center of Italy, particularly in Lombardy, Veneto, Lazio, Emilia-Romagna, Piedmont, and Tuscany (Graph 2.1).

They principally operate in the professional, scientific, and technical activities (26%); 19% of BCs operate in the manufacturing sectors, 15% in the information and communication industries, and 12% in the wholesale and retail trade and repair of motor vehicles and motorcycles (Graph 2.2).

Considering the 434 companies of which turnover (2018–2020) is available, 56% of BCs have got a mean turnover for three-yearly lesser than 2 million euro, 24% have got a turnover between 2 and 10 million



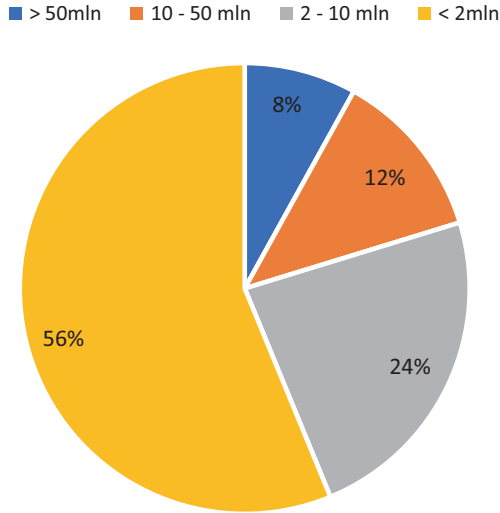
**Graph 2.1** Benefit Corporations in Italy. (Data source: Own elaboration from AIDA (Bureau Van Dijk))



**Graph 2.2** The operational sectors of Benefit Corporations. (Data source: Own elaboration from AIDA (Bureau Van Dijk))

euro, 12% have got a turnover between 10 and 50 million euro, and 8% have got a turnover greater than 50 million euro (Graph 2.3).

Data available concern 400 BCs. Micro firms with less than 10 employees represent 48% of the total, small businesses with employees between



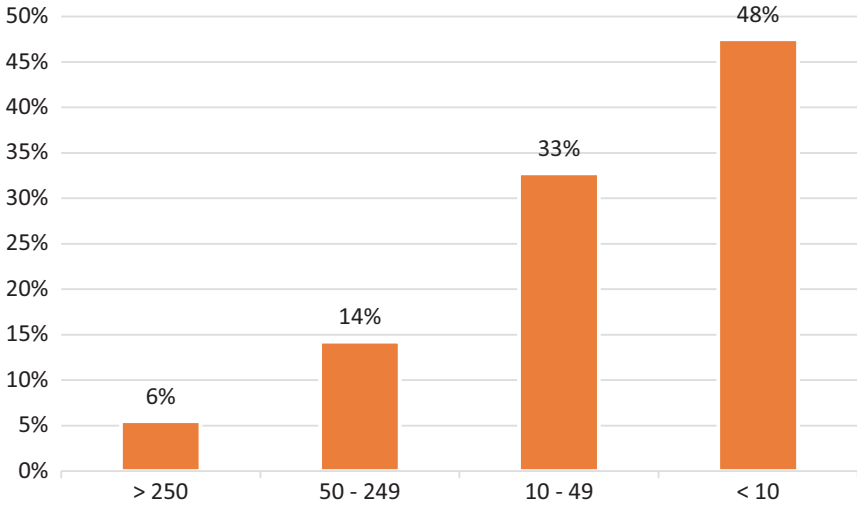
**Graph 2.3** The turnover of Benefit Corporations. (Data source: Own elaboration from AIDA (Bureau Van Dijk))

10 and 49 are 33%, medium-sized enterprises with employees between 50 and 249 are 14%, and finally, large firms with employees greater than 250 are 6% of the total (Graph 2.4).

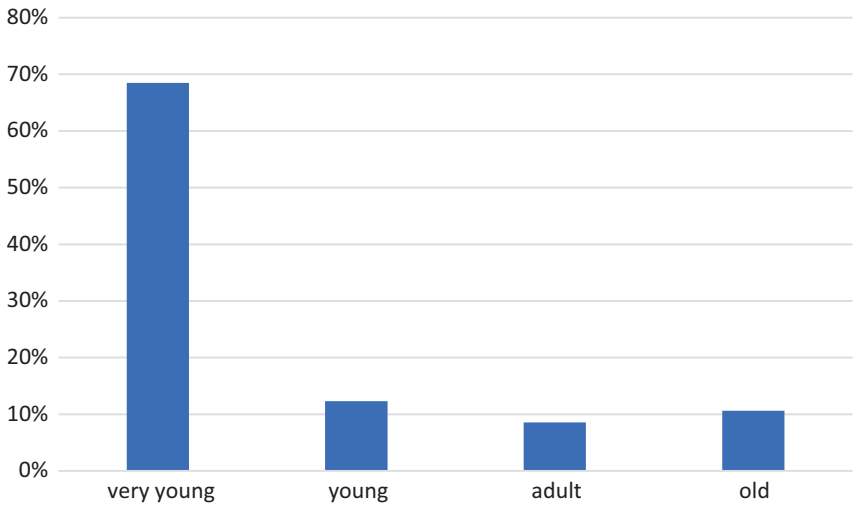
Regarding 771 Benefit Corporations, the majority of companies are very young, at less than 10 years (68%); 12% of firms are young with age between 10 and 19 years; 9% of companies have got an age between 20 and 29; finally, 11% of businesses are old, with greater than 30 years old (Graph 2.5). Since 2020 the Benefit Corporation model has gone through an acceleration: 340 BCs have been established (44% of the total).

In short, Italian Benefit Corporations are mainly located in the North and Center of Italy, and they operate in the service sectors. They are micro and small firms, very young.





**Graph 2.4** The number of employees of BCs. (Data source: Own elaboration from AIDA (Bureau Van Dijk))



**Graph 2.5** The age of BCs. (Data source: Own elaboration from AIDA (Bureau Van Dijk))

We analyzed 236 purposes on 383: absent in 56 cases; incomplete in 40; vague in 51 (Table 2.1).

There are five main topics emerging from the analysis of purposes declared in the bylaws by BCs (Table 2.2). The first is the attention to environmental impacts, included in 150 bylaws. The second one is the attention to employees, cited by 126 Benefit Corporations. The third is the attention to territory, community, and civil society declared in 117 bylaws. Promoting innovation and sustainable practices, processes, and technologies is the fourth topic present in 95 bylaws. Collaboration and partnership represent the fifth topic to which 90 Benefit Corporations refer.

The other topics have lower frequency decisively. The attention to customers/consumers/patients and promoting diversity, inclusion, and solidarity have a frequency equal to 54.

**Table 2.1** Analyzed purposes

Purposes	No.
Available	236
Absent	56
Incomplete	40
Vague	51
Total	383

**Table 2.2** Frequency of main topics

Topics	Frequency
Attention to environmental impact	150
Attention to employees	126
Attention to territory, community, civil society	117
Promoting innovation, and sustainable practices, processes, and technologies	95
Collaboration and partnership	90
Attention to customers/consumers/patients	54
Promoting diversity, inclusion, and solidarity	54
Promotion and spread of the Benefit Corporation model or B-Corp or similar models	53
Promotion of culture, art, and beauty	50
Attention to suppliers' selection	40
Other	33

Data source: Own elaboration

**Table 2.3** Declinations of common benefit

How many declinations of common benefit	Frequency
1	19
2	35
3	55
4	63
5	33
6	12
7	11
8	3
9	2

Data source: Own elaboration

Promotion and spread of the Benefit Corporation model or B-Corp or similar models are cited in 53 bylaws. Promotion of culture, art, and beauty recurs in 50 bylaws, the attention to suppliers' selection in 40 cases. Finally, a residual category is identified as "other" that includes more specific topics and less spread.

It is also interesting to verify how many declinations of common benefit recur in the purpose (Table 2.3). Four declinations of common benefit have the highest frequency, equal 63 cases. We observe three declinations in 55 bylaws, two declinations in 35 cases, and five declinations in 33 bylaws. Nineteen Benefit Corporations identify the common benefit in a univocal way. Twelve firms attribute to common benefit six declinations. Eleven companies recognize seven declinations. Finally, three Benefit Corporations decline the common benefit in eight forms, while two BCs even in nine ways.

## 5 Conclusion

The Benefit Corporation model in Italy is an evolving phenomenon concerning companies of every size, age, sector, and geographic location. This corporation model is spreading fast in Italy and the world. The Covid-19 pandemic, increased inequality, ethics-based corporate scandals, and the rise of awareness of climate change risks, a reconsideration of the current capitalist system (Ventura, 2021) can have accelerated the

spread of this model. It could be interesting to investigate if the pandemic has been a driver that fosters the diffusion of BCs.

Italian Benefit Corporations are principally micro and small firms that operate in the service sectors, less in the wholesale and retail, and manufacturing ones, located in the North and Center of Italy, and they are very young.

From the analysis of 236 purposes displayed in the bylaws by Benefit Corporations, some topics emerge as more relevant: attention to the environment impacts, employees, territory, community, civil society, promoting innovation, and sustainable practices, processes, and technologies, and collaboration and partnership. Additionally, the common benefit has mostly between two and five declinations for every business. These findings are consistent with the broad categories such as environment, employees, customers, and community considered by B Impact Assessment (Hiller, 2013; Nigri & Del Baldo, 2018).

In short, the focus of BCs is on the *environment, people, and innovation*.

Environment safeguarding implies reducing the impacts of human activities on the environment. Notably, the efforts are oriented to reduce gas emissions that produce climate change, decrease the waste and the consumption of natural resources, and diffusion of the circular business models. The Benefit Corporations contribute to the creation of prosperity conditions in the biosphere. This commitment requests the promotion of environmental education activities in the reference territory, beginning with the leading local actors.

The focus on people implies the spread of well-being, and an inclusive culture based on respect among people. Attention to people means satisfying the needs of employees, mainly linked to the search for a balance between private and work life, particularly for women. In addition, it means fostering public health with healthy products, primarily biological, with a low environmental impact. Then, it includes the valorization and development of people through good training processes. The focus on people is oriented toward the search for their happiness.

The care of people concerns employees and people outside the company, who are part of the community where a Benefit Corporation operates inside the reference territory. All cultural, artistic, sports, and

educational activities are tools that BCs use to spread ethical values, to foster inclusivity and diversity.

Innovation and the search for sustainable practices, processes, and technologies are instrumental to environmental and social purposes. They imply developing knowledge through investments in R&D activities and partnerships with universities and research centers. Supporting innovative start-ups oriented to sustainability is another way to foster innovation.

One of the main limitations of this research is that the analysis of purposes concerns only 236 bylaws; the examination should extend to a more significant number of bylaws. Secondly, it could be fascinating and valuable to compare the declared purpose and the content of the annual report about the social and environmental impacts that Benefit Corporations have to draft. It is necessary to verify the consistency between the declared purposes and the actions with consequent effects.

Further research should focus on the corporate strategies, the business models, the governance structure, gender issues, and the relationship between social and environmental impacts and the economic performance of BCs and B-Corps. Moreover, examining the financial opportunities to support these businesses and their investments (provided by institutional investors, business angels, banks, crowdfunding, and other companies). Moreover, the comparison between Italian and worldwide Benefit Corporations (i.e. USA, Canada, Scotland, Colombia) would allow an understanding of differences and similarities in terms of business models, strategies, governance, and social and environmental impacts.

Moreover, environment, people, and innovation, which emerged as critical from the analysis, are interrelated elements that deserve our attention to better understand how they develop and mutually support.

Finally, we believe it necessary to investigate the link between Benefit Corporations and B-Corp certification. The factors that promote or obstacle the B-Corp certification process deserve to be examined in-depth, together with the motivations that drive a Benefit Corporation to begin the certification process and the advantages they hope to obtain.

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# 3

## Frugality in Consumption: The Way Out of the New Age Problems of the Contemporary World with Special Reference to India

Harshita Sharma

### 1 Introduction

We as several generations have endured through time witnessing colossal changes happening around from primitive economic conditions to the present era dominated by capitalism. We welcomed and adapted to the phases of industrialisation and have seen prosperity like never before with soaring profit ratios. Profit-making has become the first and foremost duty of all business entities and economic talks have taken over all conversations be it in developed cities, the countryside or in the remotest parts of the world. This has undeniably prospered the human race with development attaining new highs every day. Everything seems pulchritudinous in a utopian world but the reality is beguiling. As we move along the development curve, we cannot steer clear of the pains of development. The economic practices have become pernicious; thus, a debacle is inevitable and supposed to cause a deep and long-lasting impact. To

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address it wisely, strategic policy changes are a must. To ace strategic planning, it is important to understand how and what changed the concepts of economics that made it deleterious in its ways.

## 2 What Is Economics?

The genesis of the word economics comes from two Greek words ‘*oikou*’ (a house) and ‘*nomos*’ (to manage) which means home management. Thus, the word economics was used to mean home management with limited funds available in the most economical manner possible. The basic purpose of economics was the judicious use of resources to attain maximum satisfaction and allocate the same in a Pareto optimum manner.

**Paul A. Samuelson**<sup>1</sup> defines economics as ‘the study of how men and society choose, *with or without the use of money*, to employ scarce productive resources which could have alternate uses, to produce various commodities over time and distribute them for consumption now and in future among various people and groups of society.’ This is the most satisfactory and universally accepted definition of economics.

With advancements post the industrial revolution that primarily targeted profit-making gnarled the basic concept of economics. It has been contorted into a mere race for money and materialism through the exploitation of resources losing its original essence. With the passage of time, though theoretically, the original definition remained on paper, the implementation became oppugnant. This made the autochthonous character of economics different from the one that exists in practice in the contemporary world. Economics was not what it has become and needs some thoughtful perspective to get back to its original form and meaning. ‘*Arthashastra*’<sup>2</sup> the Sanskrit name for economics when simplified becomes ‘*artha*’ and ‘*shastra*’ where the word *artha* is polysemous and means a sense of goal, purpose, or essence leading to material prosperity, and *shastra* means a guide. Thus, *Arthashastra* is an art to create wealth abiding by the essence of life and treating material prosperity as the only means to serve the bigger purpose in life.

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<sup>1</sup> Economic historian Randall E. Parker has called him the ‘Father of Modern Economics.’

<sup>2</sup> *Arthashastra* was originally written by Chanakya of the Mauryan Empire.

When different schools and thoughts are merged to understand the quintessence, it sums up as

*Economics is an art of Consumption and Production.*

Economics is not about incessant consumption and production just to maximise profits but it is the art to balance resource management and satisfaction levels. Terming it as an art refers to the ability to choose between rational and irrational consumption and production. This definition is not for downsizing the scope of economics but for focussing on the general idea that leads to bigger goals and ends. But now, profit has adumbrated the idea of economics, and with the passage of time and the contribution of different thoughts and various economic conditions, the concept has been modified.

To understand the contemporary meaning of economics, a few questions need to be answered.

- Is economics related to money-making?

If yes, then was economics not prevalent before the introduction of money or during the barter system?

- Is maximising profit through more consumption and production the end goal in economics?

If yes, then why do all economic graphs fall after saturating at the peak point?

Why is there always a third phase that shows diminishing returns?

- Is economics about the exploitation of resources or judicious use of resources?

When these questions are answered in the light of facts, the distorted form gets self-evident. Yes, there have been phases in the development of economics, and some ideologists and scholars like Milton Friedman, Fisher, Taylor, and Fayol have advocated the idea of profit as the supreme goal. In the words of Milton Friedman, *'there is one and only one social*

*responsibility of business – to use its resources and engage in activities designed to increase its profit.*’ This ideology led to the engagement of resources in more and more production and then in activities to increase consumption. J.B. Say’s Law of Market states that ‘*Supply creates its own demand.*’ These ideological frameworks were useful then as they boosted the world economy and led to the stage of increasing returns. But now, the facts have changed and an excessive capitalistic mindset is pushing the world and its resources in grave danger. The time has come to mend our ways and our mindset. As Paul Samuelson has said, ‘When the facts change, I change my Mind, What do you do, Sir?’<sup>3</sup> It’s high time we understand that we have to refrain from unhealthy and undesirable economic practices that are not sustainable in nature. A lot of economic problems can be solved by curtailing unsustainable economic activities that put a wedge between the fulfilment of long-term objectives. Frugal consumption is one such way out that’s pivotal in the modern world. It has become crucial now because the institutions are failing, the environment is degrading and economies are collapsing. The economic inequalities are at an all-time high with wealth concentrated in the hands of a few while others suffer from inflation, debt, and financial crisis. Unemployment levels are rising across the globe with millions facing the further risk of losing their jobs to ‘*Artificial Intelligence.*’ With the world crying for help in an unobtrusive way, it is time to talk about the elephant in the room. As Edward.O. Wilson has quoted,

The real problem of humanity is the following:

We have Palaeolithic emotions, Medieval institutions, and God-like technology.

And it is terrifically dangerous, and it is now approaching a point of crisis overall.<sup>4</sup>

We as a human civilisation need to strike a balance among the available resources and contemplate our ever-growing needs. How is this possible in this contentious and competitive world? The answer is Spiritual Economics.

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<sup>3</sup> Paul Samuelson attributed it to Keynes.

<sup>4</sup> An Intellectual Entente, Harvard Magazine, 2009.

## 3 What Is Spiritual Economics?

Spiritual Economics is an attempt to fill the void that has been created by detrimental economic practices. It is the branch of economics that primarily focuses on the 'satisfaction of needs' which comes from self-analysis and coming out of the vicious loop of consumption and production. It is a way to curtail excessive and unhealthy consumption practices which in turn would bring down production to sustainable levels. It is in no way against profit or money-making but it talks about a point where to put a comma or a full stop, that is when to slow down and when to stop, defining the satisfaction limits.

For most societies, a scourge of problems came along with economic affluence because the necessary awareness was missing in individuals to make the right choices.<sup>5</sup> Spiritualism acts as a facilitator to enable people to make the right choices. When affluence comes, people have the tendency to lose their composure and acting hysterically they end up making bad decisions. This is a predicament. No one wants to be poor and in the words of Charles Fillmore,<sup>6</sup> 'It is a sin to be poor.' But when people taste prosperity, they gaffe, and land into different problems because of their inability to make wiser decisions and end up losing their affluence. Thus Spiritual Economics not only aims at attaining economic affluence but also helps in maintaining the same.

### 3.1 The Spiritual consciousness in Economics

Spiritual consciousness and connectivity have always been a part of human civilisation with phases of slump and growth. In the past few decades, there has been a period of a slump due to the predominance of materialism but now the civilisation is witnessing a period of growth, especially after the pandemic wherein people have realised the need for spiritual awareness. It is important to work for our inner well-being because how each individual conducts themselves affects a part of the

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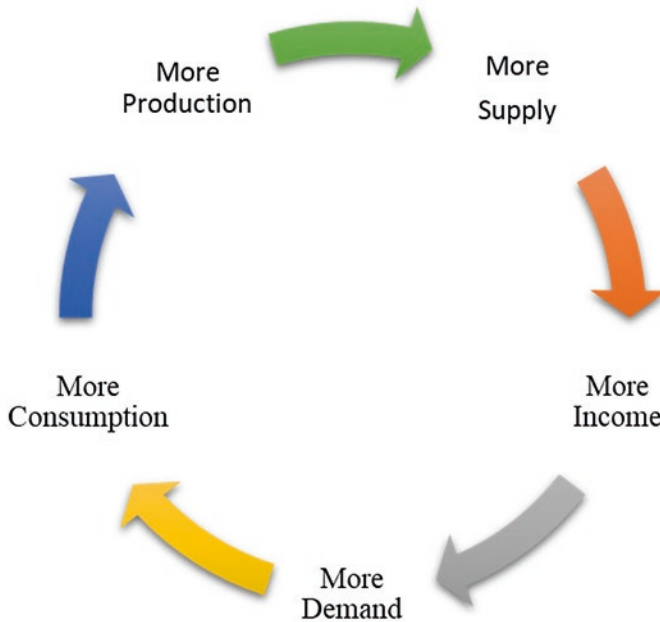
<sup>5</sup> Sadhguru quoted in his speech on economics.

<sup>6</sup> Fillmore, Charles, Prosperity, Unity Publishing, January 1, 1950.

cycle in which we all participate. Working in the direction of only survival is a very rudimentary concept because even the microscopic inhabitants of our planet can take care of this with a millionth of our brain, knowledge and understanding. The concept of economics is about providing for the people and when we analyse the production levels and everything we are doing, it is enough to satisfy everyone's needs but still many are starving and deprived of their basic needs. This indicates something went terribly wrong and that something is very serious. Mahatma Gandhi said, '*The earth has sufficient resources to satisfy one's needs, but not for one's greed.*' This is absolutely true and should be abided by rigorously but we have failed in many ways. We are standing in a crisis where education, economics, and spirituality have become divisive tools and abetting the widespread inequalities that are causing structural damage. The mass education system was designed during the 'Industrial Revolution' basically to feed the ever-growing demand for skilled labour. This paved the way for the sculpting of a capitalistic mindset. It was further aggravated by the way economics was done during colonialism. Self-benefitting business models that were capable of generating more and more profits became alluring and nodal of economic growth. The economies were rapidly prospering and developing making profit models highly proselytised. Consumerism became the buzz word and all economic plans were designed to promote consumerism as it had the potential to boost economic growth. This has put us into a vicious loop as illustrated below (Fig. 3.1):

When the motive is profit the 'more' knows no boundaries and businesses try to increase their production. This leads to 'more supply' in the market. When production is high the wages/salaries of the labour also get increased and now they have more income in hand. This increases their purchasing power parity and hence they are able to demand more and hence consume more. To feed this growing demand and consumption 'more production' takes place and there's no coming out of the loop. It continues endlessly with one paving the way for the other.

This made us turn a blind eye to the negative impacts of overproduction and consumption until now when they are marking their presence in the form of climate changes, disasters, calamities and pandemic outbreaks. Even now when the impacts are so visible we tend to adopt a snub



**Fig. 3.1** The vicious loop of consumerism

attitude because no one cares until their own house is on fire. We need to understand this now and at priority that this irrational behaviour has to stop and we have to find sustainable ways of coexisting with nature. I suggest a 'Frugal Model' as a part of the solution to this menace.

## 3.2 The Frugal Model

### 3.2.1 What Is Frugal Consumption?

Frugal consumption is an art of rational consumption that is not influenced by impulsive consumerism tactics that are designed to lure consumers into excessive buying. Frugal consumption enables a consumer to put a comma and a full stop in its consumption cycle. No, it does not impose any restriction in acquiring goods for your needs but it does check on overconsumption. Technically, frugal consumption *triggers a*



Fig. 3.2 Stages of frugal consumption

*preference for conserving resources and applying economic rationality in the acquisition of goods, and the tool to assess rationality is opportunity cost. Below are the stages of frugal consumption (Fig. 3.2):*

### **Stage 1: *Rationality***

The first stage is rationality where the consumers have to make rational choices in their consumption patterns. Now, we may think we are always making rational choices, we are always looking for the best prices, offers, sales and discounts but we fail to assess the opportunity cost of spending the amount towards consumption over savings/investment.

### **Stage 2: *Assessing the Opportunity Cost***

We strive in a world that is dominated by the principles of consumerism and hence are surrounded by gimmicks that lure us to make impulsive consumption decisions. We go to a shopping mall and end up purchasing a product we already have because we are somehow fascinated by the display, the advertisement, the selling tactics, the offer, the discount or any other factor that drives us to purchase that commodity. This might seem to be a rational choice then but when we assess it through the lens of opportunity cost where we could have saved/invested this money to reap future benefits rather than spending on the extra commodity you already possess, the decision and choice immediately become irrational.



### Stage-3: *Restricting Overconsumption*

When a consumer adopts the first two stages of frugal consumption, excessive consumption gets curtailed automatically. Overconsumption is always an unconscious decision that is taken without analysing and apprehending the cause and effects. When a consumer starts making decisions consciously that is when the consumption becomes frugal and that is the idea behind this whole exercise.

#### 3.2.2 Categorisation of Frugality

Frugal living incorporates a lifestyle that is based on satisfaction over consumption. When one is familiar with the art of using limited resources to satisfy unlimited needs, frugal living is achieved. The categorisation of frugality based on will is divided into two parts (Fig. 3.3).

The pandemic served as a blessing in disguise to experience frugality. Some people opted for it as forced while others voluntarily.

##### *Forced Frugality*

It is when people are forced to adhere to limited consumption. Despite having the money and resources they are unable to spend and consume. Some examples of forced frugality can be explained as

##### 1. The COVID-19 Pandemic

The COVID-19 pandemic was a brutal learning experience. Everyone had their share of learning from good to bad. One common thing was learning to live with limited resources during lockdowns. Although people had money to spend and were willing to pay double or triple the



Fig. 3.3 Categorisation of frugality

amount yet they were unable to make consumption. They were living a frugal lifestyle but were forced by external factors.

## 2. ODD-EVEN Scheme, Delhi

When India's capital suffered from extremely hazardous AQI levels in November 2019, the government came up with the 'odd-even' scheme to curb air pollution. Under the scheme, the odd and even number vehicle plates were allowed to run on alternate days. This reduced the traffic on the roads and promoted carpools and public transportation. So, even when you had a vehicle you were not able to use it and had to look for other options.

## 3. Emergencies/Crisis Situations

Difficult situations arising from disasters, calamities, and war are often unpredictable and uncertain. One cannot be fully prepared to deal with such situations and is thus forced to act frugally to cope with them. In India, the Bengaluru floods in September 2022 is one such example where even the poshest localities of the city were flooded and waterlogged and people were trapped inside their homes. Even the wealthiest were forced to live frugally with limited available means. The same was the situation during the Ukraine-Russia war crisis.

## 4. Financial Limitations

Budgeting acts as a major deciding factor for the lifestyle a person chooses. When there are financial limitations that may be due to a fall in income or loss of a job, a person is forced to adopt a frugal lifestyle to balance the expenses to be incurred.

## 5. Inflationary Pressures

With the current development pace of the world, inflationary pressures have become the new normal. No economy in the world is immune from it and learning to survive with it. When there is inflation, the value

of money falls, leading to a decrease in the purchasing power of a consumer. With decreased purchasing power the consumer has to cut on its consumption and adopt a forced frugal lifestyle.

## 6. The PDS System in India

In India, under a government scheme for public distribution, there are ration shops to distribute food grains and other essentials at affordable prices but the quantity is fixed and one cannot avail more than the fixed quantity as directed in the scheme. Although the beneficiaries of the scheme may want to consume more they are forced to consume frugally.

### *Voluntary Frugality*

Voluntary frugality comes from self-consciousness when a person is well aware of his/her needs and acts strictly in the direction of only fulfilling them. He/she does not indulge in excessive consumption and takes rational decisions. Some examples of voluntary frugality can be listed as

#### 1. Future Expectations

When people expect uncertainties in the future they tend to act wisely and keep a check on their expenditures by becoming frugal. This helps them to be prepared for unforeseen mishaps that might occur. It could be a recession in sight, political turmoil or a war situation lingering on that could cause severe impacts individually or to the economy as a whole. If frugality is not adopted it could exacerbate the problem.

#### 2. Increased Responsibilities

When people enter different phases of life they are faced with varying degrees of responsibilities. When the burden of responsibilities increases with family a person opts for frugal ways to manage future expenses. This is a conscious decision that enables them to be prepared for predicted and unpredicted expenditures.

### 3. Spiritual Consciousness

Attaining spiritual consciousness is an art that comes with self-analysis and understanding the harmony of self with nature. When a person starts taking decisions keeping in mind the cause and effect, the decisions become effective and beneficial. Voluntary frugality becomes a part of the regime with self-awareness and rational decision-making.

Both the ways of frugality, be it forced or voluntary, are capable of bringing the change in impulsive consumer behaviour that has become a part of this capitalistic system.

#### **3.2.3 Frugality as Mentioned in Religious Texts and Scriptures**

Frugal living has been advocated by all the great saints and sages. It finds its mention in a lot of Holy Scriptures and texts.

##### *The Vedas*

The Vedas, are said to be '*apaurusheya*' which means 'not of human' or authorless that is the dictates from God himself. The four Vedas, the Rig Veda, the Yajur Veda, the Atharva Veda and the Sama Veda describe different aspects of life and rightful ways of doing things. The Upanishads of the Rig Veda state about a frugal lifestyle and judicious use of money and material. Vedas term money as green energy which is produced by exchanging the potentials of an individual in lieu of material wealth. Vedas also classify wealth as Vittam (prevalent wealth) and Vedyam (potential wealth). The prevalent wealth can multiply the potential wealth by a frugal lifestyle and utilising the savings from it towards fruitful investments.

### *The Bhagavad Gita*

Bhagavad Gita is one such text that has answers to all the queries. It provides a massive knowledge hub that has been relevant through the ages and continues to remain the same. It is a dialogue between Lord Krishna and Arjuna when the latter faces life dilemmas and is conflicted to choose the right path in life. Lord Krishna guides Arjun with life lessons that have been enlisted in the Gita for the use of the masses. During one such conversation as mentioned in the second chapter of Gita, frugal living has been called supreme. The shloka is as:

गुरूनहत्वा हि महानुभावान् श्रेयो भोक्तुं भैक्ष्यमपीह लोके ।  
हत्वार्थकामांस्तु गुरूनहिव भुञ्जीय भोगान् रुधिरप्रदग्धिन्<sup>7</sup> ॥ २-५ ॥

*Gurūn-ahatvā hi mahānubhāvān śreyo bhoktum bhaikshyam-apīha loke  
Hatvārtha-kāmānstu gurūn-ihaiiva bhujñīya bhogān rudhira-  
pradigdhān. 2.5*

This shloka from the Bhagavad Gita explains the conundrum faced by Arjuna in determining the rightful way of living and he feels frugal living is supreme of all rather than a luxurious life that is surrounded by greed and followed by dissatisfaction at all levels. Frugal life incorporates a way of life that is free from greed, impulsive consumption behaviour, the urge to acquire more and more wealth to satisfy never-ending demands and the stress that effectuates the above behaviour pattern.

In another verse, from Chapter 4, part 22 the 33rd shloka states,

अर्थेन्द्रियार्थाभक्षियानं सर्वार्थापहूनवो नृणाम् ।  
भ्रंशति ज्ञानवज्ज्ञानाद्येनावशितं मुख्यताम् ॥ ३३ ॥

*Arthendriyārthābhakṣiyānaṁ sarvārthāpahūnavo nṛṇām  
bhraṁśito jñāna-vijñānād yenāviśati mukhyatām. 4.22.33*

This shloka defies the confounded concept of human civilisation that attaches happiness to material wealth and believes pursuing money is

<sup>7</sup> Bhagavad Gita, Chapter 2, Sankhya Yoga, Shloka 2.5.

equivalent to pursuing happiness. We fail to understand the stark realism that happiness is different from superficial sensual pleasures that we derive from the commodities that money can buy. As we are unable to decipher this, we end up being dissatisfied and restless despite earning, consuming and demanding endlessly. Frugal living, where we adapt to the contentment of desires, is the supreme of all and capable of attaining satisfaction.

In Chapter 16, verses 13–15 explain the hankering for material wealth and how an individual loses purpose in pursuit of it.

इदमद्य मया लब्धममिं प्राप्स्ये मनोरथम् |  
इदमस्तीदमपि मे भविष्यति पुनर्धनम् || 13||

*idam adya mayā labdham imam prāpsyē manoratham  
idam astīdam api me bhaviṣyati punar dhanam.* 16.13

असौ मया हतः शत्रुरहनषिये चापरानपि |  
ईश्वरोऽहमहं भोगी सद्दिधोऽहं बलवान्सुखी || 14||

*asau mayā hataḥ śhatrur haniṣhye chāparān api  
īśhvaro 'ham aham bhogī siddho 'ham balavān sukhi.* 16.14

आद्योऽभजिनवानस्मि कोऽन्योऽस्तिसदृशो मया |  
यक्ष्ये दास्यामि मोदषिय इत्यज्जानवमिहृतिः || 15||

*ādhyo 'bhijanavān asmi ko 'nyo 'sti sadriśho mayā  
yakṣhye dāsyaṃmi modiṣhya ity ajñāna-vimohitāḥ.* 16.15

In the above shlokas, Lord Krishna addresses the unquenchable demand and desires. He says no one can ever be satisfied with the quantity and quality of their belongings. One has to learn the art of attaining tranquillity with limited consumption and adhering to fulfilling basic needs. Expenditure is a never-ending process and to indemnify, wealth acquisition becomes a sine qua non. Excessive expenditure leading to more wealth acquisition is dangerous because it tends to involve immoral and selfish means which proves to be harmful. Money is just a means of

survival and not the purpose of life. A man has to learn to differentiate between useful and harmful desires. Money becomes demonic when greed and harmful desires take over and it starts dominating the life of a person and thus, he/she loses the purpose of life in pursuit of money. Self-control and self-awareness are important to prevent oneself from falling into the trap of 'money lust.' When people start succeeding in the acquisition of wealth, ego takes over and they are subjugated by the feeling of supremacy and they find themselves in a position of false authority or power. Their happiness is superficial and short-lived and they realise this only after paying a cost in terms of loss of relationships, causing harm to their near and dear ones and to themselves as a whole. Being humble and grounded by limiting desires is the key to remaining happy.

Saint Kabir has quoted this as,

Water does not remain above; it naturally flows down. Those who are low and unassuming drink (God's grace) to their heart's content, while those who are high and pompous remain thirsty.<sup>8</sup>

It simply means, there is no end to greed, one can never be satisfied and the more they acquire the more they desire and their thirst remains unquenched.

### *Petakopadesa and Tripitakas*

These are the religious texts of Buddhism. Gautam Buddha has laid the eightfold path for a right livelihood and condemns the idea of pursuing money and devoting life to assembling unnecessary means of livelihood. He advocated that life and everything in this material world are impermanent and one must find ways to make this journey worthwhile. He emphasised practising self-discipline and reverence, and must always be perseverant, diligent and frugal. Gautam Buddha has always accentuated the idea of living with nature and being in compliance with the laws of nature that approve of a sustainable lifestyle. Gautam Buddha has

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<sup>8</sup> Mukundananda, Swami, Bhagvada Gita, The song of God.

enumerated **sammā's** which are rightful ways of doing things. The rightful way of consumption is rational consumption which comes through practising the eightfold path.

### *Bahá'í Economics*

*Our troubles are not purely economic.  
There are also basic spiritual reforms that have to set in.  
There is the human heart that has to be changed.<sup>9</sup>*

And

*Social justice will be attained only  
when every member of society enjoys a relative degree of material prosperity  
and gives due regard to the acquisition of spiritual qualities.<sup>10</sup>*

Bahá'u'lláh, the Prophet-Founder of the Bahá'í faith, emerged during the phase of economic integration and thus economics became an integral part of this cult. They believe in applying spiritual techniques to solve economic problems. Bahá'í preachings are based on the satisfaction of the society as a whole over individual satisfaction. Every consumption has to be judged based on society's welfare. Economic inequalities can be dealt by limiting excessive consumption by one group and distributing the excess to the underprivileged. To sum up, their preachings are also directed towards a frugal lifestyle and condemn extravagant, lavish and wasteful expenditure and consumption.

All other religions and sects also sermonise on frugality. The above description is just a drop from the ocean of knowledge that all religions teach us. Frugality has been harangued for ages yet the implementation has failed and now the cataclysmic effects are evident and vociferating to mend our ways before it's too late. No religion is against living a comfortable life but castigates pompous living.

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<sup>9</sup> Shoghi Effendi, Shoghi Effendi, Bahá'í Administration, p. 68.

<sup>10</sup> Universal House of Justice, letter dated 2 April 2010.



### 3.2.4 Frugality, as Advocated by Mahatma Gandhi

Before discussing the Gandhian principles it is important to answer two vital questions.

First, are Gandhian principles relevant even today?

And secondly, is India following his principles?

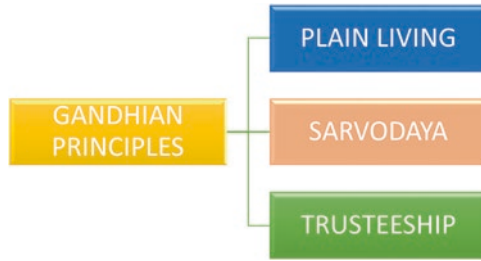
Yes, in the present economic scenario, the Gandhian principles have become more relevant than ever because all the economic reforms have failed to solve the major economic issues of poverty, unemployment and inequalities. The technology and science-backed growth and development policies are material-centric and ignore the devastating impacts on the environment and human-centric issues are worsening with attention being shifted to feeding the industries and sky-rocketing the profits. It thus becomes imperative to think again along the lines of Gandhian economics.

To answer the second question, India frankly lost track of Gandhian principles in the past few decades, especially after the introduction of the new economic reforms in 1991, the LPG policy of Liberalisation, Privatisation and Globalisation. But now, India is bouncing back on the road to Gandhian economics with the government in power taking steps true to his ideas like Make in India, Aatmanirbhar Bharat (self-reliant India), Swarozgar Yojana (self-employment policies), Start-up India and developing villages and small and cottage industries for comprehensive growth.

Mahatma Gandhi advocated that economics and ethics are not different and should go hand in hand. A company should not be judged by the profit it makes or the dividend it pays to its shareholders but by the effect on its employees. It is all about prioritising man over money.

#### *The Three Principles*

Gandhian economic philosophy can be recapitulated into three principles (Fig. 3.4):



**Fig. 3.4** The Gandhian principles

### *Plain Living*

This principle talks about plain and simple living. He made a distinction between the ‘Standard of Living’ and ‘Standard of Life’ where living is associated with materialism and life includes a profound attempt to imbibe moral, ethical, cultural and spiritual values. The way to live a plain and simple life is by cutting your wants and desires and by becoming self-sufficient and satisfied. Gandhiji said, this impulsive and ever-increasing consumption pattern is like an animal appetite and will only lead to the destruction of the earth in pursuit of satisfaction which will never come from this behaviour.

### *Sarvodaya*

The second principle focuses on ‘Swadeshi’ resources that are made and procured locally, promoting small-scale and cottage industries. He believed international trade not only harms the environment but also displaces labour and kills the craft of local artisans who then migrate to urban hubs in search of employment opportunities disturbing the ecological balance. He also emphasised on labour using technology in place of labour-saving technology. He was not against the use of machinery and technology and suggested the use of machinery which helps to avoid travailing and reduces the complexity of work. Overall, he advocated for eliminating income inequalities where everyone has the opportunity to earn a living by establishing Sarvodaya, which is the welfare of all in place of the welfare of the few.

### *Trusteeship*

The third principle endorses the idea of sharing excess wealth by the 'have class' with the most deprived 'have not' class. Mahatma Gandhi was an apostle of equality and believed peace will only come when every individual has equal rights and opportunities. He said, the ones who are able to make a decent living and have excess wealth, should not consume that unnecessarily and devote it to a trust for the underprivileged.

The contemporary economic problems that the world is facing today are mainly due to the increasing capitalist mindset, large-scale industries galloping by feeding on small-scale and cottage industries, leading to the concentration of wealth in the hands of few and excessive urbanisation and migration. Gandhian economic order warned about these baleful effects that were ignored on the path to development. But, now we need to understand as a developing and developed society that if we don't rectify our errors now, doomsday is near.

### *The Model*

The frugal model is against and challenges the theory of 'Consumerism.' The focus on consumerism is harmful and deleterious in its effects, yet we have failed to shift our priorities and the results have started showing up in ways that are calamitous for humankind. The need of the hour is to move from unlimited consumption to rational consumption. It is a universally accepted fact that the consumption of necessities falls as income increases. The extra income that is left in the hands gets trapped in the vicious circle of consumerism and we move from rational consumption [RC] to irrational consumption [IRC]. IRC is basically, a wasteful expenditure that is different from necessities and is incurred due to excess availability of resources, snob effect or is just a conspicuous consumption/Veblen effect. This IRC is the key to all economic problems as depicted in this flowchart (Fig. 3.5).

IRC triggers excessive consumption which leads to overproduction by over-utilisation of resources. This lessens the replenishment window of resources causing scarcity and thus numerous other problems. All economic problems in one way or another emanate from this.



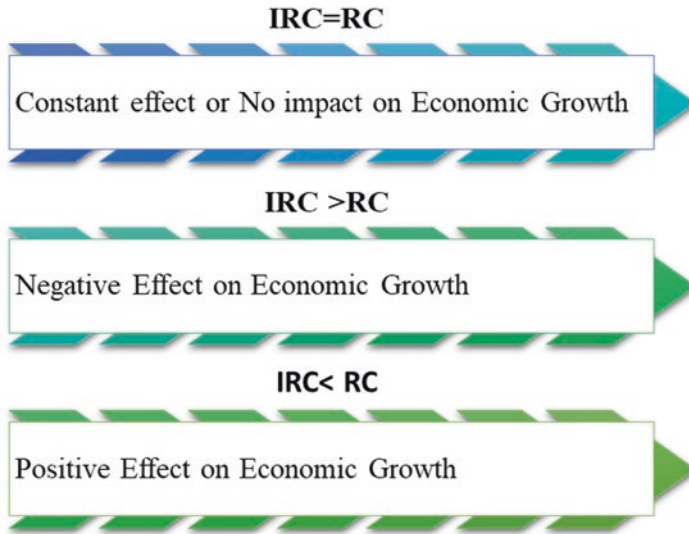
**Fig. 3.5** Economic problems caused by IRC

Resource management is vital and consumerism has neglected this at the cost of making more and more profits. We are progressing into ‘Dirty Growth’ which is unsustainable and needs to be checked at the earliest. Kozinets<sup>11</sup> has pointed to some ideologies that govern consumer behaviour in general as Techtopian Ideology, Green Luddite and Techspressive Ideology. All these ideologies have been dominant since the renaissance and have been responsible for shaping the present consumer behaviour. Rational consumption is not a problem as the earth has sufficient resources to satisfy them, the problem occurs when consumption becomes irrational. We are facing the ‘Tragedy of Commons,’<sup>12</sup> where free and easy access to resources has made us selfish consumers and has led to the depletion of common resources. When we look from the perspective of consumption three conditions can emerge (Fig. 3.6)

Equating RC and IRC is not a solution because it will not bring any change and affect economic growth. The only way to bring a positive

<sup>11</sup> Kozinets, Rober.V., Journal of Consumer Research, York University.

<sup>12</sup> Hardin, Garrett, 1968.

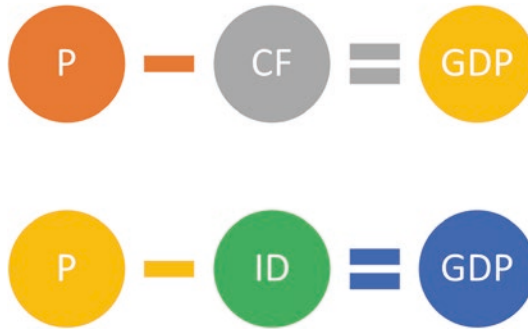


**Fig. 3.6** The three conditions of rational and irrational consumption

effect is to lower down IRC in relation to RC. When consumers start to control and reduce IRC that is when positive changes are expected.

To understand this better, it is important to redefine the concept of economic growth. The present estimation of economic growth is based on GDP which is measured in terms of income and production levels in the economy. But, this evaluation is fragmentary and misses out on some fundamental parameters that should be accounted for a holistic growth picture. Development at the cost of the environment is short-lived and temporary, and continuous disregard towards the environment will plummet the growth graph without much scope to stop or rectify. Another important parameter is income divisions. Growth should not be adjudged on the basis of a prosperous few while others struggle for basic amenities. To solve these issues I suggest these equations (Fig. 3.7).

Production can be calculated by value-added method at all three levels, that is, primary, secondary and tertiary. To evaluate carbon footprints there are various measures, for example, it can be calculated per tree 1 tree = 0.16 tonnes CO<sub>2</sub> or by setting up CF as per emissions levels. Income divisions can be calculated by taking the difference between the



**Fig. 3.7** The growth equations (where P = production, C = carbon footprints, ID = income divisions)

highest and lowest income group and then calculating the unemployed and taking averages to balance out the divide. These equations propose to give a more balanced analysis of economic growth which will be beneficial in the long run.

### *The Survey*

To understand the implementation of frugality, I conducted a survey through questionnaire mode with 300 respondents from India. The questionnaire consisted of 25 closed-ended questions and was shared online in the form of google forms. COVID-19 posed as an opportunity for the masses to experience forced frugality. The questionnaire was circulated after the COVID-19 pandemic to know the effects of frugal living and how people adapted to limited consumption. The results of the survey are depicted below through graphical representation.

Fifty-five per cent of the respondents were male while 40% were female and 5% were transgender. The survey tried to be gender-neutral in choosing the respondents and was fortunate enough to receive gender-balanced respondents (Fig. 3.8).

The respondents of the survey were chosen to balance the responses from both urban and rural areas; 54% of the respondents were from urban areas while 46% were from rural areas (Fig. 3.9).

## 3. Gender/लिंग

300 responses

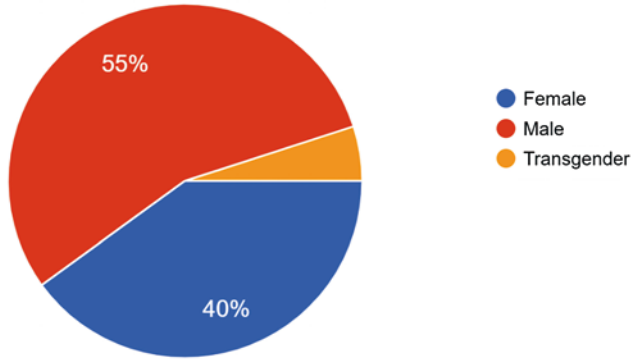


Fig. 3.8 Gender classification of the respondents

## 4. Place/स्थान

300 responses

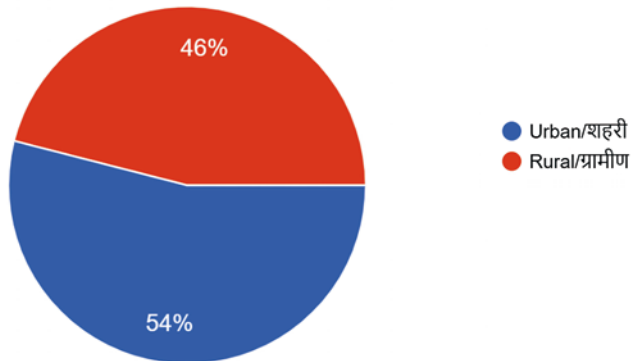


Fig. 3.9 Demographic location

The respondent's educational qualification is diverse. All the respondents were literate, with the maximum number of respondents being graduates and postgraduates (Fig. 3.10).

Respondents had different occupation profiles as 56% were engaged in a job while 23.7% were farmers and 16.7% were businessmen (Fig. 3.11). It was important to have respondents having different occupations to have a wider picture of different expenditure, saving and investment patterns.

5. Educational Qualification/शैक्षणिक योग्यता

300 responses

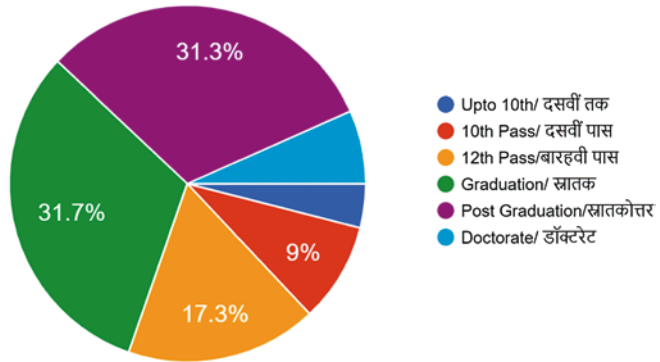


Fig. 3.10 Educational qualification

6. Occupation/व्यवसाय

300 responses

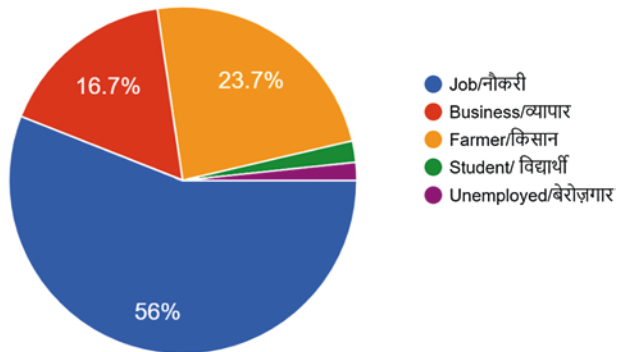


Fig. 3.11 Occupation

Maximum respondents belonged to the tertiary sector which is 49.5%, while approximately 26 and 24% belonged to the secondary and primary sector respectively (Fig. 3.12).

This question depicted the economic status of the respondents to understand how family income affected frugal living. Respondents belonged to different economic status groups with an average annual income of 3–10 lakhs in INR (Fig. 3.13).



7. As per your occupation, to which economic sector do you belong?/आपके व्यवसाय के अनुसार आप किस आर्थिक क्षेत्र से संबंधित हैं?

291 responses

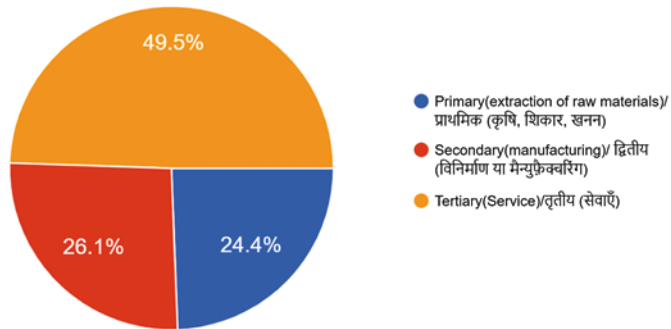


Fig. 3.12 Job classification based on the economic sector

9. Family's Annual Income/परिवार की सालाना आय

300 responses

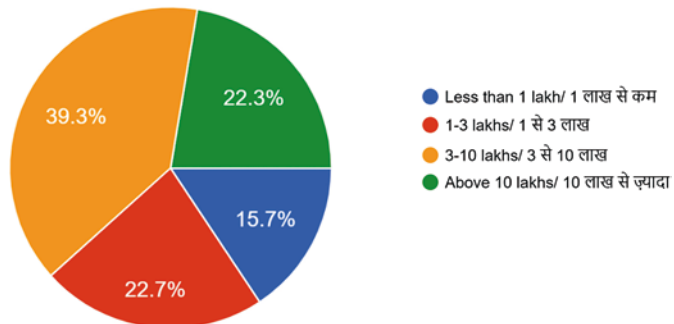


Fig. 3.13 Family's income

### 3.3 Consumption Expenditure Allocations

This question was directed to understand the consumption basket. The items ranged from household necessities to education, health services, recreation, rent and debt. The response was shocking as the maximum percentage of respondents that is 45.7 were spending the major proportion of their income on repaying debt. This is a clear indicator that people

10. Which among the following comprises the largest proportion of your consumption expenditure?/निम्नलिखित में से किसमें आपके उपभोग व्यय का सबसे बड़ा अनुपात शामिल है?

300 responses

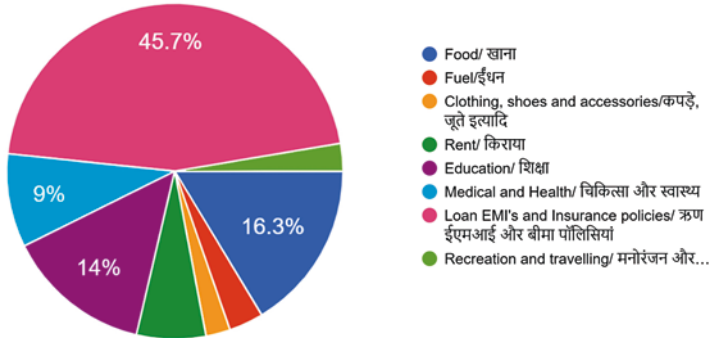


Fig. 3.14 Consumption expenditure allocations

are allured to consume more than what they can afford and are trapped in the cycle of consumerism. The largest share from their pocket is going towards loans and EMIs while food, fuel and rent which are necessities had a very less share. The results are shown in the pie chart below (Fig. 3.14).

This pie chart shows the saving ratios averaging out to be 5–7% (Fig. 3.15).

From the survey, it came out that 282 out of 300 respondents, that is, 94% adopted to frugal lifestyle during the pandemic, while only 18 respondents, that is, 4% said they did not follow a frugal lifestyle (Fig. 3.16). The COVID-19 pandemic served as a blessing in disguise for my research as the world turned into an experimental ground to experience frugality and the benefits of a frugal lifestyle. During the pandemic, though people were experiencing forced frugality the benefits are the same be it forced or voluntary. Yes, the satisfaction levels might be higher in the latter case but saving benefits tends to be more or less the same. People were under restrictions with limited availability of resources and an uncertain situation regarding when the conditions will become normal. 'Frugal Lifestyle' was accepted to be the 'new normal.' Looking on the brighter side the environment started breathing again. The world saw the cleanest-ever air quality and water resources. The ecosystem got an

11. How much do you approximately save per month?/ आप प्रति माह लगभग कितनी बचत करते हैं?  
300 responses

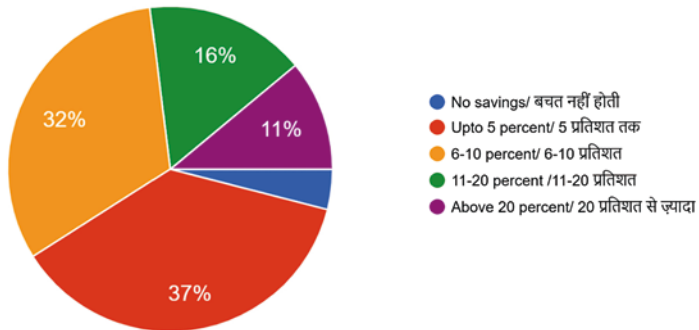


Fig. 3.15 Savings

12. Did you adopt a frugal lifestyle during the pandemic?/ क्या आपने महामारी के दौरान सीमित जीवन शैली का अनुकरण किया?  
300 responses

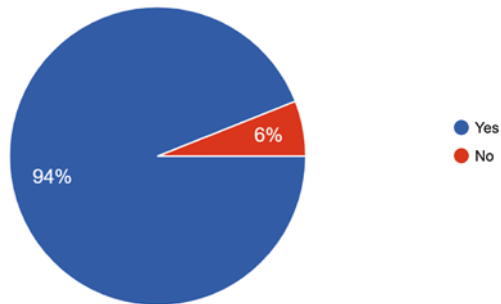


Fig. 3.16 Frugal lifestyle

extended support for its life cycle. The flora and the fauna were positively responding to this change in human behaviour. There were a lot of down-sides to this forced frugality because the world entered into it unaware and unprepared. Despite this fact, it was able to reap the benefits of a frugal lifestyle.

Pandemic was the time when people adopted forced frugality and this question was crucial to understanding their saving behaviour during that time; 57.7% of people agreed that their savings increased during the pandemic.

Most of the people who agreed, saved around 5–10% more than usual, which obviously is a positive indicator.

Among all those who were able to increase their savings during the pandemic, 80.7% believed it was due to the reduction in wasteful expenditure.

And among those who couldn't increase their savings, 48.7% were those whose income fell during the lockdown and pandemic crisis and for others, their expenditure on health increased, which is well justified (Fig. 3.17).

Expenditure incurred on consumption that does not come under basic necessities is wasteful; 39.3% believed they indulge in overconsumption of commodities which is a wasteful expenditure for them.

On questioning, how much of their income goes into wasteful expenditure, people responded as 5–10%, which is a very substantial ratio and needs to be checked (Fig. 3.18).

59.3% of the respondents agreed that they prefer their money to grow through investment.

On an average, the income-to-investment ratio is around 5–10%.

The most preferred investment option emerged to be mutual funds and SIP followed by the share market.

Overconsumption came out to be the main reason for those who are not investing followed by the lack of knowledge and information and reluctant behaviour towards investment (Fig. 3.19).

46.3% of the respondents agreed to voluntarily adopt frugality and cut down on their consumption expenditure by 6–10%.

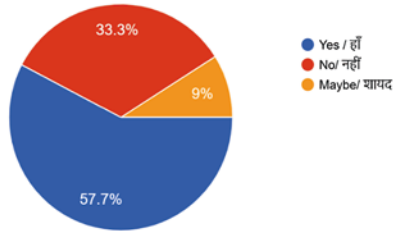
When asked about the items on which frugal behaviour is possible, 33.3% of respondents agreed on clothing, shoes and accessories, which is a part of IRC for maximum consumers. Others agreed to cut their expenditure on all the items in their consumption basket in different proportions (Fig. 3.20).

70.7% of the respondents agreed that if their savings will increase they would like to convert it into investment (Fig. 3.21).

The pandemic taught us to live frugally and happily with limited consumption; 64.3% of the respondents agreed to continue with this changed lifestyle of frugal consumption while 16.3% agreed to implement it partially (Fig. 3.22).

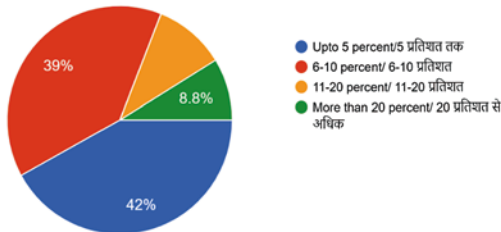
13. Has your savings increased during Pandemic?/ क्या महामारी के दौरान आपकी बचत बढ़ी है?

300 responses



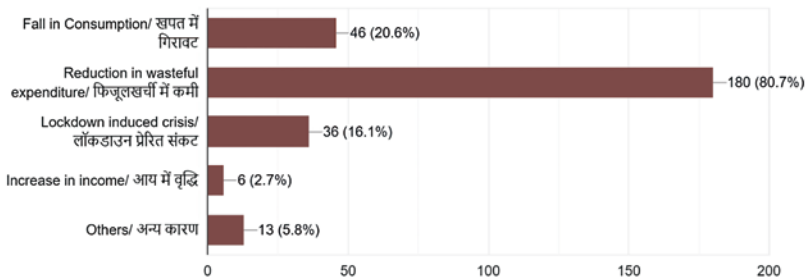
14. If Yes, what is the percentage of increase?/ यदि हाँ, तो वृद्धि का प्रतिशत क्या है ?

205 responses



15. Why do you think the savings have increased? / आपको क्या लगता है कि बचत क्यों बढ़ी है?

223 responses



16. If No, why has your savings decreased?/ यदि नहीं, तो आपकी बचत में कमी क्यों आई है?

119 responses

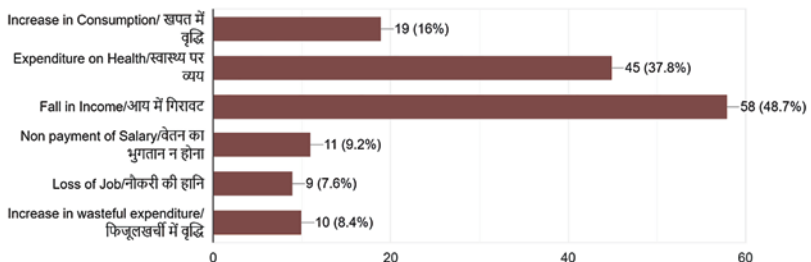
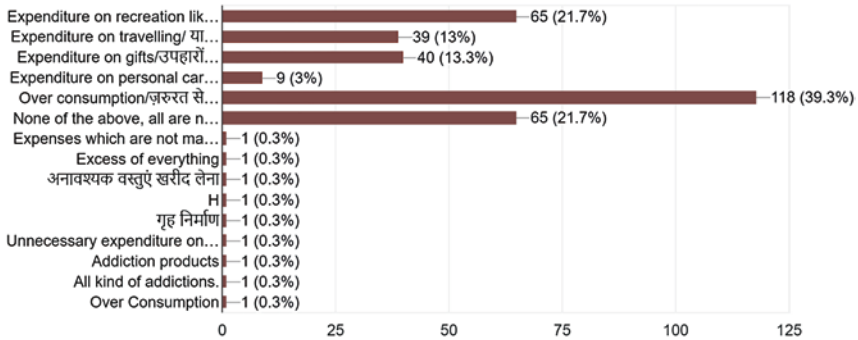


Fig. 3.17 Savings during pandemic

17. According to you what comprises of wasteful expenditure?/आपके अनुसार फिजूलखर्ची में क्या शामिल है?

300 responses



18. What percentage of income do you think gets into wasteful expenditure?/आपके विचार से आय का कितना प्रतिशत व्यर्थ व्यय में जाता है?

300 responses

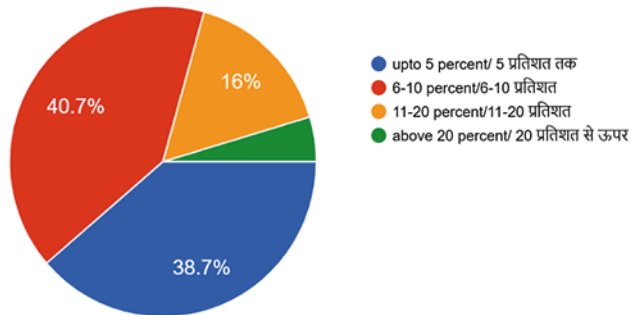


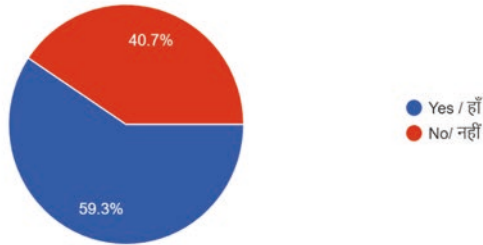
Fig. 3.18 Wasteful expenditure

## 4 Analysis of the Survey

The survey brought out positive results as people have understood the value of living frugally and have seen positive impacts not only in their individual lives but also socially and in terms of the environment. The environment during the lockdown was serene and the world witnessed that change. The major reason was consumption, production, supply and demand were down to a bare minimum and the environment got the time to replenish itself. People were able to increase their savings due to frugal consumption and it turned out to be a boon for them.

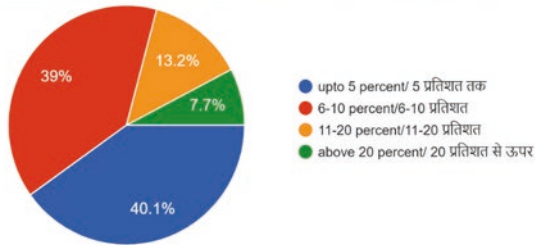
19. Do you Invest?/क्या आप निवेश करते हैं?

300 responses



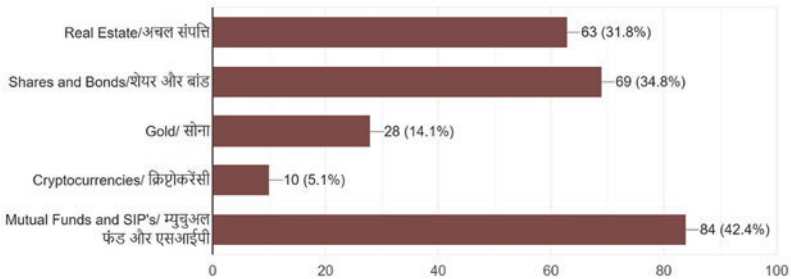
20. If yes, how much proportion of Income do you Invest?/यदि हाँ, तो आप आय का कितना अनुपात निवेश करते हैं?

182 responses



21. What are your preferred investment options?आपके पसंदीदा निवेश विकल्प क्या हैं?

198 responses



22. If No, what is the reason for not investing?/यदि नहीं, तो निवेश न करने का क्या कारण है?

152 responses

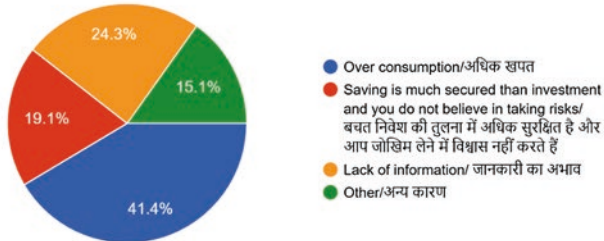
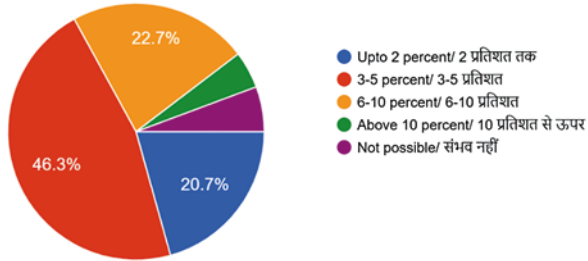


Fig. 3.19 Investments

23. If asked to voluntary cut on expenditure, how much will be feasible?/ यदि व्यय में स्वेच्छिक कटौती के लिए कहा जाए, तो कितना संभव होगा?

300 responses



24. On what items is a cut in consumption expenditure possible?/ उपभोग व्यय में कटौती किन चीजों पर संभव है?

300 responses

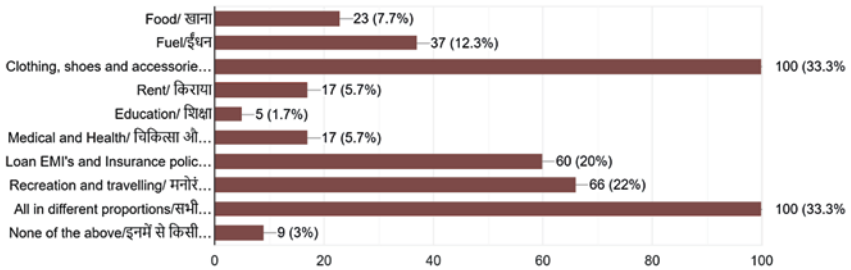


Fig. 3.20 Voluntary frugality

25. If your savings increased will you like to convert it into investments?/ अगर आपकी बचत बढ़ी है तो क्या आप इसे निवेश में बदलना चाहेंगे?

300 responses

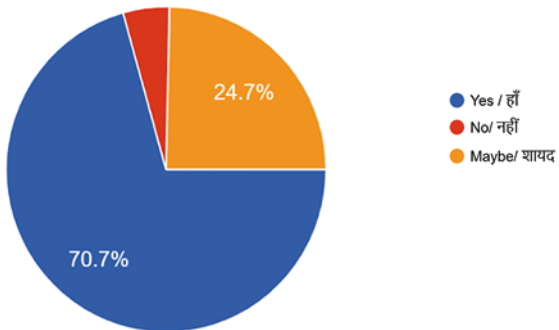


Fig. 3.21 Conversion of savings into investment



26. Would you like to continue with the changed lifestyle (of limited consumption) adopted during the Pandemic?/ क्या आप महामारी के दौरान अपनाई गई बदली हुई जीवनशैली (सीमित खपत) को जारी रखना चाहेंगे?  
300 responses

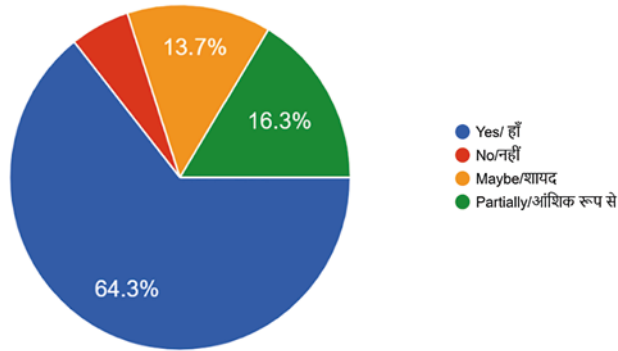


Fig. 3.22 Adoption of frugality

## 5 Conclusion

The contemporary problem in economics is that profit has adumbrated its idea and methodology. No one talks about resource management or its judicious use, everyone's focus and attention is towards earning maximum profits. We need stringent policies and plans to move towards value-based management that targets upon the purpose with profit. As a part of human civilisation, it is the duty of each and every individual to work and act sustainably. Frugal consumption is the most sustainable way to be but it is often misunderstood as being cheap and of being a miser. Frugal living isn't about being a miser, it's all about being a smart buyer who constantly looks for the best offers, coupons, discounts and the best way to shop for the desired product. An individual can adopt a frugal lifestyle by adopting simple ways and measures to cut on their bills with a little elbow grease. When people are frugal they are resourceful and constantly looking for ways on how they can save. To ace the art of being frugally finesse, ingenuity must be employed in consumption behaviour. They don't have to sacrifice on their necessities but have to learn the art of distinguishing between necessary and wasteful expenditure. When

they do so they can also draw a line between rational and irrational consumption. Cutting down on irrational consumption helps them to save a part of their income which was being trapped earlier in the loop of consumerism. There can be two ways of implementing frugality based on rates: Progressive, where a higher income group forgoes or reduces more on their consumption expenditure as compared to a lower income group and Proportional, where all income groups reduce in the same percentage or ratio. The first proposed rate is much more promising and tends to bring greater impact than the second.

Another problem is channelling this extra income towards investments that will bring positive reverberations. If the investment is promoted in the field of 'green production' or in processes where the carbon footprints are minimum then only we can expect positive results from frugal behaviour.

If implemented properly, frugal consumption is definitely the way out of the new age problems.



# 4

## The Trend and Sustainability of SMEs: The Case of Azerbaijan

Huseyn Mammadov

### 1 Introduction

#### 1.1 Azerbaijan's Economy

Azerbaijan has captured 23rd place among 140 oil producers and its economy ranked 63rd out of 140 considering the annual Global Firepower (GFP).<sup>1</sup> As it is clear, Azerbaijan is an oil country where its economy depends on oil. This sequence clarifies the Dutch disease syndrome in the country.<sup>2</sup> This phenomenon has a direct effect on investment, funding, and currency which makes the environment riskier for SMEs.

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<sup>1</sup>Global Firepower report, 2022.

<sup>2</sup>Ibrahim Niftiyev, *The De-industrialization Process in Azerbaijan: Dutch Disease Syndrome Revisited*, p. 11, 2020.

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Fig. 4.1 SB concept insights in 2020. (Source: World Bank’s Doing Business report, 2020)

According to the report of the “Starting a Business” (SB) concept of the World Bank (WB) illustrated in Fig. 4.1 where Azerbaijan has ranked 9th with 96.2 points and overall, it captured 34th in 2020.<sup>3</sup>

The oil and gas industry was dominating the economy of Azerbaijan from 2001 to 2014 which boosted the revenue but following the next two years, hydrocarbon resources started to make value because of the oil crisis that happened during this period, and devaluation occurred in the national currency which was the main reason for the Dutch disease syndrome. After this unplanned economic situation, the government began making changes when they accepted 12 new roadmaps and this policy could help to improve the e-government system, custom services, licensing, and in particular, SMEs where they focused on new opportunities for the expanding economic scope.<sup>4</sup> According to the latest data in 2021,

<sup>3</sup> <https://www.doingbusiness.org/en/data/exploreeconomies/azerbaijan>

<sup>4</sup> OECD (2019), Azerbaijan: Driving Diversification through Strengthened Entrepreneurship. Available at <https://www.oecd.org/eurasia/competitiveness-programme/eastern-partners/Azerbaijan-Driving-Diversification-through-Strengthened-Entrepreneurship.pdf>

the GDP (Gross Domestic Product) was 92.8 million AZN (national currency) including non-oil GDP.<sup>5</sup>

## 1.2 Effects of Covid-19 on the Economy

In order to combat the coronavirus crisis, Azerbaijan spared approximately AZN 2 billion from the state budget and nearly 600 million of this fund was specifically used to build new hospitals and medical supplies. Concerning this situation, fixed assets experienced 2.7%, nearly 6 million AZN decrease compared to 2019 through all sources and there was an increase in fixed capital which invested in the oil and gas industry by 18%, but the non-oil industry experienced a decrease of 16%. During this pandemic stage, domestic funds received approximately 3300 million AZN investment.<sup>6</sup>

Several scholars now predict an accelerated growth following the outbreak. The expected intention is because of circumstances after pandemics in the past, however, as the pandemic persists, all economic institutes see more investment in a resolution of these issues and it is a fact that the government is trying to raise public expenditure which helps to balance one of the important indicators of GDP, consumer consumption.<sup>7</sup>

## 2 SMEs in Azerbaijan

### 2.1 The Role of SMEs in the Economy of Azerbaijan

According to diversification, income activity, efficiency, and employment, SMEs have an important role in Azerbaijan. As previously stated, among Azerbaijan's key economic policies is to boost the non-oil industry

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<sup>5</sup>The State Statistical Committee of the Republic of Azerbaijan, <https://www.stat.gov.az/news/macroeconomy.php?page=1&lang=en>

<sup>6</sup>Central Bank of the Republic of Azerbaijan statistical bulletin, 2021, <https://uploads.cbar.az/assets/cfef22badd6b60be6e566e9d4.pdf>

<sup>7</sup>The Institute for Scientific Research on Economic Reforms, Special edition, 2021, [http://www.ier.az/uploads/xususi\\_buraxilish\\_covid\\_19.pdf](http://www.ier.az/uploads/xususi_buraxilish_covid_19.pdf).

and limit dependency on the oil and gas industry and it is a fact that the oil and gas industry has made little contribution to job creation and unemployment reduction. While discussing the importance of SMEs in relation to GDP and total labor percentages in industrialized nations where the expansion in SMEs must be one of the country's primary priorities.<sup>8</sup> Taking into consideration Azerbaijan's growing number of SMEs, their input to the state's economy remains poor. Notwithstanding the government's intentions and aims to assist SME growth they are unable to make the essential impacts on the economy. To strengthen the non-oil industry, Azerbaijan collaborates with prominent international institutions and there are more than 75 projects persuaded by these institutions which help Azerbaijan to implement strategies for the SME sector. According to the press conference with Laura Truck, The Vice President of the WB in 2014, she mentioned they spared approximately 4 billion USD to the country for various economic challenges, as well as carried out investigations and also provided suggestions for the country's future economic growth.<sup>9</sup>

Since 2016, SMEs have been included in the strategic program of economic growth, and concerning the suggestion of the President, he stated that Azerbaijan should adopt the experience of the industrialized countries where they can apply this technique regarding the promotion of SMEs for success in economy and resilience. By the following year, the Economy Ministry assured sustainability by creating this roadmap where it had two parts for the short and long term. The short term focused on an economic growth plan until 2020 and the long-term concern for 2025 and after that period. The goal of this roadmap is to boost the economy, increase competition, decrease unemployment, create a sustainable environment, and improve the non-oil industry by taking care of the quality of produced goods.<sup>10</sup>

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<sup>8</sup> OECD (2017), *Entrepreneurship at a Glance 2017*, OECD Publishing, Paris.

<sup>9</sup> EU (2018), *Annual report on European SMEs 2017/2018*: Publications Office of the EU.

<sup>10</sup> Website of the Presidential Administration of the Republic of Azerbaijan: Speech by the President of Azerbaijan at the meeting of the Cabinet of Ministers dedicated to results of socio-economic development of 2016 and objectives for the future.

## 2.2 The Roadmap for SMEs in Azerbaijan

The major goal of the stated plan is to guarantee that SMEs become the primary facilitators of Azerbaijan's long-term industrial prosperity. The growth of SMEs in Azerbaijan is critical to promoting macroeconomic stability, enhancing efficiency, creating more jobs, addressing customer needs, and maintaining wealth creation by utilizing domestic assets where this roadmap establishes the fundamental legislative agenda for market policies and the growth of SMEs in the short and long term. This strategy contains Azerbaijan's coherent strategy for 2020, 2025, and post-2025. It classifies a sequence of preferences to obtain intended goals for the mentioned years, and the action to be implemented under each aim would also focus on the key maintainers, and straightforward deadlines, which describe the action plans in the roadmap. The proper fulfillment of the targeted activities in the coming years will guarantee efficient and targeted performance which will be preparing the groundwork for continued endeavors in the long term which boosts and guarantees optimal exploitation of existing capacity.<sup>11</sup> President of Azerbaijan Ilham Aliyev declared the establishment of the Agency for Improvement of SMEs within the Ministry of Economy to carry out this comprehensive strategy by the end of 2017. This institution is an independent legal institution that encourages the growth of SMEs in the state, offers a plethora of facilities to SMEs, and where it organizes and controls the activities of government entities in this sector and a professional panel of experts has indeed been created within this institution.<sup>12</sup>

## 2.3 Legal Environment of Consistency

Entrepreneurs had started to seek to license electronically in the ordinary circumstances of the construction of an online licensing system where the site was developed and intended to promote accountability in the supply

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<sup>11</sup> Center for Analyses of Economic Reforms and Communication, Azerbaijan Economic Reforms Review, April 2017.

<sup>12</sup> Trend News Agency, "Coordination Group Established under Azerbaijan's Agency for development of SMEs".

of public functions which helps to make licensing easier. On the other hand, the construction of the e-government site that has a wide range of operations that focused on the growth of the business landscape and the procedural environment for SMEs. However, the investigation started to be unfocused in the field to avoid unnecessary intervention by various entities in entrepreneurial activity between 2016 and 2021. Additionally, there was also a decrease in the licensing numbers.<sup>13</sup> The SME state institution's duties are to investigate the domestic business and aid in conquering such problems and this institution has begun accepting requests from entrepreneurs to analyze the marketplace and improve the business ecosystem. In addition, one of the major goals is to make a sustainable environment to help and finance SMEs in the marketplace.<sup>14</sup> In parallel to the national institution, SME Houses that support businesses concerning their difficulties have been founded in the capital, Baku, and other cities in the state.<sup>15</sup> Another impactful initiative was ASAN services which helped to improve efforts on public service operations to enhance the business ecosystem and a consistent structure for SMEs. ASAN service has remained committed to constructing a system that prevents any potential corruption or illicit demand from the citizens. The benefit of this service is whether it supports all nations on the border of the country. The initial motivation for developing telecommunication apps was not to limit individuals' access to the service based on their position.<sup>16</sup> The impact of this service on the business environment is significant. Nevertheless, there are yet unaddressed concerns and insights (in 2019 a fire incident happened in the business center) in the business ecosystem which affects entrepreneurs' productivity amid sudden emergencies.<sup>17</sup>

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<sup>13</sup>National Confederation of Entrepreneurs Organizations of the Republic of Azerbaijan (ASK), 2019: 25 April—the Day of Entrepreneurs.

<sup>14</sup>Order of the President of the Republic of Azerbaijan dated May 29, 2019: Assessment of domestic market.

<sup>15</sup>The Small and Medium Business (SMB) Development Agency of the Republic of Azerbaijan: SME Houses.

<sup>16</sup>Hasanov, R., Breban, D., Jafarov, J., & Suleymanova, L. (2019). The Business environment: economic reforms in the context of institutional shortcomings.

<sup>17</sup>CESD: The Business Environment: Economic Reforms in the Context of Institutional Shortcomings.



## 2.4 Financing SMEs in Azerbaijan

In Azerbaijan, administrative and governmental authorities and country funds provide government financial assistance to SMEs in particular, the Central Bank (CBAR) and Financial Market Supervisory Authority of Azerbaijan (FIMSA) (Fig. 4.2).

These two institutions have particular power over the financial market in the country, nevertheless, other state funds take care of the development of SMEs in the country which is mentioned below:

- Development Fund for the Entrepreneurship
- Agricultural State Credit Agency<sup>18</sup>
- State Fund for development of IT<sup>19</sup>
- Mortgage and Guarantee Fund<sup>20</sup>

One of the key aspects of these facilities is the loan assets that they provide insured at the expense of the state budget. These institutions offer

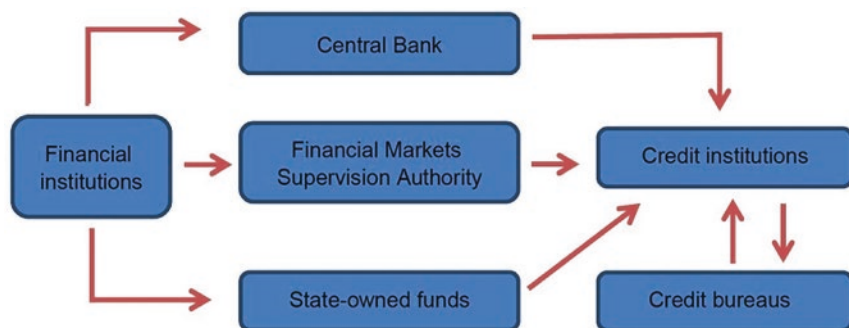


Fig. 4.2 Financial institutions. (Source: [Azernews.com](http://azernews.com))

<sup>18</sup> <http://www.twinningagro.az/beneficiary-institutions/state-agency-for-agricultural-credits-under-the-ministry-of>

<sup>19</sup> Official website of the Fund—<http://ictfund.gov.az>.

<sup>20</sup> <http://mcgf.az/?/en/mainpage/>

mortgages which are eligible for financial and significantly more affordable than some other credit on the marketplace.

The Entrepreneurship Development Fund was founded under the Ministry of Economy in 2018. The yearly interest rate on mortgages was decreased from 6% to 5% under the recharged legislation while the limitations on moderate loans have been raised 95% from 50,000 to a million AZN.<sup>21</sup> According to the analysis on the execution of the roadmap for SMEs, the administration has already executed the intended goals and objectives to boost the effectiveness of SMEs' accessibility to credit and considering the roadmap's effective usage, some publications claim that entry to capital remains a serious challenge for SMEs.<sup>22</sup> In addition, OECD has also published that 58% of SMEs face obstacles in reaching the fund.<sup>23</sup>

#### 2.4.1 Constraints to Financing SMEs in Azerbaijan

This instruction is one of the interesting questions for SMEs in the country where several factors need to be clarified. Starting from supply reasoned factors, the first is a high-interest rate which is a huge obstacle for SMEs to access funds. According to the latest indicators, the refinancing rate is 7.5%, corridor floor 6%, and corridor ceiling 9%.<sup>24</sup> Secondly, the low interest of credit institutions in the regions has a direct effect on SMEs. Another most prevalent issue that SMEs experience is the inability to obtain finance in the requisite quantity and time frame. Furthermore, due to the high level of liquidity constraints and substantially higher mortgage rates issued by banks, in this regard, SMEs are hindered from interacting with financial entities. From the macro perspective, the economy is not sustainable which had a dramatic fall in the loan-to-asset proportion which reflects the banking sector's more restricted role in the

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<sup>21</sup> Website of the Ministry of Economy of the Republic of Azerbaijan: The report on reforms and work done in the field of entrepreneurship development in 2018.

<sup>22</sup> Monitoring.az: The report on the implementation of SME roadmap in 2017.

<sup>23</sup> OECD (2019), Azerbaijan: Driving Diversification through Strengthened Entrepreneurship, OECD Publishing, Paris.

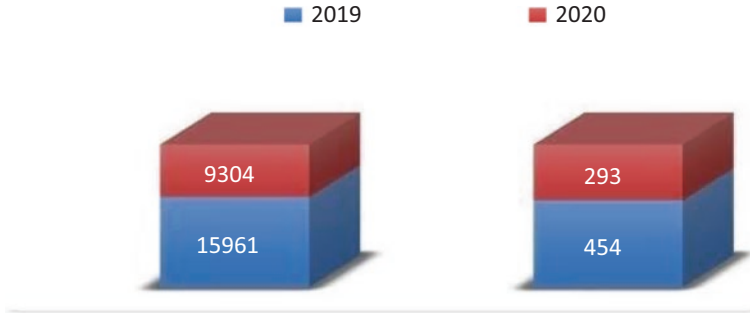
<sup>24</sup> <https://www.cbar.az/home?language=en>.

economy. There is also a sequential problem concerning insolvency after the devaluation; SMEs started borrowing foreign currency to close the gap. The capacity of SMEs to fulfill their loans was hampered by a two-fold rise in monthly payments in different currencies and a weakening revenue as a result of a decrease in sales and entrepreneurs' capacity to obtain new financing was constrained due to their inability to repay the existing debts and the length of the previous mortgages.

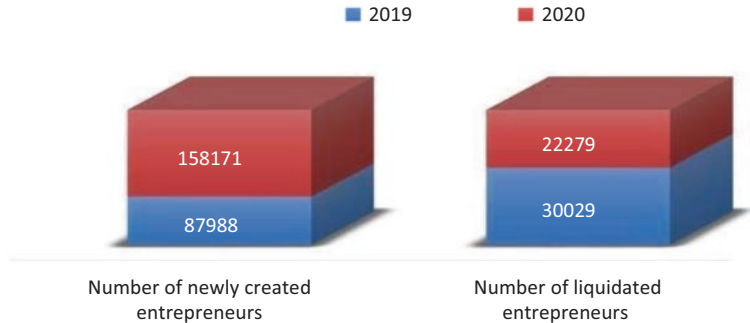
The demand for reasoned factors is particularly from financial indicators where the minimal average interest rate of 14% on the state's loans is reasonable, and drawing capital is much smaller; also failure of SMEs to conform to financial norms, and engage in the stock market, where SMEs are unable to recruit funds internationally caused by a lack of transparency in finances. On the other hand, entrepreneurs' knowledge of the spectrum of financial solutions is low, along with erroneous and late mortgage applications which eventually limit their accessibility to financial supplies, also, in the country, the poor market applicability of the education system and its reluctance in adapting to evolving labor market demands, and the mismatch in the employment market.

#### **2.4.2 The Latest Trend of SMEs in Azerbaijan**

The main set initiative of the government strategy is to boost the responsibility of SME subjects in the economy by expanding competitiveness, widening direct exposure to financial assets, enhancing methods for assistance, constructing advantageous prerequisites for the advancement of entrepreneurship through the regions, and securing diversification and sustainability of the economy. Entrepreneurs are interested in the implementation of successful methods for boosting export and equity, lowering the payroll tax by enhancing the tax system foundation, implementing multiple activities to strengthen domestic manufacturing, and rationalizing processes leading to the use of other financial assistance systems. The number of legally recognized micro, small, and medium (MSM) entrepreneurship in Azerbaijan climbed by 12.7% to 113,40,48 units by the end of 2020, in cooperation to last year (Fig. 4.3).



**Fig. 4.3** Number of newly created and liquidated legal entities in 2019 and 2020. (Source: Statistics Committee of the Republic of Azerbaijan)



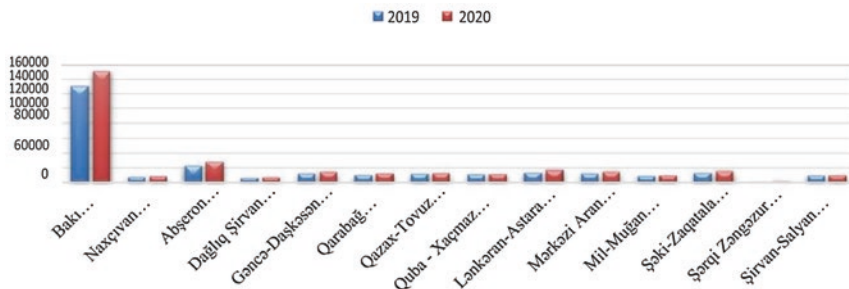
**Fig. 4.4** Number of newly created and liquidated private entrepreneurs. (Source: Statistic Committee of the Republic of Azerbaijan)

While the majority of additional MSMs climbed by 61.1% to reach 167,475 units. In 2020, there was a 26.0% decline in the number of liquidated entities and the growth of recently developed MSMs was exactly proportional to the rise in the number of private businesses which was nearly 80% (Fig. 4.4).<sup>25</sup>

In 2020, the quantity of performing enterprise subjects climbed by 47.6% in Baku city and 52.4% in the rest of the country (Fig. 4.5).

In the 2020 statistics, the contribution made generated by MSM entrepreneurial subjects declined by 1.2% in comparison to 2019 and

<sup>25</sup> <https://www.stat.gov.az/>.



**Fig. 4.5** Distribution of acting entrepreneurship subjects by economic regions. (Source: Statistic Committee of the Republic of Azerbaijan)

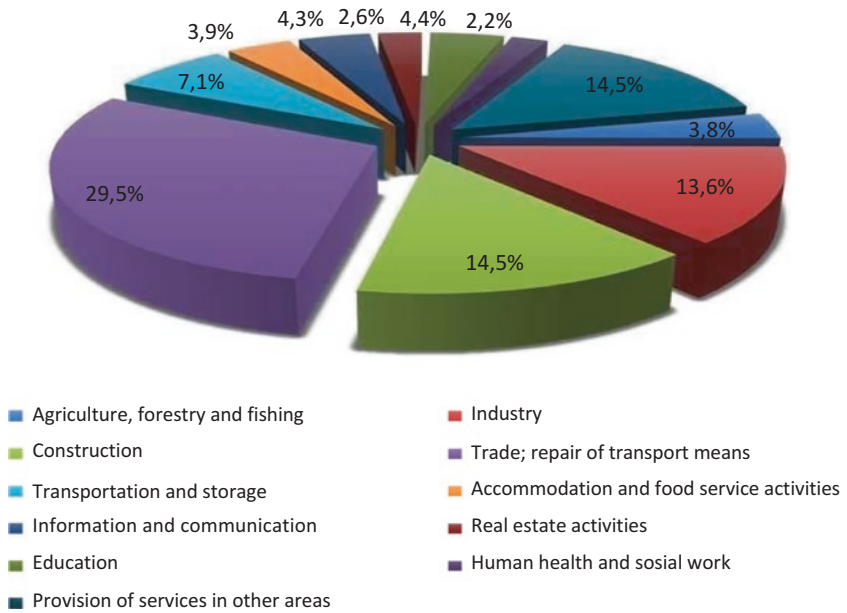
amounted to 16.7% of the value generated made on the economy. The indicator was 10.7 billion AZN (national currency of Azerbaijan) in the non-oil and gas industry which accounted for 23.5% of the overall of this sector. Entrepreneurs engaged in commerce which accounted for 29.5% of the value-added, construction accounted for 14.5%, manufacturing described for 13.6%, agriculture contributed for 3.8%, and remain captured by the service sector (Fig. 4.6).<sup>26</sup>

Agriculture, forestry, and fishing utilized 5.2% of the total, the industry employed 23%, trade, service, and construction employed 15.9%, 39.1%, and 16.8%, respectively (Fig. 4.7).

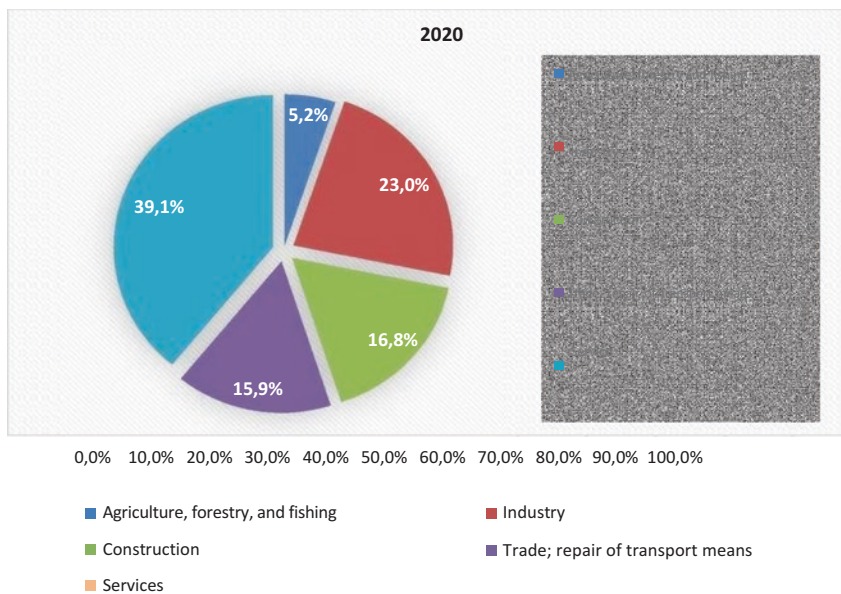
In addition, the number of workers in MSMs was improved in 2019, their percentage of the overall number of workers throughout all acting businesses diminished from 43.7% to 42.1%, and the availability of financial assets has been one of the aspects that has an immediate impact on the growth of SMEs (Fig. 4.8).

In 2020, fixed asset expenditures accounted for 80% of internal resources and 20% were sourced externally. In contrast to previous years, the role of enterprises in investment by own fundraising increased concerning bank loans. It is a fact that there was a severe fall in investment in the service industry that influenced the overall level of investment in the state. The cause for the growth and decline in investments was the Covid-19 pandemic which directly damaged business activities.

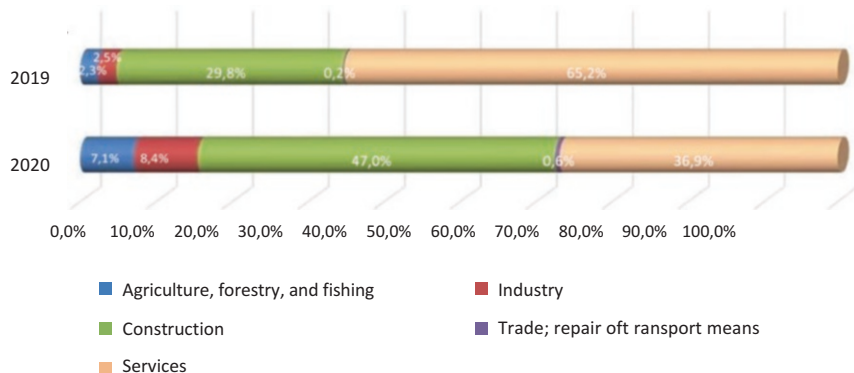
<sup>26</sup><https://www.stat.gov.az/news/macroeconomy.php?page=1>.



**Fig. 4.6** Distribution of value-added created by MSM entrepreneurship themes by types of economic activity. (Source: Statistic Committee of the Republic of Azerbaijan)



**Fig. 4.7** Distribution of employees by types of economic activity. (Source: Statistic Committee of the Republic of Azerbaijan)



**Fig. 4.8** Investments by MSM entrepreneurship subjects to the country economy by types of economic activity, in percent. (Source: Statistic Committee of the Republic of Azerbaijan)

### 3 Conclusion

SMEs have made a vital contribution to the national and global economies. Based on this research, I may deduce that SMEs have a significant influence on each country's economic indices. Another important purpose of SMEs is to support the establishment of a robust economy in the country and also the effect of SMEs is that they help to diversify the economy. Azerbaijan, as a developing country, has significant opportunity to profit from the efficiencies formed by SMEs. The research illustrates that SMEs in Azerbaijan are not growing at the expected rate, and their contribution to economic growth and new job creation is noticeably lower than in other countries.

Inadequate accessibility to capital is among the reasons impeding the expansion of SMEs. By evaluating the country's business conditions, both locally and internationally, entities face problems like obtaining capital to expand the operations in SME experience. On the other hand, SMEs in the country choose credit facilities as external sources of capital but excessive borrowing rates, the harshness of the circumstances, a lack

of the necessary amount, and a shorter time limit. The competence of obtaining financing from the secondary capital market is not at the standard of SMEs. The engagement and responsibility among SMEs inhibit their capacity to profit from capital market supplies. The agriculture industry is a critical component of Azerbaijan's role in the global value chain. However, banks are primarily interested in supporting trade. Even though the state-owned financial companies tend to make preferential mortgages to the agriculture industry, the proportion of this sector is minimal due to the considerable risk in the field.

To summarize, while SMEs haven't yet evolved effectively in Azerbaijan, some efforts are constantly affected to remedy these actions which were mostly connected to the streamlining of business license requirements and the enhancement of taxation but relies on statistical data. I may conclude that these measures are still insufficient, and it is essential to implement further incentive approaches by calling on international experiences. According to this reason, the institution for the development of SMEs must have a particular impact on this growth path. Additionally, the created roadmap has a crucial influence on the development process of SMEs.

Finally, despite the regular conclusion, I also will be giving a TOWS<sup>27</sup> analysis based on the SWOT analysis of the report<sup>28</sup> of CESD (Table 4.1).

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<sup>27</sup>TOWS Analysis is an extension of the SWOT Analysis framework that identifies your Strengths, Weaknesses, Opportunities, and Threats but then goes further in looking to match up the Strengths with Opportunities and the Threats with Weaknesses.

<sup>28</sup>CESD, Comparative Study on Development of SMEs in Azerbaijan, 2017.



**Table 4.1** TOWS analysis of the environment for SMEs in Azerbaijan

TOWS		
	Strength	Weakness
<b>Opportunities</b>	<ul style="list-style-type: none"> <li>• New export program in development focusing on non-oil sector</li> <li>• WTO membership</li> <li>• Government support for SMEs</li> <li>• Extensive e-government infrastructure</li> </ul>	<ul style="list-style-type: none"> <li>• SME policy fragmentation among several state programs without a strategy</li> <li>• Availability of potential workforce</li> </ul>
<b>Threats</b>	<ul style="list-style-type: none"> <li>• Possible foreign economic factors</li> <li>• independent implementation agencies in innovation and entrepreneurship</li> <li>• The price of energy carriers is lower in the region</li> </ul>	<ul style="list-style-type: none"> <li>• Dependence on natural resources</li> <li>• Low level of business skills</li> <li>• Corruption perceptions</li> <li>• Low international trade habits</li> <li>• Limited access to bank finance</li> </ul>

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# 5

## The Integration of Sustainability in the Banking Sector

Giulia Napolitano

### 1 The Financialization of the Economy and the “Remodeling” of Finance

Since September 15, 2008, the date of the collapse of the US investment bank Lehman Brothers, European states have spent 654 billion euros to save dozens of banks from bankruptcy that had invested in sub-prime mortgages, with the illusion of obtaining high returns in exchange for apparently low risks, which however proved to be very high: an ESG analysis applied to issuers could have intercepted these risks.<sup>1</sup>

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<sup>1</sup>In this case, a research carried out by ECPI, an independent company active since 1997 in ESG research and in the development of sustainable indices, demonstrates how the application of an ESG rating to a portfolio of North American companies in the financial sector, represented by the composition of the S&P 500 index—Financial of July 2007, at the dawn of the period of the market crisis, would have made it possible to reduce losses by more than 8 per cent.

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For example, according to the latest report by the European Securities and Markets Authority (ESMA), in 2017 alone Europe recorded 74 million transactions on the derivatives market (showing an increase of 55,000 billion since the beginning of the year) for a total notional amount of 660,000 billion euros, a figure that includes both over-the-counter (OTC) transactions and those managed by clearing houses.

Then 69 per cent of the securities traded appeared to be interest rate contracts and almost all transactions (95%) were conducted by banks and investment companies.

Protagonists of the anti-crisis therapies have been the central banks: through the so-called quantitative easing (see Table 5.1), they have poured out an unprecedented mass of liquidity by buying problematic securities on the market and consequently increasing the illiquid share of their balance sheets.

For example, we found that between the end of 2008 and the beginning of 2018, the assets controlled by the Bank of Japan grew by 410 per cent, those of the ECB by 135 per cent and those of the Fed by 377 per cent.

Instead, between the end of 2008 and the beginning of 2017 the assets controlled by the Bank of Japan grew by 358 per cent, those of the ECB by 105 per cent and those of the Fed by 400 per cent. The Financial Times noted in this regard that the top five US banks controlled 47 per cent of banking assets in 2017, compared to 44 per cent in 2007, and that 1 per cent of mutual funds held the 45 per cent of assets.

Additionally, JPMorgan held assets for 2560 billion dollars (a figure substantially doubled compared to that at the end of 2006), Bank of America increased assets by 56 per cent (2280 billion), Deutsche Bank

**Table 5.1** The extent of quantitative easing in the US, Europe and Japan

Bank	2008	2017	2018
Bank of Japan	107,000 billion yen	490,000 billion yen	549,000 billion yen
ECB	2000 billion euros	4100 billion euros	4700 billion euros
Federal Reserve	900 billion dollars	4.5 billion dollars	4.3 trillion dollars

Source: Yardeni Research, "Global Economic Briefing: Central Bank Balance Sheets", 9 maggio 2018; Bloomberg, "Markets Start to Ponder the \$13 Trillion Gorilla in the Room", 19 aprile 2017 (<https://www.bloomberg.com/news/articles/2017-04-19/marketsstart-to-ponder-the-13-trillion-gorilla-in-the-room>)

grew by 21 per cent, and Wells Fargo, after acquiring the service company financial Wachovia, recently counted 1.930 billion (a growth of 300 per cent in 12 years).

Moreover, at the end of 2018, when interest rates plummeted almost everywhere, as reported by the consulting firm Yardeni Research, the assets of the three central banks, even if down from the maximum peaks, still exceeded 14 trillion dollars. This is about three times the amount recorded in 2008.

The problem is that the reforms designed for traditional banks did not affect the so-called shadow banking system: in fact, if in 2010, as pointed out by the Financial Times, the “shadow banks” controlled 28,000 billion dollars, more current conservative estimates calculate that this figure rose to 45,000 billion, equal to 13 per cent of world financial assets.

Moreover, in the last 30 years, world GDP in real terms has doubled, while the value of financial assets has multiplied by nine. For example, in the US, after the war, the size of finance was approximately 15 per cent of GDP; in 1975 it was still 17 per cent; by the end of the 1980s it had reached 35 per cent; in the 90s it reached 150 per cent until in 2006 it had exceeded 350 per cent of US GDP.

In this scenario, the cyclically adjusted price-to-earnings ratio (Cape) could be used to measure how overvalued S&P 500 equities were: at the end of 2018, Cape was worth 28 points, a high level that had only two historical precedents: the spring of 1997, in the expansion phase of the Dot-com bubble, and the late summer of 1929, on the eve of Black Tuesday on Wall Street.

To cite other elements of concern, in September 2018 the Case-Shiller National Home Price Index reached its all-time high at 205.8 points (11.5% more than the July 2006 peak). Also, according to the Institute of International Finance, the sum of the debts worldwide reached 247,000 billion dollars in the first quarter of 2018, that is, 29,000 billion more compared to the end of 2016. Instead, emerging countries, with total debts of 58.5 trillion dollars, have reached their all-time high, and these extreme concentrations are alarming.

Another concern stems from the contraction of employment levels in the financial sector: according to Uni Finance Global Union, since the start of the pandemic, 300,369 jobs were lost in 18 countries. Those were

the UK, Spain, Italy, France, Germany, Austria, Finland, Norway, Sweden, Denmark, Belgium, Romania, Moldova, Greece, Ireland, Australia, India, and the US.

Instead, considering the data of 14 banks (which have almost three million employees; the five largest on the planet were included), approximately 121,110 jobs were lost. In the same period, those same banks gained profits between 4 and 40 billion dollars.<sup>2</sup> Then, according to the VIII Report of 2018 of the Socialis-Ixé Observatory<sup>3</sup> in 2017, four billion euros were invested in CSR shares in Italy (that is 25% more compared to 2015), and the percentage of companies that believed in this concept went from 44 per cent in 2001 to 85 per cent.<sup>4</sup> Additionally, 97 per cent of companies that carried out CSR activities said they were satisfied and 85 per cent that CSR policies made them “more attractive and reliable in terms of access to credit and as a possible object of investment”; it was also noted that finance was among the sectors most engaged in CSR, and companies listed on the stock exchange were more dedicated to CSR activities.

The first advantage recognized to CSR was an improvement in positioning, reputation and an increase in notoriety (detected by 50% of companies that invested in CSR); in almost 40 per cent of cases there was an increase in customer loyalty and 49 per cent of companies recognized the effectiveness of CSR in facilitating relations firstly with local communities and secondly with public administrations, and 44 per cent recorded an improvement in the climate and greater involvement of personnel.

This proved that more and more companies consider sustainability issues as an effective strategic tool for a lasting competitive advantage, improving risk management, the relationship with stakeholders and gaining access to the finance sector dedicated to supporting only socially responsible companies. This research examines the literature that

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<sup>2</sup>UNI Finance Global Union: “Job losses and restructuring process in the financial sector”. Second edition of the Report on ethical finance (2019), provided by Banca Popolare Etica, p.68 ([https://base.socioeco.org/docs/2019\\_finanza\\_etica\\_e\\_sostenibile\\_in\\_europa\\_report\\_finale.pdf](https://base.socioeco.org/docs/2019_finanza_etica_e_sostenibile_in_europa_report_finale.pdf))

<sup>3</sup><https://www.osservatoriosocialis.it/2018/06/22/viii-rapporto-impegno-sociale-delle-aziende-italia/>

<sup>4</sup><http://www.vita.it/it/article/2018/06/22/csr-nel-2017-in-italia-cresce-del-25-per-cento/147314/>

recognizes the positive synergistic effect between the social and the economic-financial performance of socially responsible firms (Moskowitz, 1972; Orlitzky et al., 2003) and the economic advantages derived from the higher productivity of a safer working environment, able to retain the most qualified human resources (Heal, 2005).

Additionally, the concept of CSR is considered to be able to lower economic and social risks for environmental and social damage (Renneboog et al., 2008), increase operational efficiency due to energy-saving policies (Bringer & Benforado, 1994), stimulate a push for innovation due to strategies for reducing environmental impact (Dangelico & Pujari, 2010). It also improves market conditions due to greater customer loyalty and the improvement of the corporate image (Yoon et al., 2006), as well as reduces information asymmetries due to the social disclosure implemented by socially responsible companies (Perrini et al., 2011). Other benefits derive from a lower cost of money as a result of more stable and transparent relations with the capital market (Renneboog et al., 2008).

In this regard, an analysis of around 200 empirical studies conducted by Clark, Feiner and Viehs in 2015 highlighted that ESG practices allow companies to benefit from competitive advantages, lower capital costs and better operational and market performance. In this direction also Orlitzky et al. (2003); the authors, by analyzing 52 scientific contributions on the topic, demonstrated how social and environmental responsibility generated economic-financial returns, even if the extent of the relationship varied, depending on the indicators used.

The greatest correlation, in fact, occurred when financial performance was measured with budget indicators, while it was lower with marker-based indicators. Reputation measurement indices also had a higher correlation with CFP than other measures of CSP. Other authors (Barnett and Salomon, 2006) found that the relationship between CSP and financial performance (measured by some traditional balance sheet ratios) takes the form of a parable (U-shaped), rather than a straight line: for limited levels of social responsibility the financial performance would be higher but, as social performance increases, the financial performance would decrease to a minimum, after which it would return to growth. El Ghoul et al. (2011), using a sample consisting of 2,809 American

companies, from 1992 to 2007, have shown that companies that adopt high levels of CSR have a lower cost of capital compared to companies with lower levels of CSR. This is motivated by the fact that companies with low CSR levels have smaller investors, since larger investors do not invest in companies with low CSR levels and that the perception of risk is greater for an unresponsive company; in fact, according to investors, an irresponsible company faces a greater risk due to future complaints which will certainly be higher than a company that acts respectfully toward the environment and society. Margolis and Walsh (2001) found 122 studies published between 1971 and 2001 and used these surveys to empirically examine the positive relationship between CSR and financial performance screening. The analysis by Margolis, Elfenbein and Walsh (2007), which covered 167 empirical studies on the subject, has shown that the correlation between CSP and CFP tended to be more marked independently if one analyzed CFP first compared to CSP or vice versa, if social performance was measured on charitable initiatives, environmental impact or crimes' admission or problems (such as the recall of defective products or the admission of legal issues) or measured on the basis of perception of internal observers or in any case self-assessed by the management. Then, Girerd-Potin et al. (2014) demonstrate, with a quantitative approach aimed at showing the impact of ESG factors on reputational risk and on long-term shared value, that after 2008 financial investors began to consider environmental and community involvement as risk factors and that non-socially responsible companies are considered more risky. Furthermore, the authors highlighted how the adoption of an ESG paradigm influences the decision-making process of investors (both companies and individuals), thus orienting them toward socially responsible investments: this in turn forces corporate strategies to consider ESG issues that are recognized, evaluated and rewarded by the market. Supporting the idea that an unresponsive firm is riskier are also Goss and Roberts (2011) who, using a sample of 3996 bank loans to US firms, found that the cost of debt increases for firms that have difficulty to implement CSR policies, given that these pay between 7 and 18 basis points more than to socially responsible companies. On the same line of thinking are Humphrey et al. (2012) and Fatemi and Fooladi (2013), who come to the conclusion that investors and decision makers have a



duty to consider the adoption of responsible investment strategies and to recognize and take into account all costs and benefits (economic, social and environmental) before adopting (or rejecting) a project, that the long-term horizon is more felt due to the materiality of ESG issues and that the ESG orientation must be incorporated into the investment decision-making process. Similarly, Neal and Cochrane (2008) pointed out that markets pay attention to socially responsible corporate governance, rewarding good governance and punishing bad governance. This is in line with the stakeholder view of Freeman (1984): accordingly, the relationship between Corporate Social Performance and Corporate Financial Performance is positive, due to the fact that investing in social responsibility could facilitate the attraction of better-trained employees and reduce losses from theft and sabotage. The economic subject, therefore, in order to guide its decision-making process, must take into consideration the interests, rights and expectations of those who are influenced or who can influence the achievement of the objectives of an organization (Freeman, 1984). It should be emphasized that in the current social context, even before the economic one, there are no longer subjects who derive their own “license to operate” from themselves, but each institution is part of a wider network of relationships from which it obtains legitimacy and consent for their own existence and development (Perrini, Tencati, 2008). In the words of Sciarelli (2007), “the value cannot be only economic, but must extend to the social and environmental field to legitimize the survival and development of the company (trust and consensus build a solid bridge between past, present and future of the company)”. In this regard, the research of Zak (2008) revealed that a large part of the economic exchange, both toward strangers and toward acquaintances, is based on values such as honesty, trust and justice and, paradoxically, legal norms can lead to an increase in immoral behavior, displacing the innate sense of justice of human beings.

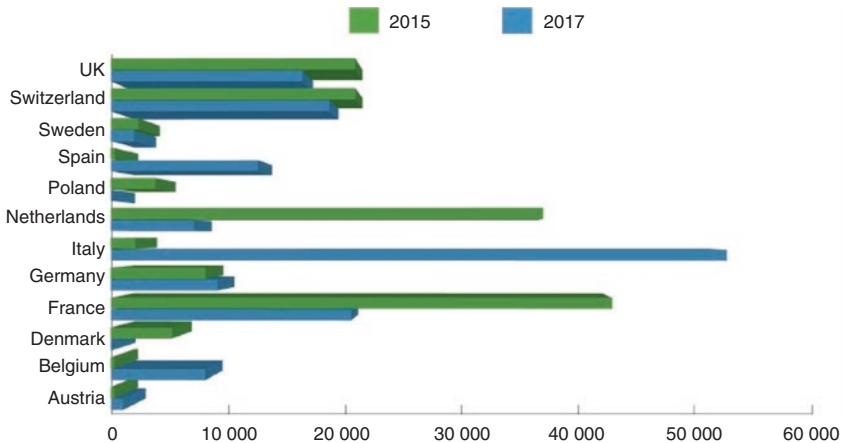
CSR can also strengthen the relationship with employees, as demonstrated by Sprinkle and Maines (2010), which report some corporate cases where the use of these CSR policies in favor of employees have given positive results and found that CSR activities also generate benefits in relation to the opportunity cost deriving from distractions causing work disputes and accidents due to insufficient safety standards and a

reduction in after-sales costs, as it contributes to improving quality and reducing error rates.<sup>5</sup>

## 2 SRI and Impact Investing Market

In order to investigate the SRI market, we examined EUROSIF's eighth edition of the European SRI Study in Europe, that involved 263 subjects between asset managers and asset owners, for a total of 20,000 billion euros of assets under management: this represented about 79 per cent of the entire European asset management market in 2018.

As it can be seen from Fig. 5.1, in 2017 Italy was the European country, among the 12 analyzed, with the greatest growth in socially responsible investments (in 2015, Italy was among the countries with the least developed SRI market), while in the previous edition of 2015 it was France.



**Fig. 5.1** Growth of socially responsible investments in thematic funds by country. (Source: <https://www.eticasgr.com/storie/news-eventi/european-sri-study-2018>)

<sup>5</sup> Arru B. (2017). *Social responsibility: Evolution, actors, communication, reporting, measurement*. Franco Angeli, Milan.

SRI were mainly allocated to the retail segment<sup>6</sup> (83%), therefore the Italian fund market appeared mainly retail oriented. In particular, among the seven categories that made up the sector, the one that presented the highest CAGR was that relating to ESG Integration (at European level) and Sustainability Themed (at Italian level), as confirmed by the Global Sustainability International Alliance data, which found that ESG Integration had the highest growth rate between 2016 and 2018 compared to the other six strategies.

The growing awareness of the importance of ESG issues in financial activities (45% of retail investors declared their willingness to invest in SRI) was aligned with the market research on Italian retail investors, conducted by the Forum for Sustainable Finance and Doxa in 2017.

Respondents said they trusted banks, insurance companies and financial advisors but the SRI industry needed to make further efforts to focus and improve its offering and to give advice on SRIs. So, to this end, financial education must be essential for both retail investors and financial advisors, as also highlighted in the Report of the High-Level Expert Group on Sustainable Finance (HLEG).

As Table 5.2 shows, in 2017, for each of the seven categories, socially responsible investments went hand in hand in Italy compared to Europe, with the exception of the ESG Integration category, which ranked 3rd at the European level, while at the Italian level it was at the 4th place, and

**Table 5.2** Responsible investments in Italy and Europe compared (years 2015 and 2017), figures in billions of euros

Categories of SRI	Europe 2017	Italy 2017	Europe 2015	Italy 2015
Exclusions	9,464,485	1,449,554	10,150,595	569,728
Engagement & Voting	4,857,550	135,729	4,270,045	43,303
ESG Integration	4,239,932	70,425	2,646,346	45,008
Norms-based screening	3,147,981	105,842	5,087,774	565,607
Best-in-class	585,734	58,137	493,375	4058
Sustainability Themed	148,840	52,861	145,249	2064
Impact investing	108,575	51,960	98,329	2927

Source: Our elaboration on the basis of 2018 EUROSIF data

<sup>6</sup>They are “retail” investors, businesses, companies or other entities that do not qualify as professional customers and turn to intermediaries to make their investments.

the Norms-based screening, which at the European level was placed in 4th place was at the 3rd place at the Italian level, according to the data in billions of euros.

Calculating, on the basis of the 2018 EUROSIF data, the Compounded Average Growth Rate (CAGR) of socially responsible investments between 2015 and 2017 we found out that:

- for the Exclusions segment, the CAGR was 59.5 per cent in Italy and -3.4 per cent in Europe;
- for the Engagement & Voting sector, the CAGR was 77 per cent in Italy and 6.5 per cent in Europe;
- for the ESG Integration segment, the CAGR was 25 per cent in Italy and 26.5 per cent in Europe;
- for the Norms-based screening sector, the CAGR was -56.7 per cent in Italy and -21 per cent in Europe;
- for the Best-in-class segment, the CAGR was 278 per cent in Italy and 9 per cent in Europe;
- for the Sustainability Themed segment, the CAGR was 406 per cent in Italy and 1 per cent in Europe;
- for the Impact Investing segment, the CAGR was 321 per cent in Italy and 5 per cent in Europe. Hence, at the European level was found a significant growth in the assets selected with the ESG Integration criterion (the CAGR recorded in the segment was equal to 26.5%, the highest of all sectors), while the only sectors in decline were Exclusions (-3.4%) and the Norms-based screening sector (-21%).

As can be deduced from Table 5.3, at the European level, ‘Exclusions’ was the most widespread criterion and in 2018 the global importance of integrating ESG factors in sustainable investment strategies (which at European level was the segment with the highest CAGR among the sectors, considering the 2015–2017 data) almost reached that of the more consolidated negative screening strategy (Exclusions). However, on a global level, the strategy that grew the most was not ESG Integration but Sustainability Themed (in the two-year period considered it had a growth of 269% and a CAGR of 92%).

**Table 5.3** Global growth of sustainable investment strategies between 2016 and 2018 (data in billions of dollars)

SRI strategy	2016	2018	Growth/Decrease 2016–2018	CAGR
Exclusions	15,063.57	19,770.96	31%	14%
ESG Integration	10,353.20	17,543.81	69%	30%
Engagement & Voting	8385.17	9834.59	17%	8%
Norms-based screening	6195.40	4679.44	-24%	-13%
Best-in-class	818.01	1841.87	125%	50%
Sustainability Themed	276.16	1017.66	269%	92%
Impact investing	248.47	444.26	79%	34%

Source: Our elaboration, using the data from the Global Sustainability International Alliance (GSIA)

This European growth trend of sustainable and responsible investments was also confirmed by the fifth edition of the study that the Forum for Sustainable Finance carried out in collaboration with MEFOP, in relation to Italian pension investors. It was a positive signal to find out that, in the study, almost all of the respondents (98%) declared that they knew, at least in general, the regulatory measures that were animating the work of the European Commission on sustainable finance (30% claimed they know them in detail) and that in more than half of the cases (55% of active plans, or 23 respondents) the SRI policy was extended to 75–100 per cent of assets.

Participation in the questionnaire significantly increased compared to previous editions of the European SRI study and asset managers have recognized the importance of sustainability issues, showing a growing interest in SRI products.

At this point, in order to obtain an updated description of the state of the art of social impact finance in Italy, and to reflect on its possible development trajectories, we analyzed the Tiresia Impact Outlook 2019's research.

The study estimated that impact capital employed in Italy from 2006 to 2019 amounted to approximately eight billion euros. Of these, equity investments made by the interviewees since their entry in the industry were € 1263.4 million (15.7% of total loans).

The total amount of loans disbursed by the interviewees, in the form of credit to social impact organizations, was 6767.8 million euros (84.3% of total loans). In 2019, the total assets managed by equity operators was 1824.75 million and it was estimated that this number would grow by 19 per cent at the end of 2020.

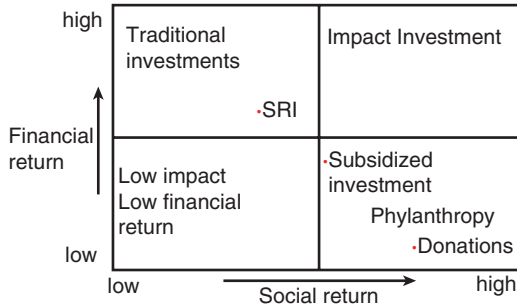
Regarding the objective of investments and financing, within the framework of the 17 SDGs of the United Nations, the social impact objective “Good employment and economic growth” prevailed (goal number eight, 73.7% of operators) followed by “Businesses, innovation and infrastructures” (goal number nine, 65.8%).

Among the screening criteria adopted by operators for the use of capital, the most used was the analysis of the business model (83.3%) followed by the potential of the entrepreneurial project to respond to a social need (66.7%); finally, 30 per cent are the managerial and technical skills of the team, so for these operators the social impact is not a real screening criterion but a condition of eligibility for the financial transaction.

To develop the industry, the need was felt for capacity building actions among companies pursuing objectives of social impact, the development of public actions (in fact, 60% of the interviewees consider the public sector to be a decisive actor in the acceleration to industry) aimed at simplification, new public-private partnership schemes, modeling and homologation of processes and methods used in investment processes.

Then, in order to categorize impact investments, we considered the interaction between the economic/financial return and the social impact return, to distinguish between traditional investments, responsible investments, philanthropic investment, impact investment (Fig. 5.2).

To further examine the impact investing market, we studied the ninth edition of 2019 of the Annual Impact Investor Survey of the Global Impact Investing Network (GIIN), according to which it is continuing to grow. In fact, cumulatively, respondents manage \$ 239 billion in impact investing assets, and a subset of 80 responding organizations (who participated in both the 2019 and 2015 surveys) increased their impact investing assets from \$ 37 billion to nearly \$ 69 billion, with a CAGR of nearly 17 per cent.



**Fig. 5.2** Matrix of forms of investment. (Source: Our elaboration by Jakson T., 2011. *The Rapid Globalization of Impact Investing*, Rockefeller Foundation)

Respondents invested \$ 33 billion in 13,303 impact investments in 2018 and the GIIN estimated for 2019 a 13 per cent increase in the volume of capital invested and a 14 per cent increase in the number of investments.

The impact investment sector continued to welcome market players: almost three-fifths of all respondents entered the market in the last ten years and almost a quarter have made their first impact investment in the last five years.

Over 90 per cent of respondents performed in line with or exceeded both their impact and their financial expectations, and around 15 per cent said they outperformed their expectations from the start. Respondents also believed that the impact investment industry has a key role to play in shifting mindsets regarding the fundamental purpose of finance and in stimulating all investments to integrate impact considerations as the “new normal” and broadly recognize their role in developing and implementing the sector. For example, more than 80 per cent of respondents indicated that they contributed to the actions recommended in the GIIN 2018 roadmap for the future of impact investing.

Most impact investors said they contributed to advances in sharing best practices for impact measurement and management (61%), for supporting the development of impact-focused businesses (52%) and for the training of finance professionals (43%).

In the survey of the 2019 edition, 56 per cent of respondents stated that they have both social and environmental objectives as targets and

that impact investors should implement policies and practices that promote representation in the investment process of a range of stakeholders, in addition to shareholders. Overall, 72 per cent of respondents described having adopted such policies, including those to guide their internal operations and governance (47%), inform about their selection and engagement with investees (51%) and target a wide range of stakeholders (30%).

Both the impact and the financial factors motivate investors to enter the market. Nearly a third of investors said impact investing was financially attractive compared to other investment opportunities.

The most common reasons for making impact investments were the commitment to be responsible investors (85%), dedication to the mission (84%) and the search for efficient ways to achieve one's impact objectives (71%).

Investors dealing exclusively with impact investments were significantly more likely to indicate their mission as a driver than investors dealing with both impact and conventional investments (93% versus 61%). Over half of all respondents then considered contributing to a global agenda, such as the United Nations Sustainable Development Goals or the Paris Climate Agreement, calling it a "very important" factor in making impact investments. Respondents also indicated which policy tools have proven effective in the countries in which they invest. Many of these tools are designed to incentivize impact investments, such as tax incentives for impact investors (43%) or social enterprises (40%), the inclusion of impact considerations in fiduciary obligations (28%), training (e.g., providing capacity building for investee companies; 41%) and educational planning for new market participants (26%); finally, about one-third of the interviewees cited the role of governments in direct impact investments.

In 2019, with regard to the most significant challenges to be faced, that of the "lack of appropriate capital across the risk/return spectrum" was confirmed in first place (from 2016 to 2019). In 2019 the second challenge to be faced appeared to be the "lack of suitable exit options" (as in 2017), while the third was the "complexity of impact measurement and lack of managerial practice".



We noted that in the 2018 study the second most significant challenge was the “lack of common understanding of the definition and segmentation of the impact investing market”, which in 2019 was classified as the fifth challenge to be addressed, a sign that impact investing’s products are increasingly decipherable by operators.

However, to enhance the role of social finance within the international economic and financial landscape, it is still essential to establish guidelines and standards that can provide stakeholders with an understandable vision on the impact finance market, as well as shared definitions and criteria to develop this market within a shared framework.

Finally, in 2019 the fourth most salient challenge was identified to be the “lack of high-quality investment opportunities (direct or funds) with proven experience”, while the fifth was the “lack of understanding of definition and segmentation of the impact investing market”.

Regarding the importance and potential of impact investing to change investment practices, respondents broadly shared the perception that impact investing can change the common mindset about the fundamental purpose of finance in society, integrating impact considerations in all investments and push for a better balance between the interests of shareholders and the interests of stakeholders.

It was also interesting to note, according to a new survey published by the Morgan Stanley Institute for Sustainable Investing and the Morgan Stanley Investment Management, carried out among 110 institutional investors, 80 per cent of them already invest according to responsible criteria (10 percentage points more than in 2017) and 57 per cent believe they could only allocate their investments to managers who adopt a formal ESG approach.

This interest was also increasingly evident among retail investors, since, according to data from the Inverco Observatory, the Spanish association of UCIs and pension funds, 45 per cent of the managers interviewed perceived greater interest from investors in investing with ESG criteria.

### 3 The Third Report on Ethical Finance in Europe

In order to gain an understanding on whether ethical and sustainable banks, which financed social, environmental and cultural projects, were also sound from an economic-financial point of view compared with other banks, it was interesting to analyze the third edition of the Report on ethical finance of February 2020, provided by Banca Popolare Etica. It compares the structure, growth and yields of the European ethical banks with those of the approximately 4500 banks operating in the Euro area, on the basis of data provided by the European Central Bank.

This since many financial institutions flaunt their sustainability but they continue to shift their profits to tax havens or make those profits largely through speculative activities and not by providing capital to the real economy.

Starting with the difference between the remuneration, in systemic banks the pay of the CEO and the executive committee was generally linked to market parameters (usually the salaries of a group of competing banks); instead, ethical banks' employees didn't choose their job because the bank, for the same position, offered a higher remuneration, compared to other banks of the same size. Furthermore, in systemic banks, the remuneration of top managers had no upper limits and was based on highly variable components (which depended on the results, mainly financial, achieved), which was instead minimal for ethical banks.

Moreover, according to financial statements' data of ethical and sustainable banks analyzed in the research, in 2018 the total assets for these banks were € 51.26 billion (11% more than in 2017, when they amounted to € 46.22 billion), total loans granted 38.98 and total deposits 26.87 billion euro.

The report showed that ethical and sustainable banks have maintained a solid capital position, measured as the ratio between shareholders' equity and total liabilities, that was constant and around 10 per cent from 2008 to 2018, while the European banking system as a whole started from a relatively weaker position in 2008 (5.55%) and then gradually

closed the gap with ethical banks, although still not completely (8.18% in 2018).

However, if ethical banks have always had a relatively high net worth compared to total liabilities even in the period before 2007–2008, European banks were pushed by the legislator to increase their assets (to face any future crises) only after the 2007–2008 crisis.

From the document, it emerged that in the last ten years, ethical and sustainable banks have grown much more than the European banking system, have become larger (9.91% annual asset growth) while European banks have shrunk (-0.31% on average per year over the last ten years), have granted more loans (+10, 55% per year from 2008 to 2018 against + 0.39% of European banks), raised more money through deposits (+ 11.17% against + 2.43%) and have considerably increased their net worth (+ 10.40% per year in the last ten years against + 3.65% for European banks).

Moving on to the income analysis, the average ROA of ethical and sustainable European banks (on average 0.40%, both from 2013 to 2018 and from 2008 to 2018) always remained at a higher level than the average ROA of the European banking system (on average 0.26% in the years 2013–2018 and 0.13% in the years 2008–2018), with a volatility, measured by the standard deviation calculated on the average value of each year, relatively low (0.05% in the period 2013–2018, 0.40% in the period 2008–2018).

By comparison, European systemic banks reported a ROA in 2008–2018 of 0.24 per cent, against a volatility rate of 0.10 per cent. ROA of the European banking system as a whole, as an indicator of profitability, exceeded that of ethical and sustainable European banks only from 2017 to 2018, largely due to the collapse (-30%) of the net profit of the *Crédit Coopératif*, the largest bank among the ethical ones.

Examining ROE, in the period 2008–2018, that of European ethical banks (3.57%) was higher than that of the European banking system (1.79%) with a lower volatility, and therefore a lower level of risk (0.41% vs 3.28%). However, between 2013 and 2018, European banks outperformed ethical and sustainable banks, albeit slightly (3.86% vs 3.61%), at the cost of greater volatility (1.72% vs 0.48%).

In comparison, the European systemic banks reported a slightly higher ROE in the period 2008–2018 (4.89%), thanks to the excellent results of Barclays, Credit Suisse and UBS, but in the face of a volatility rate of 1.91 per cent. Therefore, the profitability of ethical and sustainable European banks (measured by ROE) has also remained almost stable over the last ten years, with a significant decline from 2017 to 2018, which has essentially the same reasons as the decline in ROA.

The importance of considering ESG variables in the analysis and evaluation of a portfolio emerged by creating a new type of efficient frontier, which relates the return of the portfolio with its overall risk, which includes traditional financial variables and non-financial variables. Then, to calculate the ESG risk, that is that deriving from environmental, social and governance factors that impact the performance of the securities of a mutual investment fund, we compared the “traditional” efficient frontier, introduced by Markowitz (1952), who sorts portfolios according to the yield-volatility ratio, with the holistic efficient frontier, which presents the vector risk module on the x-axis (Fig. 5.3).

This second type of frontier provides the investor with a view of the total riskiness of their investment, considering VaR (i.e., the Relative VaR, with respect to the Investable Universe and the ESG Risk) and even if the efficient frontier curve remains valid in shape and trend, ignoring

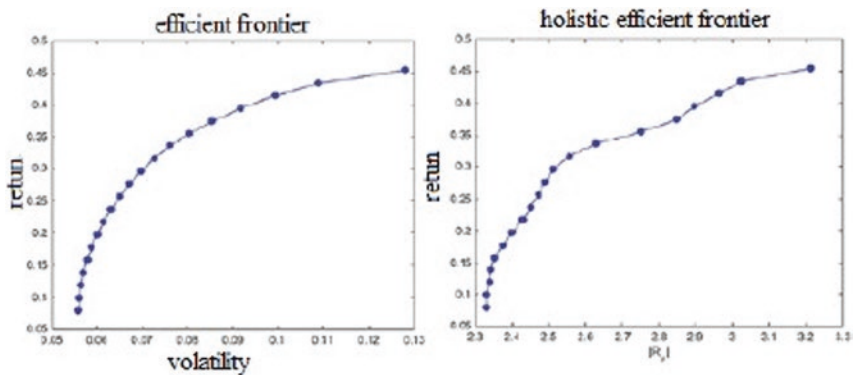


Fig. 5.3 A comparison between efficient frontier and holistic efficient frontier. (Source: Risk Management team of Etica Sgr)

the ESG risk and the Relative VaR, with the same risk, would lead to overestimating the expected return.<sup>7</sup>

According to the Modern Portfolio Theory (Markowitz, 1952) there are no rational decisions and complete information available to investors (limited rationality and information asymmetry) therefore investment decision-making models can no longer be based exclusively on the neo-classical portfolio diversification scheme for resolving the risk/return trade-off: it is necessary to refer to an extended utility function, that is, capable of understanding the satisfaction of ethical principles and social sustainability in the context of capital allocation processes (Cowton, 1999). We therefore consider an extended utility function that includes financial, mental and social benefits (Beal et al., 2005), for which the non-financial reasons are “expressive benefits” (Glac, 2009) and responsible social investment can be an extension of personal identity and individual values.

Therefore, ethical banks appeared to be more devoted to traditional banking (raising savings and granting loans) than the European banking sector, which seemed to be concentrated on activities such as investments in securities, financial services, equity investments in companies.

Given that credit can be considered, with some approximation, an activity that finances the real economy (in the absence of more precise data in the banks’ balance sheets), we concluded that ethical and sustainable banks operate decisively in support of the real economy (production of tangible goods and services) while the European banking system, on average, was more oriented toward financial economy (investments on the stock exchange, sale of securities, etc.).

The difference between the groups of banks was also confirmed by the percentage of deposits on total liabilities: ethical and sustainable banks collected money (which they then mainly lend in the form of loans) mainly through customer deposits (71.31% of the total in 2018; 63.71% in 2008) while, on average, European banks collected liquidity (to lend

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<sup>7</sup> Forum for Sustainable Finance, ABI, ASSOGESTIONI (2019). The European Union and sustainable finance: impacts and prospects for the Italian market, pp. 54–55, taken from <https://finanzasostenibile.it/wp-content/uploads/2019/11/Manuale-Europa-IT-Web.pdf>

or invest) mainly through other channels, such as the issuance of bonds or the deposits of other banks.

In 2018, the percentage of deposits on the total liabilities was only 40.96 per cent for European banks (31.26% in 2008), 44.04 per cent for European systemic banks (27.38% in 2008), while that of the Italian banking system was 48.96 per cent.

So, if after the last major financial crisis, which broke out in 2007–2008, the European banking system has grown to a much lesser extent or has remained unchanged, as in the case of assets (−0.31% annual from 2008 to 2018) and loans (0.39% per annum in the same period), ethical banks have recorded considerable growth in all the variables measured by research in the last ten years, a sign that ethical finance is spreading more and more among people, especially in a period characterized by serious uncertainties in the European banking and financial market. This alternative vision of the “new finance” aims to satisfy the function of economic utility by integrating it into a broader function of ethical and social utility, going beyond “methodological individualism”, since we are not concerned exclusively with the financial return but also with its impact from a social and environmental point of view, due to a model of personal preferences and values that appears more realistic than the hypothesis of perfect rationality of the individual (Juravle and Lewis, 2008).

## 4 The Role of Ethical Finance to Overcome the Current Crisis

In order to investigate if sustainable finance has been resilient during the pandemic, we decided to examine surveys on the performance of the various baskets and indices during the outbreak of the coronavirus pandemic.

Sustainable investments have recently proved that they can reduce risk when the market collapses and are now an established industry: according to the 2018 report of the Global Sustainable Investment Alliance, they hold nearly 31 trillion US dollars globally, increasing 34% in two years (compared to 25.2% in the previous two years).

Moreover, since the beginning of the coronavirus emergency, companies with the best ESG ratings showed greater resistance to the current economic and financial shock: according to a recent study conducted by Fidelity, one of the most important groups of fund management companies internationally, between February 19 and March 26 of 2021, the S&P 500 fell by 26.9 per cent; in addition, while the companies with the highest ESG rating averaged 3.8 per cent better returns than the S&P 500, the lowest rated companies averaged 7.4 per cent worse.

We also examined the first Global Sustainable Fund Flows report, produced by the Morningstar Sustainability Research team, in which were analyzed inflows of 3297 Open and Exchange Traded Funds that use ESG criteria in their investment strategy and pursue sustainable themes or sought to have a measurable positive impact along with a financial return (it does not include funds that only use exclusion or negative criteria in their investment strategy).

In the first quarter of the year, these had \$ 45.6 billion in net subscriptions globally versus \$ 384.7 billion in net redemptions from traditional instruments.

The chart below shows inflows into sustainable funds by region, as well as the number of sustainable funds and assets managed; in particular, European funds registered over 70 per cent of total subscriptions, compared with 23 per cent in the US.

Overall, Q1 2020 global inflows into sustainable funds decreased 27 per cent from Q4 2019, but still increased 90 per cent from Q1 2019.

At the end of March, total assets in sustainable funds amounted to \$ 841 billion: while this Fig. 5.4 was down 12 per cent from the all-time high of \$ 960 billion reached at the end of 2019, assets in the broader universe of funds took a major hit, with a drop of 18 per cent.

Furthermore, the report highlighted that Europe was still the area where the most sustainable product launches are carried out and the one most committed to responsible investment, also due to the fact that it has a more favorable regulatory framework for ESG investments.

In fact, in the first quarter of 2020, the launches of new funds continued (+102) and the asset managers also continued the transformation of traditional funds into sustainable funds: 24 funds were converted and renamed to make their new sustainable mandates more visible to

Region	Q1 2020 Flows		Total Assets		Funds	
	USD billion	% Total	USD billion	% Total	#	% Total
<b>Europe</b>	33.14	72.5	683.87	81.3	2,528	76.7
<b>United States</b>	10.45	22.9	119.33	14.2	307	9.3
<b>Japan</b>	0.17	0.4	13.52	1.6	164	5.0
<b>Australia/New Zealand</b>	0.25	0.6	12.06	1.4	86	2.6
<b>Canada</b>	0.77	1.7	5.26	0.6	87	2.6
<b>Asia ex-Japan</b>	0.90	2.0	7.46	0.9	125	3.8
<b>Total</b>	<b>45.69</b>		<b>841.49</b>		<b>3,297</b>	

**Fig. 5.4** Statistics of sustainable funds globally (first quarter 2020 data). (Source: Morningstar Direct. Morningstar Research)

investors.<sup>8</sup> European funds represented over 80 per cent of the global universe of sustainable funds, thanks to the long history of responsible investing and the favorable regulatory environment in Europe and, despite Covid-19, the European universe of sustainable funds has attracted inflows of 33 billion dollars in the first quarter of 2020, in contrast to the 163 billion dollars of outflows suffered by the global universe of European funds (Fig. 5.5).

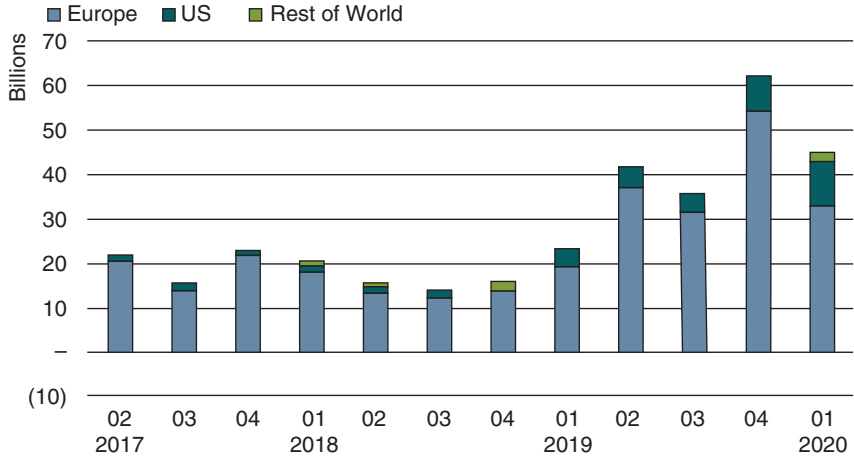
As can be seen in Fig. 5.6, assets in European sustainable funds declined in the first quarter of 2020, reaching a total of \$ 684 billion, down only 12 per cent from the record of \$ 779 billion at the end of 2019, while the activity for the entire European fund universe fell by 16.2 per cent.

## 5 Conclusions

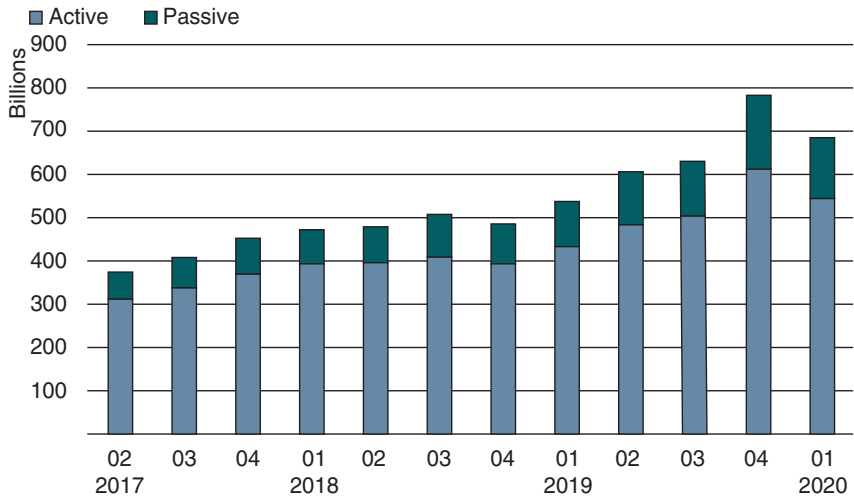
The analyses contained in this chapter, providing an overview of the characteristics of the frontier toward which finance is moving, intended to investigate the interest on the part of market operators and institutions in ethical finance and in particular in sustainable investments, since they

<sup>8</sup> <https://www.focusrisparmio.com/news/fondi-esg-raccolta-globale-primi-trimestre-2020>.





**Fig. 5.5** Global sustainable fund flows, by quarter (data updated to March 2020 in billions of dollars). (Source: Morningstar Direct. Morningstar Research)



**Fig. 5.6** European sustainable funds assets, broken down by quarter (data updated to March 2020 in billions of dollars). (Source: Morningstar Direct. Morningstar Research)

allow both to generate a positive social/environmental effect and to obtain a financial return.

In fact, in recent years, SRIs are acquiring greater significance and, despite the fears related to the coronavirus have increased market volatility, it has been recorded that investors from all over the world have continued to invest in sustainable funds in the first three months of 2020, while the overall European fund universe reported an outflow over the same period, as can be seen from the latest Morningstar report on global sustainable fund flows.

It was also found that in Europe, in the first three months of 2020, the overall collection for ESG funds exceeded that of traditional funds; the same trend has been confirmed globally as it appears that the global demand for ESG products is strong and resists the crisis caused by Covid-19.

In this context, however, Europe plays a leading role, on the basis of a consolidated social culture and a growing attention to innovation in the field of inclusive finance regulation: it has turned out that it is by far the most important developed and diversified ESG market and which continues to dominate sustainable investments and hosts the majority of sustainable funds and assets, with 2528 sustainable funds currently available and 76 per cent of total subscriptions.

The study found that, from 2008 to 2018, compared to the European banking system, the 23 ethical and sustainable banks examined grew much more, became larger, granted more loans and raised more money through deposits, created/preserved more jobs, increased their net worth considerably and maintained a solid capital position, measured as the ratio of net worth to total liabilities from 2008 to 2018.

In conclusion, we deduced that, in the 2008–2018 period, ethical banks were much more oriented toward offering services to the real economy than the average of their national banking systems, they were slightly more solid from a capital point of view and have demonstrated greater profitability for both indicators used (ROA and ROE) in the face of lower volatility, and therefore lower risks, and only in recent years European banks have surpassed, albeit slightly, ethical and sustainable banks, but at the cost of greater volatility.

From this dissertation it emerged that the focus of the investment is shifting from mainly opportunistic and short-term objectives (short termism) to long-term social responsibility, moving from the goal of reaching a profit only for the investor (shareholder value) to that of all parties interested in the financial activity of the corporation (stakeholder value). Therefore, we concluded that “greed” finance is gradually becoming “green” and is finally becoming a priority for institutions, detached from the nimby effect (Not In My Back Yard). Hence, bodes well for the awareness of ever wider sections of society, of investors and savers, of networks and organizations that question themselves about the use made of their money, do not want to accept a system that privatizes profits and socializes losses, with the awareness that a society in which only exists the “giving in order to have” or “giving out of duty” is a society without a future.

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# 6

## Social Business and Environmental Engagement for a New Economy

Elisabetta Righini

### 1 Introduction: The New Concept of “Spiritual Economics”

The current climatic and environmental emergency, which is also an economic and social one, requires the use and discovery of new tools and mechanisms for the solution of these burning problems, which are closely connected, even if not always in an obvious way.

It is crucial, to this purpose, that these tools are not limited, however, to address only technical aspects of a strictly economic and productive nature, but that they can transform at a profound level, first of all, a cultural and spiritual one, the economic and social system.

As highlighted by authoritative critical voices, a moral and spiritual vision that deeply undermines economic and social well-being

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determines and intensifies the current difficulties even more than technical factors.

This vision has produced a series of mainstream economic theories that have taken as their dominant aspect the absolute indifference of economic sciences towards any consideration of an ethical and moral nature, assuming socially negative attitudes and behaviours as economically virtuous. Among these is the assumption that selfishness is human behaviour's natural, dominant determining force.

In particular, it is possible to trace this vision back to the teaching of the founding father of modern economic science, Adam Smith, and his seminal work "The Wealth of Nations", with his concept of self-interest as an engine of economic activity, but omitting to consider the meaning of this concept in the historical and cultural context of his time. Within the eighteenth-century Enlightenment movement, in which Adam Smith elaborated his theory, self-interest is not an end in itself and it does not coincide with pure selfishness. However, it must be tempered and accompanied by adequate education, good manners, and moral sentiments.

Other mainstream economists recognise that humans can act in seemingly altruistic ways, not only towards their relatives or close circle of friends or acquaintances, but they think that this apparent generosity covers a hidden form of selfishness, as altruistic behaviour would be motivated by self-satisfaction with the social approval that such behaviour entails, or even by the advantages in terms of reciprocity and return, even economic, that such consent ensures.

This exclusive tendency to pursue one's interest as the only motivation for human action is also presented as rational, identifying as rational, and therefore economically correct and profitable, behaviour that is driven by reasons of an exclusively selfish nature (Aldred, 2019).

However, this reconstruction of the motivation underlying economic behaviour conflicts with the numerous findings of economic psychology, which show how the economic behaviour of human beings is profoundly different from the theoretical models of economists. Such strife is for several reasons, starting first from the limited computational capacity of the human brain, which has led influential authors, among which Herbert Simon, founder of economic psychology, to introduce the concept of

“bounded rationality” (Simon, 1955, 1956, 1957, 1959, 1972, 1976, 1979, 1991).

In light of these considerations, several authors have elaborated important observations and theories that demonstrate how the economic decisions of human beings are far from the perfect rationality predicated by classical economists. A vast range of decisional errors and biases affect them, which are determined by the operating modes of the mind of the human species. The adoption of automatic and unconscious mental shortcuts called heuristics characterises these modes, which differ from the theoretical decision-making procedures considered in the economic sphere. This situation thus highlights how the so-called homo oeconomicus actually represents a purely abstract theorisation, far from the actual operation models, even the economic ones, of human beings.<sup>1</sup>

Furthermore, not only the restrictions deriving from bounded rationality and the mechanisms of mental functioning condition human activity but also factors of an emotional, affective, personological, and behavioural nature, which further distance it from the abstract model of “homo oeconomicus”, as the psychological sciences have widely brought to light.<sup>2</sup>

The adoption of theoretical models that are very far from the actual operation of economic actors, in addition to determining an incorrect picture of their real action, also favours the production of adverse events and inefficiencies, such as free-riding or moral hazard phenomena, which can also lead to systemic and global crises, as the events of the last decades have painfully shown us.

It appears necessary to propose new approaches and visions, which allow us to reconstruct a more suitable image of human action in the economic sphere and consider human beings in all their facets, experiences, and needs.

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<sup>1</sup> See: Tversky and Kahneman (1973, 1974), Kahneman and Tversky (1979), Thaler (1980), De Bondt and Thaler (1985, 1987), Thaler (1985, 1999), Tversky and Kahneman (1981, 1992), Samuelson and Zeckhauser (1988), Kahneman et al. (1990), Benartzi and Thaler (1995), Ghoshghaie et al. (1996), Bikhchandani et al. (1998).

<sup>2</sup> About affective and neuropsychological aspects see: Peterson (2007a, b). About personological aspects: Zucherman (1978), Anderson and Brown (1987), Wong and Carducci (1991). Dahlbäck (1990), Nower (2003), Hay et al. (1996), Lauriola and Levin (2001), Wilkinson and Abraham (2004).

Therefore, a multifaceted vision of the human being is required, which also considers ethical and moral aspects and the prosocial and altruistic needs and motivations of human behaviour, which cannot be limited only to the elements of selfish self-satisfaction. In particular, this vision sees human beings as social and prosocial entities at the centre of a complex network of relationships that satisfy these cooperative and altruistic needs.

This new concept can be summarised and defined as “spiritual economics”. It collects the contributions of all those authors who recognise the importance of psychological, ethical, moral, and spiritual aspects for adopting effective economic models.

## 2 Prof. Yunus’s Theory of Social Business

Among the authors attributable to this orientation, the theoretical and practical work of Prof. Muhammad Yunus plays a particular role. The Bengali economist became universally known in 2006, when he was awarded the Nobel Peace Prize as the inventor of “modern microcredit” by establishing the Grameen Bank—the Village Bank—also known as the Bank of the Poor.

Prof. Yunus established the bank in 1976, and it has come to have thousands of branches in Bangladesh alone, with offices all over the world in a few decades (Yunus, 2003). This institution has played a fundamental role in improving the condition of the poorest and most marginalised classes in its country of origin and other areas of the world, addressing above all women’s needs, so much so that the percentage of women among the customers (who are also the owners) of the bank is over 97%.

The microcredit invented by Yunus is a credit characterised by small amounts of money granted to people usually excluded from the traditional credit system, having no real or personal guarantees to present, as they belong to the poorest and most marginalised classes of the population.

Therefore, microcredit helps to cover the demand for credit that remains unsatisfied because traditional financial institutions do not cover it.

At the basis of Yunus's establishment of microcredit, there is the belief that all human beings, even the poorest, are endowed with a native entrepreneurial capacity. Therefore, it only requires to be encouraged through opportunities for financing interventions, even for limited amounts, which are sufficient to start micro-enterprises and commercial and productive activities capable of bringing thousands of people out of the poverty line.

Continuing in his action for a world without poverty, a world in which, according to the expression of Prof. Yunus himself, "poverty can only be found in museums" (Yunus, 1997), and to remove the macroscopic social fractures on which poverty feeds, Prof. Yunus identifies, after microcredit, the further tool of social business (Yunus & Weber, 2009; Yunus, 2010; Yunus et al., 2010).

As stated in his book *A World of Three Zeros* (Yunus, 1997), according to Prof. Yunus, social business can be the tool to create a world with zero poverty, zero unemployment, and zero carbon emissions, and a mechanism that allows younger generations (freed from essential poverty by the action of their parents, financed by microcredit) to plan their future for their prosperity and that of the whole humankind.

According to Prof. Muhammad Yunus, a social business is created exclusively to solve a social or environmental problem, that is, a business from which the owners do not receive dividends but only recover their investments (Kickul et al., 2012). Prof. Yunus has defined the seven principles which should inspire social business.<sup>3</sup>

The first fundamental principle is that the corporate objective of a social business must be to overcome poverty or one or more social problems (such as education, health, access to technology, and environmental protection) that threaten people and society, not profit maximisation.

However, this objective must be achieved by ensuring the business's financial and economic sustainability, which constitutes the second fundamental principle of social business, for which the social objective must be achieved with a strictly entrepreneurial method.

The third principle provides for a total ban on distributing profits and dividends to investors, who can only recover the amount of their

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<sup>3</sup> <https://www.muhammadyunus.org/post/363/seven-principles-of-social-business>.

investment and nothing more. Therefore, any profits produced by the company must remain within the company itself and be allocated to the self-financing of the business to fund its improvement and expansion, which constitutes the fourth principle.

Following the social objectives of the initiative, a social business (as the fifth principle says) must pay particular attention and sensitivity to gender issues and attention to the environment, regardless of what its specific objective is. Finally, following the peculiar social sensitivity of the company, workers must receive better treatment and working conditions than the market, representing the sixth fundamental principle.

The last and seventh principle (which may appear particularly strange or original) concerns the spirit of joy with which the social business activity must be conducted. However, it is a fundamental and highly significant aspect because it highlights what we stated at the beginning of this chapter about the essential motivation for carrying out an economic activity.

Operating with joy, therefore, means not acting to obtain a personal economic advantage but to satisfy a more profound and more relevant individual need, as stated by Prof. Yunus, with his famous motto, “making money makes you happy, but making others happy makes you much happier” (Yunus, 2015).

This expression sums up the concept of spiritual economics very well, putting human beings in all their multiple and multifaceted terms and instances at the centre of economic activity in all its aspects, not simply the selfish pursuit of profit.

For this reason, social business can be a fundamental tool for creating a more just, supportive, and sustainable economy.

### **3 Social Business, Social Enterprise, and Social Entrepreneurship**

One aspect to which Prof. Yunus pays particular attention to define the concept of social business better is to identify the difference between it and the notions of social entrepreneurship and social enterprise (Yunus,

2010). According to Yunus, social entrepreneurship and social enterprise are much broader concepts than social business, which refer to initiatives aimed at solving some social or environmental problems. In particular, the idea of social entrepreneurship concerns the entrepreneur. In contrast, social enterprise involves the enterprise itself.

Furthermore, according to the vision of Prof. Yunus, a social enterprise may not be a business at all, being able to consist of a non-commercial initiative undertaken by a subject to help civil society to overcome a social problem. The concept of the social enterprise includes, therefore, a vast number of issues, extending from non-profit entities to businesses with profits even of considerable size. So a social enterprise can be a charitable or a for-profit company that produces both personal gains and social benefits.

However, if a social enterprise does not produce any personal profit but only social benefits, it would become a social business as long as it constantly maintains this characteristic. However, a social enterprise can switch to a lucrative purpose anytime, unlike a social business.

Therefore, from a terminological point of view, Yunus proposes to define an entrepreneur engaged in social business as a “social business entrepreneur” rather than a “social entrepreneur” to distinguish the two types of entrepreneurs.

Social business, therefore, is only a small subgroup of the concept of Social Entrepreneurship, an idea so broad that it assumes minimal practical utility in Prof. Yunus’s view.

Moreover, it is essential to correctly distinguish a social business from other types of business. As Prof. Yunus points out, while for a conventional business, the driving force is personal profit, for a social business, the driving force is and must be exclusively a social advantage and not one of a personal nature. Therefore, according to this theoretical reconstruction, in a social enterprise, the driving force could be both the social benefit and the individual profit. In addition, this category includes cases that may be businesses or not, being a non-profit entity or combining a social benefit and a personal gain in any measure, up to the complete zeroing of private profit in extreme hypotheses. The social enterprise is a multifaceted entity that combines both aspects.

The notion of social business, in Prof. Yunus's theory, is instead very well determined. Indeed, "Unlike Social Entrepreneurship, Social Business is a particular type of business: a dividend-free company with a social goal. A Social Business may pursue objectives similar to those sought by some Social entrepreneurs, but the specific corporate structure of the Social Business makes it distinctive and unique" (Yunus, 2010).

Despite this clarity of the definition in the conceptual field, on a practical level, social business can take on different functions and carry out very different activities: Prof. Yunus cites four examples of social business, which carry out different activities and have various connotations. For example, a social business could be a company created itself to solve a social problem with its business; a company whose socially beneficial action consists in offering an employment opportunity for beneficiaries and, in addition, makes a market dedicated to them; a company that operates in the field of subsidiarity using a business model; an innovative company that completely overturns the competitive environment of an incumbent, surpassing it in terms of results in the social sphere.

## 4 Social Business and the Environment

Environmental sensitivity and consciousnesses are, by definition, essential components of the concept of social business, so Prof. Yunus's theory sets social business as a new cornerstone for the building of a World of Three Zeros (Zero Poverty, Zero Carbon Emission, Zero Unemployment) (Yunus, 2017). In Prof. Yunus's theory, the environmental characterisation of social business is solid. It is closely connected to the particular role that, in his vision, is entrusted to social business as a tool to achieve sustainable development economically, environmentally, and socially.

From this point of view, social business can perform an essential function for local development, as it is particularly attentive and sensitive to the issues and needs of the territory to which it belongs.

As Prof. Yunus points out, growth that does not respect the natural environment is, by definition, unsustainable growth. Therefore, pursuing zero poverty and zero unemployment is possible while pursuing zero net

carbon emissions. Pursuing all three goals together is essential because they complement and support one another.

A growth that considered only social and economic aspects, but neglected the environmental ones, would probably lead to increased jobs for poor people. However, such jobs would often be dirty, dangerous, and destructive, leaving poor communities worse off.

On the other hand, environmental degradation and pollution undermine the socio-economic development of the poorest countries, which are also those on which the adverse effects of pollution and the indiscriminate exploitation of natural resources end up in particular, with phenomena such as floods, storms, landslides, and fires. Moreover, they hit the least developed countries hardest because they do not have the resources to defend themselves and combat those adverse events. Therefore, as Prof. Yunus says, “Rampant pollution makes it even harder for poor countries to lift themselves out of poverty” (Yunus, 2017).

It is therefore evident that, given that environmental, social, and economic problems add up and amplify each other, it is essential to tackle all these problems together because they all feed one another.

Numerous examples of social business demonstrate the efficiency of this tool for solving the problems of local communities and territories.

Prof. Yunus cites examples from different countries and continents in his book *A World of Three Zeros*.

The first example concerns Grameen Shakti, the pioneering renewable energy business Yunus launched in Bangladesh. This social business has installed 100,000 solar panel systems in homes throughout Bangladesh, an achievement that made Grameen Shakti one of the world’s largest suppliers of solar home systems.

The sector and the type of activity carried out by Kreyol Essence, an eco-luxury beauty brand based on products made from Haitian black castor oil, traditionally used as a remedy for damaged hair, are entirely different. Kreyol Essence works together with Haitian farmers, mainly female. The company plants castor trees in cooperation with female smallholder farmers and afterwards buys the castor plants and the oil-producing castor seeds at an above-market price to ensure sustainable incomes for those in the castor oil value chain. It is helping to advance the goal of reforesting the devastated countryside of Haiti while at the



same time creating economic activity that helps to alleviate the poverty from which Haitians suffer.

Again in Haiti, Haiti Forest is a social business launched to reforest Haiti. This social business is supported by nongovernmental organisations that provide environmental, agricultural, and forestry expertise and by some charitable foundations that combine philanthropic gifts and social business investments. The initial funding will be repaid without interest or dividends being a social business.

In addition to planting millions of trees yearly to improve Haiti's severely damaged natural habitat, the project improves farmers' livelihoods. Moreover, it creates more jobs outside the farming sector by supporting entrepreneurial businesses in producing and selling goods made from forest-grown materials.

A massive problem in Kampala, Uganda, is trash, much of it plastic. Savco Millers is a social business that makes and sells products using recycled plastic wastes, working directly with plastic collectors. The company provides workers with training and protective equipment and pays a premium price for the plastic they gather. These better wages are made possible by cutting out the intermediaries handling the collection process. Savco Millers then directly processes products made of recycled plastic, like grow bags for trees, construction sheets, and waste collection bags. These products are sold to the local community at affordable prices.

Green Bio Energy is a social business based in Kampala that produces and sells two lines of goods widely used in Ugandan families: charcoal briquettes used in household and commercial cooking and portable cookstoves.

The vast demand for charcoal in Uganda is typically covered through the exploitation of forests, from where processing coal is produced. The social business Green Bio Energy manufactures these products in an environmentally and economically friendly way, making them entirely from recycled charcoal and agricultural waste—cassava and banana peelings, rice husks, and coffee pulp. Another serious problem in Uganda is water pollution, which forces millions of Ugandans to boil water before using it to make it drinkable, with a costly, time-consuming process that amplifies the deforestation problem. Social business Impact Water makes safe drinking water available for children in schools, using various water purification systems at the lowest possible cost.

A growing number of social businesses are explicitly dedicated to addressing environmental problems. However, in Prof. Yunus's theory, all social businesses must be environmentally sustainable because social business aims to improve our world and the living conditions of humankind. If a social business reduces unemployment and creates new jobs but destroys the environment, no long-term benefit for humanity has been made. So a social business must be sensitive to environmental issues and treat the environment with respect and care.

## 5 Social Business and Spiritual Economics

Social businesses can more easily carry out social and environmental protection objectives, thanks to their characteristic of the absence of a profit-making purpose. Therefore, social businesses can experiment with new ways to address and solve social and environmental problems with greater flexibility and freedom than traditional businesses because they do not need to pursue profit.

An essential feature of social business is freedom from market conditioning, not having to worry about meeting the ever-increasing demand for high dividends, which allows social businesses to put environmental objectives first without worrying about the profit they can make. This feature makes social businesses a unique tool for addressing environmental issues in developed nations and low-income countries. Social business is not an institution destined to operate only in developing countries. However, it can also play an essential role in the wealthy countries of North America, Europe, and East Asia. Social businesses could deal with a wide range of environmental problems and carry out many activities to defend the environment, from renewable energy to trash recycling, safe drinking water to sustainable farming practices, less-wasteful product packaging, and energy-efficient transportation systems.

It is important to emphasise that to solve these problems efficiently and definitively, we must profoundly change our economic system through an alternative one based on different conceptions of life and with other social and economic objectives. Social business can therefore represent a fundamental tool for realising these objectives because proposing an economic model without profit allows us to imagine a new civilisation

based on new values of collaboration, solidarity, care, and reproachful respect.

The social business model could also make it possible to overcome traditional theories, which recognise a determinant role in the economic development of large corporations and financial institutions, proposing an alternative approach where the creativity of people plays a fundamental role once they are left free to imagine and realise by themselves new ideas and entrepreneurial initiatives, to improve their world and the communities in which they live. Therefore, at the basis of the social business movement founded by Prof. Muhammad Yunus, there is a real revolution in the ideological approach to economic activity. This approach requires abandoning the traditional vision that places profit maximisation at the centre as the goal of business activities and addressing social problems from a new perspective.

This new approach places the accent, even in the economic sphere, on other and different aspects of human nature: idealism, generosity, and altruism.

Therefore, we can say that Prof. Yunus's theory of social business is inspired by the principles of that branch of the economic sciences defined as "spiritual economics", which we mentioned at the beginning of this chapter.

As said above, this current of thought, in contrast to the theories of mainstream economists, which place the individualistic and selfish instincts of individuals at the centre of economic activity, believes that the engine of this action should instead be identified in feelings of an altruistic and solidarity nature, for creating individual and social economic welfare.

However, realising this function by social businesses also requires the redefinition of the legal and institutional system to allow this particular form of economic aggregation to perform its action fully.

In fact, in the current legal system, social businesses occupy an intermediate position between profit-making enterprises and non-profit institutions because, as profit enterprises, they fall entirely within the corporate discipline, have capital shareholders, are financially sustainable, have customers to whom they supply goods or services, and return their investments of money to their shareholders. However, they share with non-profit organisations that they aim at social welfare, not at maximising profits or

producing wealth for their shareholders. Their search for the common good brings them closer to non-profit organisations; however, unlike these, they operate in an entrepreneurial and economically sustainable way.

So it is necessary to examine the legal framework of this figure within the current legal regime. Therefore, we will carry out this investigation concerning the Italian legal context.

## 6 The Legal Italian Discipline of “Impresa sociale”: The List of Permitted Activities

The “impresa sociale”<sup>4</sup> in the Italian legal system, is one of the cases falling within the broader context of the third sector entities (ETS), regulated by the Legislative Decree n.117/2017, which has wholly reformed the regulations of the third sector.<sup>5</sup>

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<sup>4</sup> In this essay, to indicate a figure governed by art. 1 of the legislative decree n. 112/2017, we shall use the Italian terms “impresa sociale” (singular) and “imprese sociali” (plural form), as these expressions in the Italian language can be translated indifferently both as “social enterprise” and as “social business”, thus creating confusion for the conceptualisation of the theory by Prof. Yunus.

<sup>5</sup> The reform of the third sector, with particular reference to the discipline of “impresa sociale”, took place with the following regulatory measures: Legislative Decree 3 July 2017, n. 117 “Third sector code”: arts. 11, 40, 46, 71; Legislative Decree 3 July 2017, n. 112 “Revision of the regulations on impresa sociale”; Law Decree 34/2019 (Growth Decree): art. 43 paragraph 4 bis.

For social cooperatives, which are social enterprises by law, the Law of 8 November 1991, n. 381 “Discipline of social cooperatives” is still applicable.

Instead Legislative Decree 24 March 2006, n. 155 “Discipline of the social enterprise” has been repealed.

The reform had to come into force from 3 August 2017 for third sector entities, from 20 July 2017 for specific information on “impresa sociale”.

Regarding the transitional regime: originally, “imprese sociali” already established at the time of the entry into force of the reform decree, had to adapt to the new legislation by 30 June 2020. Within the same term, they could adjust their statutes by deliberating with the methods and majorities envisaged for the resolutions of the ordinary assembly. Article 1, paragraphs 4-novies and 4 decies of the Decree-law of 7 October 2020, n. 125, as converted by the Law of 11/27/2020, n. 159, published in the Official Gazette of the Italian Republic on 3 December 2020, modified the terms provided for in Articles 101, paragraph 2 of Legislative Decree 117/2017 and subsequent amendments—Third Sector Code—and 17, paragraph 3 of Legislative Decree 112/2017 on the subject of social enterprise. Therefore, the deadline by which the law calls the APS, the ODV, the non-profit organisations registered in their respective registers, and the social enterprises registered in the specific section of the Business Register to adapt their statutes was postponed from 31 October 2020 to 31 March 2021.

Legislative Decree 112/17 (which replaced the previous Legislative Decree 155/06), article 1, in fact defines as “*imprese sociali*” “all private entities, including those established in the forms referred to in book V of the Civil Code,<sup>6</sup> who carry out business activity of general interest—without profit and for civic, solidarity, and social utility purposes on a permanent and primary basis, adopting responsible and transparent management methods and favouring the most comprehensive involvement of workers, users, and other subjects interested in their activities”.<sup>7</sup>

A first peculiarity of the inclusion of the “*impresa sociale*” within the 2017 Third Sector discipline concerns the number of activities in which “*imprese sociali*” can operate, which are limited and defined in Article 2 of Legislative Decree 112/17.

In Italian legislation, an “*impresa sociale*” must also comply with stringent requirements established by the law. In particular, an “*impresa sociale*” must necessarily be established with a notarial public deed. It must pursue civic, solidarity, and social utility statutory purposes, carry out business activity of general interest on a stable and primary basis, and allocate profits and operating surpluses to pursue the statutory goal or to increase its assets to this end. It, therefore, cannot distribute them to shareholders, even indirectly. It must adopt responsible and transparent management methods, draw up the balance sheet and file it in the commercial register, draw up the social report, encourage the most extensive involvement of workers, users, and other subjects interested in its activities, use volunteers for its action for no more than 50% of workers.

Since the “*impresa sociale*” is included, as a result of the 2017 reform, in the number of the third sector entities (ETS), the “*impresa sociale*” must comply with what is one of the conditions necessary to assume the qualification of ETS: that is carrying out, exclusively or primarily, one or

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<sup>6</sup>Book V of the Italian Civil Code regulates the different forms of companies and corporations carrying out business activities for profit-making purposes.

<sup>7</sup>About the Italian discipline of “*impresa sociale*” and its reform, see: Arrigoni (2019), Gori (2018), Borzaga and Sacconi (2014), Alpa (2008), Vitali (2020), Mosco (2018), Fici (2018), Meo (2017).

more activities of general interest for the pursuit of civic, solidarity, and social utility purposes.

The activities that may be of general interest are listed in detail by the legislator and must be carried out in compliance with their relevant regulations. The management free of charge (or for a consideration not exceeding the actual production costs) or not of the activities of general interest mainly affects, for fiscal discipline, the definition of commercial or non-commercial entities that are submitted to a different taxation regime but does not affect the status of “*impresa sociale*” itself.

“*Imprese sociali*”, like ETS in general, can also carry out activities other than the general ones, provided that they are indicated in the articles of association and are secondary and instrumental to the activities of general interest, according to criteria defined by ministerial decrees. The secondary nature of the activities is established considering the relationship between the set of resources, including voluntary and free ones, used in these activities and those used in activities of general interest.

Concerning the activities of general interest provided for the ETS, the list contemplated by the relevant legislation numbers the following cases:

- social interventions and services for assistance, social integration, and the rights of disabled people; interventions and health services; social and health services;
- education, training and vocational training, and cultural activities of social interest with an educational purpose;
- interventions and services aimed at safeguarding and improving the conditions of the environment and at the prudent and rational use of natural resources, except for the activity, habitually carried out, of collection and recycling of urban, special, and hazardous waste, and the protection of animals and prevention of stray animals;
- interventions for the protection and enhancement of the cultural heritage and the landscape;
- university and post-university training;
- scientific research of particular social interest;

- organisation and management of cultural, artistic, or recreational activities of social interest, including editorial activities, and for the promotion and dissemination of the culture and practice of volunteering and activities of general interest;
- community radio broadcasting;
- organisation and management of tourism activities of social, cultural, or religious interest;
- extra-curricular training aimed at preventing early school leaving, for academic and educational success, preventing bullying, and combating educational poverty;
- instrumental services to third sector entities rendered by entities composed of no less than 70% of third sector entities;
- development cooperation;
- commerce, production, education and information, promotion, representation activities, licensing of certification marks, carried out in the context of or in favour of fair trade supply chains (i.e. a commercial relationship with a manufacturer operating in a disadvantaged economic area, usually located in a developing country, based on a long-term agreement. This relationship must aim at promoting access by the producer to the market and providing for the payment of a fair price, measures for development in favour of the producer, and the obligation of the producer to guarantee safe working conditions in compliance with national and international regulations, to allow workers to lead a free and dignified existence, and to respect trade union rights, as well as commit to the fight against child labour);
- services aimed at the insertion or reintegration into the labour market of unemployed workers and disadvantaged people, people with disabilities, beneficiaries of international protection, or homeless people;
- social housing and any other temporary residential activity aimed at satisfying social, health, cultural, training, or work needs;
- humanitarian reception and social integration of migrants;
- social agriculture;
- organisation and management of amateur sports activities;
- charity, distance support, free supply of food or products, or provision of money, goods, or services to support disadvantaged people;

- promotion of the culture of legality, peace between nations, nonviolence, and unarmed defence;
- promotion and protection of human, civil, social, and political rights, as well as the rights of consumers and users;
- promotion of equal opportunities and mutual aid initiatives, including time banks and solidarity buying groups;
- handling international adoption procedures;
- civil protection;
- redevelopment of unused public assets or assets confiscated from organised crime.

This list can be updated by the President of the Council of Ministers decree.

“Imprese sociali” can therefore carry out all activities of general interest, except some that are expressly excluded by the law, that is, “charitable activities, distance support, free supply of food or products, or provision of money, goods, or services to support disadvantaged people; promotion of the culture of legality, peace between nations, nonviolence, and unarmed defence; promotion and protection of human, civil, social, and political rights, as well as the rights of consumers and users, promotion of equal opportunities and mutual aid initiatives, including time banks and solidarity buying groups; handling international adoption procedures; civil protection”.

The reason for these exclusions is that these activities cannot, since their intrinsic nature, be carried out through the business method, which the “impresa sociale” must, in any case, use. Although an “impresa sociale” cannot distribute profits to its owners, it must still operate in an entrepreneurial manner, covering production costs with revenues.

In addition to the activities now mentioned and classified as of general interest for ETS, “imprese sociali” can also carry out microcredit allocation activities.

As for the distinction between primary and secondary activities, in the case of the “impresa sociale”, the activity for which the related revenues exceed 70% of the overall revenues of the “impresa sociale” itself is intended to be carried out primarily.



A particular category of subjects that falls by law within the qualification of “*impresa sociale*”, and within the related discipline are social cooperatives, which can carry out the activities indicated by their relevant law, and in particular, the management of social, health, and educational services, and various other activities (in the field of agriculture, industry, commerce, or services) aimed at the employment of disadvantaged people.

The activities that “*imprese sociali*” intend to carry out must be indicated in their deed of incorporation or statute.

In the case of secondary activities (which may also fall outside the list of the main activities), the secondary and instrumental nature of the activities other than those of general interest must be documented by the management body in the mission report or in a note attached to the cash flow statement or in the notes to the financial statements.

The performance of activities of general interest is mandatory and characterises third sector entities, including “*imprese sociali*”. An entity that does not carry out, exclusively or principally, one or more activities of general interest loses its qualification as a third sector entity.

In 2017 the third sector reform innovated the previous regulation relating to non-profit entities in several respects, including first of all that concerning the activities that ETS can exercise (therefore including “*imprese sociali*”).

The previously enforced regulations referred to the concept of “activity of social utility”, which could be in favour of even a single disadvantaged person. However, in the third sector reform, the law speaks of “activities of general interest”, thus paying attention to the needs of the entire civil society rather than the limited protection of individuals, however deserving and needy.

This new definition, therefore, highlights how the Italian legislator has considered the third sector as fundamental for the development of civil society, attributing to it a role and a position of particular importance within the legal system as it is suitable for favouring the objectives of social progress.

Among the activities of general interest, typical of non-profit organisations, the 2017 reform introduces new activities with a more marked connotation and greater economic importance, such as social housing,

fair trade, community broadcasting, integration employment of disadvantaged people, and social agriculture.

## 7 The Legal Form of Italian “Impresa Sociale”

As the legal form of the “impresa sociale” is concerned, both the entities of Book I of the Italian civil code (associations, foundations, and in general, any non-profit organisations) and the entities of Book V of the Code can be qualified as “imprese sociali”, therefore including companies established in the form of a limited company or of a corporation or the cooperatives.

Social cooperatives and their consortia acquire the right to qualify as “impresa sociale” by law. The “impresa sociale” discipline applies to the latter when not incompatible with their specific legislation.

On the other hand, some entities are excluded by law from the status of “impresa sociale”: first of all, companies that are constituted by a single shareholder who is a natural person. These subjects cannot even directly or indirectly control the “imprese sociali”, nor choose their presidents. In this case, the exclusion from the qualification of “impresa sociale” of these subjects is due to the purely individualistic and egoistic nature of an entity in a corporate form that substantially hides an enterprise belonging to a single person.

Secondly, public administrations cannot be qualified as “imprese sociali”. The definition of public administration is, in this case, to be understood in a broad sense, including state-owned companies with an autonomous governance system; consortia and associations of regions, provinces, municipalities, and mountain communities; universities; independent social housing institutes; the chambers of commerce and their associations; companies and bodies of the national health service.

In this case, the exclusion is because the third sector, to which the “imprese sociali” belong, has a nongovernmental character, different from the governmental nature of the public administration.

Finally, entities whose articles of incorporation limit, even indirectly, the supply of goods and services to members or associates are excluded from the “*imprese sociali*” group. In this case, the mutual and solidarity purpose of these entities conflicts with the purpose of the “*impresa sociale*”, which, to be of general interest, must potentially benefit the entire community.

However, all these three types of subjects may be shareholders of an “*impresa sociale*”. In any case, they cannot control it because this would make the governance and management of the entity itself substantially and indirectly attributable to them.

The fact that volunteers must compulsorily be a minority in “*imprese sociali*” (as well as operate in a complementary and not substitute way to paid workers) makes the qualification of “*Impresa sociale*” incompatible with that of voluntary organisation, in which volunteers must be prevalent. The same applies to social promotion associations, which cannot be “*imprese sociali*”, as they must carry out their activities “making use of the voluntary work of their members”. This prescription also responds to the need to distinguish “*imprese sociali*”, which must operate with entrepreneurial method and organisation, from those who act in a regime of substantial gratuity, which does not correspond to the concept of entrepreneurial activity.

## 8 Legal Requirements of “*Impresa sociale*”

For the legal discipline, all the provisions envisaged for the third sector entities apply to “*imprese sociali*”, where compatible. At the same time, for the non-regulated aspects, reference is to the civil code rules relating to the specific legal form assumed concretely by the “*impresa sociale*” among the eligible ones. Therefore, the most important rules relating to the “*impresa sociale*” discipline must be constituted with a public deed. The articles of association must expressly mention the social character of the enterprise, indicating, in particular, the corporate purpose, with specific reference to the activities of general interest carried out and to the absence of profit.

About registration in the business register, “impresa sociale” must register in a special section at the business registration office. This registration also satisfies the requirement of registration in the single national register of the third sector, as provided for the third sector entities.

The shareholders of an “impresa sociale”, admitted in compliance with the principles of non-discrimination, can be natural and legal persons and public administrations (even if the latter, as already seen, cannot control it).

Regarding the entity’s organisational structure, it is necessary to have a management body whose members are chosen among the shareholders, even if a minority of the directors can also be elected from outside the entity.

As its activity is concerned, the “impresa sociale” must carry out the business activity in a stable and prevalent way, operating for a percentage equal to at least 70% of the revenues in activities of general interest (except those, as already seen, expressly excluded for the “impresa sociale”), or even carrying out different activities as long as at least 30% of disadvantaged workers are employed through them.

As mentioned, the majority of those who work in the “impresa sociale” must be employed with a regular employment contract, and volunteers, therefore, must be a minority.

The “impresa sociale” must encourage the involvement of workers, users, and other stakeholders through consultative and participatory mechanisms provided by the statutes. The involvement must be effective, and therefore consultation or participation means must be contemplated that allow these subjects to influence the decisions of the “impresa sociale”, and above all, those decisions that affect working conditions and the quality of employees, goods, or services.

The forms and methods of this involvement must be reported in the social report. Workers and possibly users must also appoint at least one member of the administrative body and one of the supervisory body when the “impresa sociale” are not cooperative companies with prevalent mutuality and exceed two of the following limits: a total of the assets of the balance sheet of 2.2. million euros; revenues from sales and services of € 4.4 million; 25 employees employed on average during the year.

The “impresa sociale” must ensure workers a salary not lower than that provided in collective bargaining agreements and provide a salary difference between employees that does not exceed the ratio of one to eight, documenting how this parameter is respected.

It must also adopt responsible and transparent management methods, keeping regular accounting records and drawing up the financial statements, which must be filed with the business register and published on the entity’s website. The “impresa sociale” must also provide by statute for the presence of the board of statutory auditors as an internal control body and, in addition to certain size limits, a statutory external auditor.

It must also assume all the other transparency obligations to which companies are required, in addition to the specific duty of drafting and publicising the social report.

All “imprese sociali” are subject to an inspection activity inspired by the supervision model envisaged for cooperatives. In addition to carrying out this assessment independently, the Ministry of Labor can appoint this task to recognised associations, which include at least one thousand “imprese sociali” from at least five different regions.

In the event of transformation, merger, or demerger of an “impresa sociale”, the assets accumulated thanks to the entity’s activity as an “impresa sociale” cannot be divided among the participants. Therefore, incorporating an “impresa sociale” in a for-profit company will not be admissible. In fact, upon the dissolution of the “impresa sociale”, its assets must be donated to specific funds on the model of cooperatives, following the fundamental principle that the “impresa sociale” cannot distribute, even indirectly or after its termination, profits to its participants.

Regarding the denomination of “impresa sociale”, this must be written in all related deeds and correspondence of the company. This indication, or equivalent or misleading expressions, cannot be used by entities other than “imprese sociali”, which is in consideration of the particular regime and operating methods allowed exclusively to them.

## 9 The Governance of “Impresa Sociale”

The rules of the civil code about the management and coordination of companies and the joint cooperative group apply, insofar as they are compatible, to the management and coordination of an “impresa sociale”. Furthermore, the presidency of the “impresa sociale” cannot be entrusted to the representatives of companies constituted by a single shareholder, who is a natural person, public administrations, and profit-making entities, which, as seen before, cannot even control it, given the different purposes of these subjects, which conflicts with the social and altruistic destination of the activity of the “impresa sociale”. This ban aims to prevent that somebody, driven by intentions of pure profit, can use the “impresa sociale” as a screen to achieve their objectives, benefitting from the particular facilitated tax regime provided for these entities. By management and coordination, it means that a person has—actually or by statutory provision—the right to appoint the majority of the members of the administrative body of the “impresa sociale”. By control, it means that a subject can determine the majority of votes or that, in any case—thanks to the votes they hold or to any contractual constraints—can exercise a dominant influence in the ordinary meeting.

In case of violation of the prohibition, the decisions taken are voidable and can be challenged within 180 days. The Ministry of Labor and Social Policies can also appeal.

The articles of association may reserve the appointment of members of the corporate bodies to subjects external to the “impresa sociale”. In any case, it is still up to the assembly of associates or shareholders to appoint the majority of the members of the administrative body.

The deed of incorporation must provide specific integrity, professionalism, and independence requirements for those who appointed to corporate offices.

As the reporting of its activities is concerned, the “impresa sociale” must file with the register of companies and publish the social report on its website, according to the guidelines adopted by decree of the Minister of Labor and Social Policies, taking into account the nature of the activity

carried out and the size of the “impresa sociale”, also for the assessment of the social impact of its activities.

A particular rule excludes for “imprese sociali” the possibility—recognised for all other third sector entities—of receiving on loan from public bodies their own movable and real estate assets, which are not used for institutional purposes. Also, in this case, the reason for the ban seems to be linked to the economic and entrepreneurial nature of the activity carried out by “imprese sociali”, which prevents these entities, operating in economic conditions, from benefitting from free donations, which could distort the competition field, giving the “impresa sociale” a competitive advantage over other types of enterprise.

## 10 “Impresa sociale” and Profit Allocation

The law provides a particular regime regarding the destination of profits.

“Imprese sociali” established in the form of a company, according to the indications of Book V of the civil code (therefore excluding associations and foundations, which cannot, even if qualified as “imprese sociali”, distribute profits in any way, being non-profit entities), can allocate some profits and operating surpluses for purposes other than carrying out the statutory activity or increasing their assets. So, compared to other ETS, “imprese sociali” can redistribute profits within certain limits.

For “imprese sociali” in the form of a company, this limited distribution of profits can take place: in the form of a revaluation or increase in the share paid by the shareholder in the case of free capital increases governed by law.

According to this legislation, an “impresa sociale” can allocate a share of less than 50% of the annual profits and operating surpluses to a free share-capital increase (less any losses accrued in previous years) within the limits of changes in the general national yearly index of consumer prices for blue-collar and white-collar families, calculated by the National Statistical Institute, for the time corresponding to the financial year in which the profits and operating surpluses were produced. In this case, shareholders still retain the right to reimbursement of their shares, thus so increased.

Despite appearances, this provision does not infringe the general principle that prohibits the distribution of profits by “*impresa sociale*”, as it simply permits an operation that keeps the initial real value of the shareholders’ contributions unchanged in the face of the increase in the cost of living, protecting them from inflation. However, it does not involve actual enrichment, as it happens in the case of the distribution of profits.

Another provision allows social cooperatives (that, as seen before, are “*impresa sociale*” by law) to distribute refunds to their members, provided that the methods and criteria for distribution are indicated in their statute or deed of incorporation. The distribution of transfers to members must also be proportional to the quantity or quality of mutual aid exchanges, and a mutual management surplus is recorded. About this aspect, it is essential to remember that refunds do not represent a return on the capital invested by the shareholders but constitute the economic return resulting from the mutual exchange in the form of cost savings or higher wages. Therefore, the distribution of the rebates (proportionate to the extent of the mutual exchange with the cooperative and, therefore, to the quantity of purchase made or the work done by the members) does not represent a violation of the prohibition of distributing earnings to shareholders.

Finally, all “*impresa sociale*” can allocate profits and operating surpluses to purposes other than carrying out the statutory activity or increasing the assets in special conditions. In particular, they can distribute the following:

A share of less than 50% of annual profits and operating surpluses (net of any losses accrued in previous years) to free disbursements in favour of third sector entities other than “*impresa sociale*”, who are not founders, associates, shareholders of the “*impresa sociale*” or companies controlled by it, to promote specific projects of social utility;

A share not exceeding 3% of the annual net profits (net of the losses accrued in previous years) to the funds for the promotion or development of “*impresa sociale*” set up by the “*Fondazione Italia Sociale*” or by other entities. Social cooperatives, on the other hand, are not simply authorised but obliged to do so.

We must also remember that an “*impresa sociale*” established as a company must allocate at least 50% of the profit to carry out its statutory



activity or increase its assets. This part of the profit is not subject to taxation.

As with all ETS, “*imprese sociali*” are also prohibited from paying to directors, statutory auditors, or other corporate officers a remuneration that is not proportionate to the activity carried out or, in any case, to market levels; the payment to workers of remuneration over 40% higher than employment contracts; the above-market remuneration of financial instruments; the purchase of goods or services beyond the market price; the sale of goods or services to shareholders at conditions below market ones.

This prohibition arises from the need to avoid that, through fictitious market operations, the “*impresa sociale*” surreptitiously distributes dividends, violating the fundamental requirement of this type of business.

## 11 Special Cases of “*Impresa sociale*”

There are also some specific cases of “*imprese sociali*” with peculiar characteristics.

Among these are the social cooperatives, which, as already noted, are “*imprese sociali*” by law under the new legislation that reforms ETS. However, the “*impresa sociale*” provisions apply to social cooperatives only to the extent that they are compatible with the specific discipline of this cooperative type. The specific rules relating to the cooperative form, as in the case of activities of general interest, the management of profits, and the company’s transformation, prevail over those provided for in the “*impresa sociale*” discipline.

Also, civilly recognised religious bodies can qualify as “*impresa sociale*”, and the related discipline applies to them only for carrying out activities of general interest, provided that these bodies approve a regulation in the form of a public deed or an authenticated private deed, which incorporates the applicable legislation for the “*Impresa sociale*”.

In addition, to carry out the activities of an “*Impresa sociale*”, the institution must set up a specific aggregate of assets and keep separate accounting records.

Religious entities that carry out activities as an “impresa sociale” must file only the regulation and its amendments in the business register. In addition, they are exempt from the obligation to use the “impresa sociale” indication in their name, documents, and correspondence and from the commitment to involve workers, users, and other directly interested subjects in their activities.

There are also mutual aid companies among the particular categories of subjects that can assume the “impresa sociale” status. They are not subject to the obligation of registration in the section of “imprese sociali” in the business register when they have an annual payment of membership contributions not exceeding 50,000 euros and do not manage additional health funds.

## 12 Conclusive Remarks. “Impresa Sociale” and Social Business: A Comparison

After exposing the Italian legislative discipline of “impresa sociale”, it is necessary also to examine whether it corresponds, and to what extent, to the concept of social business by Prof. Yunus and whether this business model can perform the particular function of protecting the environment that Yunus recognises for this type of entity also within the Italian legal system.

In this regard, the first difference between the Italian discipline of “impresa sociale” and Yunus’s social business model concerns the activities these subjects can exercise. Yunus’s theory of social business does not provide any form of limitation regarding the object of the activity a social business can carry out. On the contrary, Italian law limits the operational scope of “impresa sociale” to activities of general interest only.

The possibility for an “impresa sociale” to carry out a different principal activity is limited to the hypothesis when this aims to employ disadvantaged people. Therefore the social purpose is identified, in this case, only in the possibility of offering a job to people in difficult situations.

On the contrary, in Prof. Yunus’s vision, a social business could carry out any activity as long as it solves a social problem, regardless of the

employment of disadvantaged workers. So, Prof. Yunus has promoted the creation of social businesses operating in sectors such as energy and technology to electrify and build mobile data networks and internet connections throughout Bangladesh.

Secondly, the ecological and environmental aspect is not put in the foreground by the Italian legislation since, even if it includes, among the possible activities that an “*impresa sociale*” can carry out, “interventions and services aimed at safeguarding and improving the conditions of the environment and at the prudent and rational use of natural resources”, this is just one of the many possible activities of general interest that an “*impresa sociale*” can carry out.

Instead, in the conception of Prof. Yunus, a social business, even if its primary activity does not directly aim at protecting the environment, should still, as we have seen previously, have particular attention to the environment and be environmentally friendly. Indeed, this constitutes one of the seven fundamental principles of social business.

Therefore, according to Italian law, an “*impresa sociale*” may not even pay special attention to the environment, which is essential for a social business. Of course, as Prof. Yunus’s theory requires, this does not prevent an Italian “*impresa sociale*” from carrying out its activity of general interest with particular attention to the environment, but this is only one of its various possibilities.

Also, as the legal form is concerned, the provision of Italian law is broader than the concept of social business because it considers “*imprese sociali*” even non-profit entities, such as associations and foundations, while social business must have a purely entrepreneurial structure.

Now, it is true that, according to Italian law, an association or a foundation can also carry out a business activity (Rescigno, 1967; Costi, 1968; Mosco, 2017; Cetra, 2003), with the sole limit of the absolute prohibition of distributing profits, but there is a difference between a business carried out by a non-profit organisation and that of a subject in corporate form. The non-profit entity will have to donate its assets for social purposes at its dissolution. In contrast, even if non-profit, a company will still have to return the initial contributions to its shareholders.

Moreover, in the Italian legal system, a company or corporation cannot definitively exclude the distribution of profits, except if a specific rule of law allows this possibility, as in the case of the “*impresa sociale*”.

Therefore in Italy, a social business in corporate or company form would only be possible if falling within the hypothesis of an “*impresa sociale*”.

So, the concepts of “*impresa sociale*” and social business coincide only in part, as an “*impresa sociale*” can have a non-corporate form and carry out an activity without environmental relevance.

However, a social business can be established as an “*impresa sociale*”. The “*impresa sociale*” is the only legal form a social business can assume in the Italian legal system. However, a social business is only a particular case within the broadest range of “*impresa sociale*”.

Also, the limitation to the activities that an “*impresa sociale*” can carry out can prevent, in the Italian legal system, a social business from expressing all its possibilities, as there are activities that an “*impresa sociale*” could not carry out in any case (except for the hypothesis in which the purpose of the company was to create jobs for disadvantaged people).

This limitation in the permitted activities could make the “*impresa sociale*” a marginal figure compared to the social business model elaborated by Prof. Yunus.

On the other hand, the Italian legislative reform of 2017 replaces the previous “*impresa sociale*” discipline of 2006. From this point of view, it represents an ambitious attempt to strengthen this particular form of enterprise by reorganising the entire regulation of the third sector.

The intention of the legislator to enhance and support this set of entities and experiences, considered to be of great economic and social importance, is clear.

From this point of view, the current reform represents, at the same time, a significant goal, reaping the fruits of the relevant activity carried out by the non-profit world in recent decades, and a starting point, having to lay the conditions for a new, more efficient, legal framework, for the third sector entities, including “*imprese sociali*”, capable of better facing the new challenges and satisfying the new economic and social needs that today’s capitalist society presents.

From this point of view, social businesses, even within the limitations and constraints of Italian law, could play an essential role in building a better and more just economic system.

According to Prof. Yunus in his writings, social business should not constitute an utterly alternative form to traditional capitalist profit

business but a parallel reality and one coexisting with it. Prof. Yunus repeatedly emphasises how, in his view, a social business can also be created by a traditional capitalist company, allocating part of its profits to it, by a successful entrepreneur in the profit sector who intends to try his/her hand at a new experience by putting his/her skills at the service of a different type of business; by workers, consumers, and users, to satisfy their own economic and social needs. A social business could also arise from a bequest or donation from a benefactor or the commitment of retirees who want to make their experience available in a prosocial activity.

What matters is the use of the economic-entrepreneurial method to solve a social problem and the rigorous absence of distribution of profits, which must all be reinvested in the company.

Only on this point, Yunus is very strict, believing that hybrid models, such as that of the socially responsible capitalist enterprise, cannot stand the test of facts since the profit-making purpose of the entity will necessarily end up making the pursuit of profit prevail at the expense of the social purposes.<sup>8</sup>

On a practical level, Yunus's approach is pragmatic. It sees traditional capitalist profit-making enterprises and social businesses operate in the same economic system, the latter to address the problems that traditional companies cannot solve.

From a theoretical point of view, however, Yunus affirms that the traditional capitalist economic model and mainstream economic theories, when they recognise the selfish drive for profit as the sole engine of the economy, trace a minimal and partial profile of the human being, and do not take into account the need for sociability, cooperation, and altruism that dwell within every individual, even the most unbridled capitalist. Yunus expresses this concept through the his motto, "making money makes you happy, but making others happy makes others much happier", summarised in the expression "SuperHappiness".

From this point of view, therefore, social business, born as a model to solve market failures, can, over time, become the tool for a new awareness, suitable for renewing the overall vision and the same theoretical foundations of economic science, with particular attention also to the environment and its protection, in the light of a "spiritual economics".

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<sup>8</sup> <https://www.muhammadyunus.org/post/2113/social-business>

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# 7

## A Synergy of Spirituality and Technologies Toward a Society 5.0

Andrea Paesano and Mario Risso

### 1 Introduction

The current Industrial Revolution is defined as “4.0” because it uses many different technologies with a development potential that is not yet foreseeable. This is due to Artificial Intelligence (AI) that gathers nine heterogeneous technologies defined as “enabling” or “KET” (Key Enabling Technologies). These are recognized internationally by the Boston Consulting Group (Russmann et al., 2015) also in Italy with the “National Industry 4.0 Plan” (MISE, 2016). The nine enabling technologies are (Borgato et al., 2018): Advanced manufacturing solution, Additive manufacturing, Augmented reality, Simulation, Horizontal and Vertical integration, Industrial Internet, Cloud, Cyber security and Big Data Analytics. These are influencing strategic and operational choices not only companies but the whole society. Their complexity and the degree of interaction between the different sectors are pushing stakeholders like

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companies, universities, governments, and so on to collaborate to better understand the emerging dynamics and counteract possible unwanted effects.

The family of technologies that characterizes the Fourth Industrial Revolution is the “Cyber Physical Systems” (CPS), a mix of various disciplines like mechatronics, robotics and cybernetics (Lee et al., 2015). Cyber-physical systems are not only used to solve specific problems through the data provided by sensors and algorithms that signal a possible anomaly, but they are used as performance indicators and support to the decision-making processes (Schwab, 2016). Thanks to the pervasiveness, transversality and speed of the data exchanged, the various subjects are able to communicate at any time and in any condition, providing the possibility of transforming large amounts of data into value-added information (Atti, 2018). Many of these digital technologies are not really innovations, but they are characterized by a higher level of integration and sophistication, contributing to the transformation of society and global economies. For this reason, Brynjolfsson and McAfee (2014) in their study argue that computers have such a level of efficiency that it is impossible to hypothesize what the possible future applications will be. According to the founder of the World Economic Forum, the Fourth Industrial Revolution differs from the previous ones because: “its development is taking place with unprecedented speed and intensity in the history of humanity”. This is due to several factors: Speed, Intensity and Impact. The synergistic and integrated combination of the various technologies in the physical, digital and biological sectors produces cross-fertilization connections and radical changes (Borgato et al., 2018). When we talk about the Fourth Industrial Revolution, we use the expression “Industry 4.0”. Industry 4.0 means: “the integrated set of human beings, objects and systems that create a digital and interconnected network between companies, involving the entire production chain, capable of self-organizing and optimizing in real time: all in order to create greater value by increasing competitiveness” (Confindustria Lombardia, 2015). The change does not only concern the introduction of new technologies and their application in new fields, but also the competition among firms.

For example, start-ups implement agile and innovative processes throughout the value chain that can quickly overcome the competition of established companies. The word “disruption” describes “a process whereby a smaller company with fewer resources is able to successfully challenge established incumbent businesses” (Christensen et al., 2015). This situation generates instability also in job market because technology outpaces organizational adaptation. A new science of “robot psychology” has evolved, that studies the interrelationship of human-robot collaboration and human well-being (Schoitsch, 2021). It is necessary to reduce the negative implications of the new digital ways of working, especially in terms of exploitation and at the same time promote the growth of the labor market. Key policy questions with respect to AI and jobs relate to managing the transition like social safety nets, health insurance, progressive taxation of labor and capital, and education (OECD, 2018). AI may help make work automating routine tasks, allowing more flexible work and possibly a better work-life balance. Human creativity and ingenuity can leverage increasingly powerful computation, data and algorithm resources to create new tasks and directions that require human creativity (Kasparov, 2018). However, recent developments in Artificial Intelligence aim to replace human work in creative activities as well (Paesano, 2021).

The chapter begins with an overview of the Fourth Industrial Revolution and its enabling technologies, and explains the role of Artificial Intelligence. After is analyzed some initiatives proposed by International Organizations to limit its disruptive and uncontrolled use of AI and the birth of Society 5.0 concept. In particular, the aim of this research is to investigate the relationship between the spirituality of a new economy promoted by Pope Francis and the human-centered approach of Society 5.0. The research attempts to answer the following **research question: Can technologies of industry 4.0 in the society 5.0 paradigm contribute to achieve a sustainable development?** The chapter is composed of five sections. Section 1 is an introduction of research, Sect. 2 explains Artificial Intelligence and its direction toward Society 5.0, Sect. 3 presents the methodology of research with the related findings, Sect. 4 is the discussion of the work and Sect. 5 the concluding remarks.

## 2 AI and Ethics Toward Society 5.0

Artificial Intelligence can be applied in every field of society. It can replace us in driving, monitor older or sick people, carry out dangerous or strenuous jobs, help us make informed decisions, based on the management of Big Data. In the public administration it can be used profitably in the health, school, judicial, public employment, security and, more generally, in the management of relations with citizens, which can be simplified and made more effective, faster and more efficient at the same time. The ethical problem of AI is the core respect to other reflections. The anthropocentric principle must be strongly affirmed, according to which Artificial Intelligence must always be placed at the service of people. The first intergovernmental standard on AI was adopted by the OECD Council at ministerial level on 22 May 2019 on the proposal of the Committee on Digital Economy Policy (CDEP). The recommendation aims to promote responsible and reliable management, ensuring respect for human rights and democratic values. The recommendation is composed of two sections (OECD, 2019). The first section exposes the principles for responsible stewardship of trustworthy AI, while the second section exposes the national policies and international cooperation for trustworthy AI. In the first one there are five complementary value-based principles:

- inclusive growth, sustainable development and well-being
- human-centered values and fairness
- transparency and explainability
- robustness, security and safety
- accountability

In the second section there are other five recommendations to policy-makers pertaining to national policies and international cooperation for trustworthy AI:

- investing in AI research and development
- fostering a digital ecosystem for AI

- shaping an enabling policy environment for AI
- building human capacity and preparing for labor market transformation
- and international cooperation for trustworthy AI

The recommendations include also a provision for the development of metrics to measure the research, development and deployment of AI and for the creation of an evidence base to assess progress in its implementation. The OECD Recommendation on AI provides the first intergovernmental standard for AI policy and a basis on which to conduct further analysis and develop tools to support governments. The Council instructed CDEP to develop practical guidelines for implementation, to provide a forum for the exchange of information on AI-related policies and activities and to promote interdisciplinary and multi-stakeholder dialogue. There is also the OECD AI Policy Observatory, an inclusive hub for AI public policy that aims to help countries encourage, nurture and monitor the responsible development of reliable AI systems for the benefit of society. Governments must guarantee the use of Artificial Intelligence with the utmost respect for ethics. In April 2019, the European Union developed its Code of Ethics which contains guidelines on the use and development of Artificial Intelligence systems. The indivisible rights set out in international human rights law, the EU Treaties and the Charter are:

- respect for human dignity
- freedom of the individual
- respect for democracy, justice and the rule of law
- equality, non-discrimination and solidarity including the rights of persons belonging to minorities
- citizen rights

The main aspect for a trustworthy AI is a human-centric approach. The development of AI should have the goal to increase human well-being. Trustworthy AI should respect fundamental rights and core principles and values, ensuring an “ethical purpose”, furthermore it must be reliable because a lack of technological mastery can cause unintentional

harm. According to the commission, AI should be developed with the following ethical principles (European Commission, 2018):

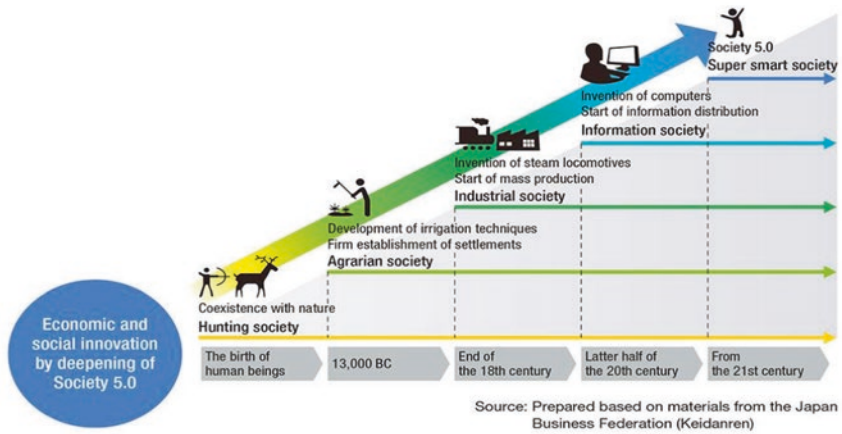
- The principle of Beneficence: “Do Good”. This mean AI systems should be designed and developed to improve individual and collective well-being.
- The principle of Non-Maleficence: “Do no Harm”. AI systems should protect the dignity, integrity, liberty, privacy, safety, and security of human beings in society and at work.
- The principle of Autonomy: “Preserve Human Agency”. This means freedom from subordination by AI systems.
- The principle of Justice: “Be Fair”. Developers and implementers need to ensure that individuals and minority groups maintain freedom from bias and discrimination. Justice also means that AI systems must provide users with effective redress if harm occurs, or effective remedy.
- The principle of Explicability: “Operate transparently”. Transparency is key to building and maintaining citizen’s trust in the developers of AI systems. there are two type, of transparency: Technological transparency implies that AI systems be auditable by human beings. This means an IT audit of the algorithm as well as a procedural audit of the data supply chain. Business model transparency means that human beings are knowingly informed of the intention of developers and technology implementers of AI systems.

AI can also have a negative impact. Actually, the same European Commission does not know the effective boundaries of AI technologies because they evolve quickly. Particular uses or applications, sectors or contexts of AI may raise specific concerns, as they run counter to the rights and principles set. This problem has sparked discussions between the AI HLEG members (High-Level Expert Group on Artificial Intelligence), and they asked specific inputs on this topic. The group leaves the common sense and the decision of individuals of what to do and not to do regarding the implementation of Artificial Intelligence (European Commission, 2018). To avoid the risks of the disruptive forces of the Fourth Industrial Revolution in Japan it is developed in the concept of “Society 5.0”. This conceptual framework was born in Japan in

2016 when the first Minister Shinzo Abe presents the 5th Japanese plan for Science and Technology at the CeBIT fair in Hannover, Germany. The President of the University of Tokyo Gonokami and the Chairman of Hitachi Nakanishi said: “We thus took stock of Japan’s existing social values and its strengths and then discussed the implications of social transformation—what shape will society be in following the transformation, and what should we be doing now? We decided that the term ‘Society 5.0’ would help focus minds in this direction. We use the term ‘supersmart society’ because we set our sights beyond a technologically driven society, to a more human-oriented society” (H-UTokyo Lab, 2020). The aim of “Society 5.0” is to promote an ethical and sustainable development model which puts human kind at the center of needs by promoting the sharing economy. They are already talking about “Super Smart Society”, a society where cyberspace is merged with the physical space. This is achievable through current 4.0 technologies including Big Data, Internet of Things (IoT), Artificial Intelligence (AI) and so on (H-UTokyo Lab, 2020). The former executive member of the Policy Council Scientific and Technological Yuko Harayama says: “Society 5.0 marks the start of a new phase in human history, the radical transition from a technology-based system to a human-centered system. This new social model represents an ideal form of society, in which anyone has the opportunity to enjoy high quality services and to live a comfortable life. Society 5.0 is based on the values of openness, sustainability and inclusiveness: everyone is called to participate” (Hitachi, 2020). Society 5.0 represents the fifth evolutionary stage of human society (Fig. 7.1), after the hunter-gatherer society, the agricultural society, the industrial society and the information society (Fukuyama, 2018).

In Societies 3.0 and 4.0, humans depended on models with high environmental impact and mass consumption of resources. Society 5.0 is characterized by problem solving and value creation, diversity, decentralization, resilience, and sustainability and environmental harmony (Nakanishi & Kitano, 2017). According to Gladden (2019), Society 5.0 will defer from Society 4.0 largely by welcoming into itself a bewildering array of highly sophisticated social and emotional robots, embodied AI, artificial life, self-organizing and self-directing computer networks, artificial agents manifesting themselves within virtual worlds and other





**Fig. 7.1** Evolution of societies (Fukuyama, 2018)

artificial types of intelligent cyber-physical social actors. Society 5.0 wants to create a “highly intelligent society” known as “Super Smart Society”, a concept developed by Keidanren (the Japanese Federation of Enterprises) capable of channeling the potential deriving from the use of 4.0 technologies, toward the resolution of the needs of society and individuals, helping to make economic development a shared progress. This technological and social evolution must be developed and implemented through a collaborative approach that involves all the potential actors of change, such as institutions, research centers, private actors and civil society (Hitachi, 2020). Digital technologies and data should be utilized to create a society where people lead diverse lifestyles and pursue happiness. This predicated human centricity is contrasting with the key role of non-human technological components involved in the formation of “Society 5.0” (Casazza & Gioppo, 2020). Under Society 5.0, characterized by unprecedented levels of volatility, uncertainty, complexity, and ambiguity (VUCA), rapidly evolving technologies of the Fourth Industrial Revolution (4IR) are integrated more deeply within the ethos of “human-centeredness” (Matthew, 2019; Bisanda & Amadi-Echendu, 2021). Highly automated systems are challenging beyond the well-established techniques and methods—they have to react in a reasonable manner on

unpredictable situations and environments, to take autonomous decisions based on high-level and (even) ethical principles, situation awareness, perception and scene understanding (Schoitsch, 2021). According to Nakanishi & Kitano (2017), Society 5.0 will be a creative society (Fig. 7.2). In the future, humans will require imagination to change the world and creativity to materialize their ideas, even if AI can replace human tasks also in creative activities (Paesano, 2021).

In this context, a central role is entrusted to private actors and technology and innovation players, who have the task of creating innovative solutions to solve social needs and responding to the identified challenges. They need a collaborative and multidisciplinary approach, this with the help of all public and private stakeholders. The distinctive approach proposed by Society 5.0 consists of a combination of the use of



Fig. 7.2 The nature of Society 5.0 (Nakanishi & Kitano, 2017)

technology and cooperation. In this way, technologies like IoT, AI, robotics and blockchains together with data at its core are transforming society. Most of the abilities that AI obtains by learning a large amount of data will be distributed as trained AI modules. Abilities of individual people can be learned by AI and distributed. For instance, human intervention in machine learning technology was analyzed by Kate Crawford and Vladan Joler in their essay “Anatomy of an AI System”. They analyze, for example the hidden interactions between man and machine using Amazon’s voice assistant Echo. When a person comes into contact with a voice-enabled AI device, they are acting much more than just a final consumer. They become a commodity themselves as the device stores information in the cloud, becoming more and more “smart”. The person is at the same time a consumer, a resource, a worker and a product because their voice commands are collected, analyzed and stored in order to build a large structure of human voices and instructions. People are helping to form neural networks within the infrastructure stock of a company that owns the device (Crawford & Joler, 2018). “Internet of Abilities” (IoA) will come into being where abilities in both human capability and AI capability can be made transferrable, interconnectable and work synergistically. In such a society, individual people will be able to create high value business, for example, by exploring their own abilities combined with “abilities of AI”. In 2016 the Japanese multinational corporation Hitachi created “Lumada”<sup>1</sup> with the aim of accelerating the development and diffusion of digital solutions, based on the active involvement of its customers. It is an open, shared and highly flexible system. After having shared and established a business model that encompasses the objectives and the vision to be adopted jointly with the customer, Lumada collects the data generated by the IT and the OT transforming them into key information for the creation of more effective digital solutions to solve the customer needs. This is a procedure whose application is not limited only to industry, but which lends itself to a variety of sectors, such as mobility, energy and the health sector. The concept of Society 5.0

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<sup>1</sup> Coined from the words “illuminate” and “data”, the name Lumada embodies our goal of shining a light on our customers’ data and illuminating it in such a way that we can extract new insight, thereby resolving our customers’ business issues and contributing to their business growth. Available at: <https://www.hitachi.com/products/it/lumada/global/en/about/index.html>

initially had a Japanese national dimension, it tends, with modifications considering the distinct features of several countries, to be applied by those regions of the globe that seek future sustainable development (economic, social and environmental) (Sá et al., 2021). Japan and its multinationals represent a driver of choice for exporting and implementing the Society 5.0 model. The Japanese multinationals become potential “ambassadors” and exporters of the Japanese model, stimulating an active contribution for a more sustainable development, in line with the vision and objectives summarized by the United Nations SDGs. Furthermore, we can speak of “Social Innovation”. Making Social Innovation means conveying innovation toward results that can improve the life of society and individuals, thanks to a convergence of technologies, sectors, products and business models.

### 3 Methodology and Findings

This research essay is based on a qualitative and explorative approach using “Scopus” and “Web of Science” databases. At the beginning, the authors decided to use three specific keywords: “Society 5.0”, “Sustainable Development” and “Pope Francis” but the search did not generate any results. For this reason, a separate analysis was carried out.

In the first step, the authors focused on Keywords “Society 5.0” and “Sustainable Development”. Only papers relating to Business, Management and Accounting were considered.

In the second step, the authors focused on Keywords “Pope Francis” and “Sustainable Development”. Also in this case, only papers relating to Business, Management and Accounting were considered.

In the third and final step, the research concerned particular keywords that emerged in the previous papers, in particular: Industry 4.0 and Spirituality, Society 5.0 and Spirituality, Society 5.0 and Key Enabling Technologies.

The results relating to the first, second and third step are illustrated in the following paragraphs. Finally, the research question is analyzed in the discussion.

### 3.1 Society 5.0 and Sustainable Development

In the Brundtland Report (WCED, 1987), sustainability is defined in the context of development “that meets the needs of the present without compromising the ability of future generations to meet their own needs”. The WCED definition of sustainable development is generally discussed in terms of environmental, social and economic dimensions and triple bottom line (TBL) accounting of sustainability (Sala, 2020; Gimenez et al., 2012). The predominant context has been the environmental dimension of the sustainability paradigm. However, in recent times, economic, business, technology and even socio-political aspects have emerged as other dimensions to study and operationalize the sustainability paradigm (Bisanda & Amadi-Echendu, 2021). Social Innovation aims to achieve the Sustainable Development Goals (SDGs) and requires companies and society as a whole to work together to positively affect people’s quality of life. The goal is to generate value that goes beyond the mere economic impact, which has repercussions in the social and environmental fields. These are strongly interconnected and characterized by complex cause-effect relationships. Industry 4.0 delivers sustainable environment by offering new business models and using smart data to support the operation systems and infrastructure. The industry 4.0 implantation will have Technical, Economic, Social and Environmental impact (Abbasi & Kamal, 2020). For this reason, Gonokami and Hiroaki said: “we have discussed Society 5.0 as a national vision, but as industry, academia, and government work to produce new values, I believe they should be guided by the worldwide future vision contained in the UN’s SDGs” (H-UTokyo Lab, 2020). In the era of Society 5.0, it is assumed that the interactions, interdependencies, and interrelationships are facilitated through digitalized 4IR technology platforms. The Key Enabling Technologies have the potential to transform entire infrastructure systems so as to address the energy needs of Society 5.0 livelihood and living experience (Amadi-Echendu & Thopil, 2020).

Aiming to resolve social issues in harmony with nature, Society 5.0 will contribute to delivering on United Nations SDGs (Nakanishi & Kitano, 2017). The two reforms share a common direction. In September

2015, the governments of the 193 UN member countries signed the 2030 Agenda for Sustainable Development, an action program for people, the planet and prosperity. It incorporates 17 Sustainable Development Goals (SDGs) into a large action program for a total of 169 “targets” or milestones. The official launch of the Sustainable Development Goals coincided with the beginning of 2016, leading the world on the way to go over the next 15 years: the countries are committed to achieving them by 2030. The Development Goals follow up on the results of the Millennium Development Goals that preceded them, and represent “common goals”, this means that they concern all countries and all individuals: no one is excluded on the path necessary to lead the world on the path of sustainability (UN, 2015). The Green Economy concept plays an important role in responding to three challenges (environmental, social and economic) to achieve sustainable development (Bag et al., 2020). The turnover resulting from the development of sustainable business models worldwide has been quantified at 12 trillion dollars, an economic value that can lead to the employment of over 380 million people by 2030 in sustainable entrepreneurial realities. That is why over 9000 companies around the world have already signed up to the ten principles of the UN Global Compact. With a reputation for sustainability, companies attract and retain employees, consumers, B2B customers and investors, and they secure their license to operate (Business and Sustainable Development Commission, 2017). The Keidanren Entrepreneurial Federation has identified nine different sectors (Fig. 7.3) in which Society 5.0 can be deployed to improve the SDGs (Keidanren, 2017):

#### 1. Cities and Regions:

- Data will be shared to facilitate smarter solutions.
- Decentralized communities will be created in suburbs and rural areas.
- Such developments will enable diverse lifestyles and create a society where diversity is respected.

#### 2. Energy

- Reliable energy will be available to anyone.



**Fig. 7.3** SDGs activated by the Society 5.0 in the various sectors—Our elaboration from Hitachi (2020)

- Clean and sustainable energy will be supplied.
  - Decentralized micro grids will be developed with local conditions.
3. Disaster Prevention
- Sharing disaster information across organizations will facilitate swift responses to disasters.
  - Digital technologies will be used for disaster mitigation.
  - Medical services will be maintained even in the event of disasters.
4. Healthcare
- New approaches will provide care tailored to individual health at the preventive stage.
  - Individuals will use and manage life-stage data on their own initiative.
5. Agriculture and Food
- Full use will be made of cutting-edge technologies.
  - Data and technologies will also be used to optimize the food value chain (FVC).
  - Diverse players including private corporations, youth, and agritech ventures will participate.

## 6. Logistics

- Players will optimize entire supply chains by sharing data on procurement, production, transportation and sales.
- Most work substitutable by autonomous driving, drones, and robots will be automated.
- Diverse customer needs will be identified to realize three logistics that create new value.

## 7. Manufacturing and Services

- Distribution of abilities will enable individuals and small companies to provide high levels of goods and services.
- Systems will be established enabling consumers to easily and affordably make one-of-a-kind items.
- Business models will be based on services, not hardware.

## 8. Finance

- Digital transformation will make available diverse, custom-made financial services.
- Financial systems will allocate funds efficiently and effectively across society.
- Improved access to financial services will contribute to economic independence and greater income equality.

## 9. Public Services

- By quickly sharing data among diverse actors, they will provide more creative public services.
- Public bodies will make timely and appropriate preparations and provide necessary services.
- Safety nets established by governments will enable anyone to tackle a variety of challenges with security.

In Society 5.0 decentralization is favored and diversity is enhanced, while innovations are always oriented toward the creation of shared value, in harmony with the environment and with respect for the community.



Society 5.0 also goes beyond the limits of the technological challenge: to enhance all human potential it is in fact necessary to adopt a new mental scheme that is not afraid of challenging existing rules and exploring new synergies, promoting the values of inclusion, diversity and openness (Hitachi, 2020). According to Mourtzis et al. (2021) Society 5.0 can also be called “resilient society” if there are three elements:

- inclusive society in which everyone can participate actively by eliminating differences such as age and disability, as well as geographical barriers such as urban and rural areas and national borders
- sustainable society in which society can achieve sustainable growth while remaining convenient, with no social loss, by optimizing cyberspace with real world reproduction that can be fed back into the real world
- dependable society, a human-centered society in which trust bonds are unbreakable and everyone can work in peace by autonomously ensuring the safety and stability of communications networks as a social infrastructure

The world is becoming more empowering for individuals than it is for institutions. Technology, communications and information are empowering ordinary people. This shift is also often characterized as a “flattening” or “leveling”. Systems of authority, accepted for generations or even centuries, are being challenged and remade. Nearly all organizations will see their functions altered as these behaviors continue to shift, and as the tools continue to evolve. The central reason for this development is that ordinary people have access to communications tools of ever increasing power. The tools range from email to social network services such as Facebook, Twitter, Instagram and many others. Such services allow ordinary citizens to communicate instantly with others anywhere in the world. Even more importantly, the services often confer broadcast power. Anyone now has easy access to facts and opinions because of the web itself. According to World Economic Forum (2015) more consultative mindset will often be necessary. Products will increasingly be developed in consultation with customers. Leaders with global appeal, such as Pope Francis, will find their influence heightened and the speed of their impact

accelerated. A different logic is the service logic, which guides many current leadership theories that try to be inclusive and consider the interests of others in the decision-making process (Fernández Fernández et al., 2021). The meaning of the expression “servant leadership” appears in 1970, in the book “The Servant as Leader” by researcher Robert K. Greenleaf. This is the new managerial paradigm of the leader based on the dual role of guide and servant. In contemporary times, the paradigm is now spreading and consolidating, also thanks to the support of disciplines such as Agile or Scrum in the best practices of project management. Unlike traditional leadership, which covers a function of direction, control and motivation of the work team in order to respond effectively to the needs of the company, servant leadership places the satisfaction of workers’ needs first. With this in mind, the achievement of business objectives is the direct consequence of a motivated, stimulating, proactive work climate, aimed at continuous improvement. Thinking of service as a way of exercising power, as proposed by Pope Francis in his homily at the beginning of his pontificate, can be a parameter that significantly alters current ways of contemplating decision-making processes (Francis, 2013). Technological advancement must include principles for action that are appropriate for the person’s spiritual dimension, such as solidarity and inclusion, oriented toward achievement of the common good (Fernández Fernández et al., 2021). The power of these changes, and their potential to have political impact in organizations and especially countries, are already leading many leaders to react against the tools of software and connectivity. Governments around the world are instituting restrictions of various sorts to prevent citizens from gaining access to information that might challenge the status quo, and to prevent them from using broadcast internet tools to communicate with other citizens. Increasingly, everyone has a digital presence, and tools to connect to the internet are becoming cheaper, more available and more diverse. Ordinary citizens have genuine power with “a supercomputer in their pocket” (Schwab, 2016). The world shifts toward networks and platform-based social and economic models, the beneficiaries of these more equitable, transparent and widely shared systems of value creation will be people. But the consequences of all this individual empowerment cannot be fully foreseen (World Economic Forum, 2015).

### 3.2 The Economy of Francis and Sustainable Development

The Economy of Francis is a meeting aimed at economists, entrepreneurs and promoters of sustainable economy under 35 from all over the world promoted by Pope Francis. This clearly refers to the Saint of Assisi and to the Gospel that he lived in total coherence also on the economic and social level. Pope Francis in his *Laudato Si'* Encyclical is shown to detail profound cause-effect linkage between the present economic situation globally and the huge disparities within and between societies. Also highlighted is His Holiness' proposal that a so-called integral ecology be introduced, while also identifying the relationships pertaining between our species and the reality all around us (Gutry-Korycka, 2016). Francis of Assisi is the example par excellence of care for the weak and of an integral ecology. Integral ecology integrates the concerns for people and the planet. An integral and transdisciplinary understanding of the world links up science to human values and sees the world as a systemically connected ecology, economy, equity and justice. Integral ecology shows a path to sustainable development through frugal consumption and the acknowledgment of the intrinsic value of nature. In the Encyclical the Pope underlines the human origins of the ecological crisis and proposes fundamental changes in the organization of our economic and social life (Zsolnai, 2022). This means a new economic environment based on sharing, inclusive and humanizing that respects the environment in its broader conception called by St. Francis of Assisi: "sora nostra Matre Terra" in his work "il Cantico delle creature". The purpose of the meeting is to discuss a new way of understanding the economy according to the spirit of Francis of Assisi, or of issues close to the so-called civil economy. As Pope Francis says the "Economy of Francis is an event that allows me to meet those who are training today and are starting to study and practice a different economy, the one that makes us live and does not kill, includes and does not exclude, humanizes and does not dehumanize, takes care of creation and does not rob it" (Francesco, 2019). We must identify which tasks cannot be performed by machines and think about which tasks should not be replaced, either due to the value of the person

to whom the service is provided, or due to the value it represents for the person performing the work. Some studies on spirituality in business may also shed light on this reflection (Balog et al., 2014; Fry, 2003). An event that helps us get together and get to know each other, and leads us to make a “pact” to change the current economy and give a soul to the economy of tomorrow (Francesco, 2019). The environment that urgently needs a healthy economy and sustainable development that will heal its wounds and ensure a worthy future. Faced with this urgency, all are called to review their mental and moral schemes, so that they are more in conformity with God’s commandments and the demands of the common good.

According to Schumacher, a pioneer of “sustainable development”, the new economy should move away from the materialism of modern economics and acquire the typical traits of Buddhism. Schumacher (2007) discusses the idea of a “Buddhist economy”, which should be an actual spiritual path, whose final aim is the achievement of wisdom, through the right view and the right resolve, the achievement of virtue, through the right speech, the right action and the right livelihood, the achievement of meditation through the right effort, the right mindfulness and the right concentration. Therefore, the final aim of every economic activity should no longer be the maximization of consumption, typical of the traditional economy, but the achievement of personal well-being (Sdino et al., 2018). The implementation of the SDGs requires addressing a wide range of different but interconnected social, economic and environmental challenges, which involve situations of uncertainty and conflict in values. Many of these have so far proved difficult to address, partly due to the tendency of people to reduce problems to basic issues, to ignore the human component. For example, the goal of SDG 4 is to provide students with the skills necessary to thoroughly analyze complexity, transcend paradigms, learn through dialogue and communication, engage in deep reflection, develop a vision of the world and a sensitivity to values, as well as assessing when activities support or hinder the achievement of the SDGs. Target 4.7 of SDG 4 is in turn the central objective of “Mission 4.7”, a global initiative launched on 16 December 2020 at the Vatican Youth Symposium 2020 by Ban Ki-moon (Secretary General of the United Nations) and Azoulay, current Director General of UNESCO to

reach target 4.7 of the 4th Sustainable Development Goal. The initiative is co-founded by the Global Schools Program of SDSN Youth and SDG Academy, in collaboration with UNESCO, the Ban Ki-moon Centre for Global Citizens, the Center for Sustainable Development of Columbia University and Pope Francis, represented by Monsignor Marcelo Sánchez Sorondo. Mission 4.7 was born and developed within UNESCO's international leadership on Education for Sustainable Development (ESD) and Global Citizenship Education (GCED), including the responsibility of Organization for monitoring target 4.7 and the realization of the right to education worldwide.

A review of existing education systems will also be required to respond to these new challenges (Fernández Fernández et al., 2021). It aims to involve international leaders, academia, civil society and businesses to accelerate the implementation of Education for Sustainable Development around the world and to underline the fundamental importance of education in achieving the Sustainable Development Goals (SDGs) in line with the new "Global Compact on Education", the pact launched by Pope Francis to generate change on a planetary scale, so that education is a creator of fraternity, peace and justice (SDSN Italia e RUS, 2021). As Pope Francis says: "Your universities, your businesses, your organizations are yards of hope to build other ways of understanding the economy and progress, to combat the culture of waste, to give a voice to those who have none, to propose new lifestyles".

As long as our socio-economic system still produces a victim and there is only one person rejected, there can be no celebration of universal fraternity (Francesco, 2019). In the Encyclical Letter *Laudato Si'*, the Pope affirms that safeguarding the environment cannot be separated from justice toward the poor and from the solution of the structural problems of the world economy. It is therefore necessary to correct the growth models unable to guarantee respect for the environment, the acceptance of life, care for the family, social equity, the dignity of workers, the rights of future generations. The Pope says: "we need also to think of containing growth by setting some reasonable limits and even retracing our steps before it is too late. We know how unsustainable is the behavior of those who constantly consume and destroy, while others are not yet able to live in a way worthy of their human dignity. That is why the time has come

to accept decreased growth in some parts of the world, in order to provide resources for other places to experience healthy growth” (Francis, 2015). Even Benedict XVI said: “technologically advanced societies must be prepared to encourage more sober lifestyles, while reducing their energy consumption and improving its efficiency”. At the same time there is a need to encourage research into, and utilization of, forms of energy with lower impact on the environment and “a world-wide redistribution of energy resources, so that countries lacking those resources can have access to them” (Benedict XVI, 2010). The Encyclical presents an integral ecology that underscores the human origins of the ecological crisis and proposes fundamental changes in organizing economic life (Shrivastava et al., 2020). Encyclical “Laudato Si” can be seen as an integration of Catholic Social Teaching with secular understandings of sustainability and environmental crisis. It also marks a shift toward an ecological ethic and tradition of Christian spirituality associated with St Francis. The Pope addresses the Encyclical to “all people of good will” (Francis, 2015), not only to the 1.2 billion members of the Roman Catholic Church (Christie et al., 2019). Catholic social teaching shapes the discussion of political and ethical guidelines and provides a promising ethical basis for the normative concept of sustainable development.

According to CST perspective, the concept of sustainable development is based on three ideas, which should be acceptable to most people regardless of their individual cultural or religious backgrounds: the idea of the common good, the idea of human rights and the idea of equal justice (Wallacher et al., 2019). These messages have universal value regardless of religious belief. With his meeting in Assisi, the Pope wants to stimulate universities, businesses and organizations to become yards of hope in order to plan other forms of economy and progress, abolish the culture of waste and propose new lifestyles. We cannot allow technological growth to serve only certain specific interests. The systemic changes we are experiencing require adequate regulation. This process should involve different religious and cultural traditions, experts from diverse disciplines, and those most affected, from both developed and developing countries, to minimize the highest possible degree of the adverse social effects they may generate. Another way to avoid marginalization and inequality arising from technological advancement is to establish efficient

lifelong learning mechanisms. According to the sociologist Bauman, the theme of learning and unlearning is a core and indispensable element of the equipment of life (Bauman, 2010). Increasing virtual work and flexible work topics require new forms of lifelong learning. Employees will begin considering professions as multidirectional. For instance, Industrial Organizational psychology can help managers when it comes to assessing AI technology for human resources (Oosthuizen, 2019). As mentioned above, the Fourth Industrial Revolution highlights new technological and human skills that must be developed both dynamically and continuously. This learning should address the needs of those who do not have easy access to technology, and the needs of people who, while being able to use technology, should develop other competencies and soft skills that are highly necessary to prepare for future jobs (Fernández Fernández et al., 2021).

## 4 Discussion

The research wants to shed light on the connection between the “Economy of Francis” mission and “society 5.0” paradigm to realize a sustainable development of society and to identify the related critical aspects. This study aims to find a connection between the spirituality of a new economy promoted by Pope Francis and the human-centered approach of Society 5.0. These two approaches have in common the objectives promoted by sustainable development. Pope Francis does not explicitly speak of Society 5.0, however the Key Enabling Technologies, whether used responsibly, can help to achieve not only enterprises goals based on the effectiveness and efficiency of the corporate mission, but contribute to the creation of a higher ethical goal according to the Sustainable Development Goals. Spirituality could be associated with high economic performance (Zsolnai, 2011). Some scholars analyze the connection between spirituality and industry 4.0. They take the traditional motto of the Benedictine Confederation: *ora et labora* (“pray and work”) and looking for a new modernity significance. They say: We believe it is possible to continue praying and working in the scenario opened up by the Fourth Industrial Revolution, but it also turns out to be strictly necessary. This

capacity “*ora et labora*” constitutes the best of antidotes to the unethical consequences that could derive from the asymmetry of power among people, an increase in inequality between groups and cultures, and, above all, a more than probable violation of fundamental human rights and the trampling of personal dignity.

The scholars talk about the importance of humans’ spiritual dimension and the new challenges presented by the Fourth Industrial Revolution (Fernández Fernández et al., 2021). According to previous literature review (Karakas, 2010; Petchsawang & McLean, 2017; Milliman et al., 2003; Roof, 2014) spirituality at work is reflected into four dimensions: (1) transcendence—realizing the presence of the most sacred in the work; (2) calling—making work a means to serve the most sacred by serving others; (3) compassion—a strong desire to be a benefit for the others; and (4) meaningfulness—getting a sense of meaningfulness through work, worship and social interaction. In his Encyclical Letter “*Laudato Si*”, Pope Francis mentioned the current tendency to solve all problems based on the technocratic paradigm, with blind trust in technology and ignoring the ethical and anthropological root of the problems (Francis, 2015). The treatment of spirituality in management is determined by the ecological requirement. From this point of view, the managerial experience is best understood in terms of “ecological nesting”, whereby the sentient organism is housed or situated within a surrounding environment that can serve as the interior boundary.

Applying the orientation of eco-spirituality means that management proves to be rather an acting organism, whose perceptions and actions are always inextricably intermingled with the natural and social environment. Manager’s engagement within an organization consists of overlapping motivations; various determinations which need multidimensional mapping to explain his or her actions (Zsolnai, 2011). For instance, the principal-agent model (or agency model) is defined by Michael Jensen and William H. Meckling as “a contract under which one or more persons (the principal) obliges another person (the agent) to cover on his behalf a given task, which implies a delegation of power to the agent” (Jensen & Meckling, 1976). It is necessary to establish principles that favor an authentic consideration of the human being in the labor, economic, social, and environmental spheres (Fernández Fernández et al.,



2021). There are many examples of KET that can be used in a negative way. For instance, the problem of discrimination of machine learning technologies in criminal matters is very famous and current. Discrimination concerns the variability of AI results between individuals or groups of people based on the exploitation of differences in their personal characteristics like ethnicity, gender, sexual orientation or age.

A study published in *Science Advances* magazine, signed by two researchers from Hanover's Dartmouth College, argues that these algorithms do not work very well. Dressel and Farid talk about "COMPAS" (Correctional Offender Management Profiling for Alternative Sanctions), a software used in some American courts to analyze the criminal record and other data of a defendant and thus produce a report for the judges. The authors demonstrate that COMPAS risk assessment software is no more accurate or correct than predictions made by people with little or no experience in criminal justice. COMPAS algorithms have the same racial biases as humans; at the same conditions, black was classified as high risk, white as low (Dressel & Farid, 2018). Incorrect use of technologies can contribute to the development of a more unjust society that fuels inequalities, while the awareness of the risks involved in relying on "intelligent" machines can help us minimize risks and design a better world. Every moment of daily life is important to understand how to relate to the machines themselves. Nations have to lead the transformation toward an ethic Artificial Intelligence, give guidelines and help the relationship among citizens and businesses. Public personnel, especially officials and managers, must be trained to understand the functioning, advantages and possible ethical and technical problems associated with this kind of technology. The importance of involving end users in all phases of the design of public services is then highlighted. Furthermore, the impact of technologies must be measured. This problem can be analyzed from two points of view: by the point of sight of citizen and by institutions. In the first case, the improvement of people's quality of life and customer satisfaction is analyzed, in the second it is reflected on the optimization of organizational processes, in terms of efficiency and effectiveness.

On both issues, it is necessary to conduct both quantitative and qualitative research, based on multidisciplinary, since the impact of

technology in the existence of individuals and organizations has several variables, not only economic and technical, but also social, cultural, psychological and anthropological. The measurements of all these variables are generally not conducted by the public administration with the necessary frequency, but on a delicate subject such as the introduction of Artificial Intelligence in the functioning of the state, it is necessary that these practices are carried out without delay (AGID, 2018).

The research question is: Can technologies of industry 4.0 in the society 5.0 paradigm contribute to achieve a sustainable development? Based on the research question, the answer is positive. If work, as a labor practice, contributes to personal growth, and if prayer constitutes an anthropological-spiritual constant, perhaps it is appropriate to re-interpret the meaning of both “orare” (to pray) and “laborare” (to work) in the new context that the Fourth Industrial Revolution will bring. According Fernández Fernández et al. (2021), the concept of orare should be understood rather broadly. Every human being works, and working allows oneself to develop physically, psychologically, and spiritually. With the verb “orare”, the authors refer to the importance of the transcendent and spiritual dimension of life, an ethic dimension. Further, from the perspective of philosophical anthropology, it will become an essential requirement for humanity to achieve the development of its full potential following its spiritual dimension.

The Pope trusts in a process of global change that sees in communion of purpose not only those who have the gift of faith, but all men of good will, regardless of differences of creed and nationality, united by an ideal of fraternity attentive above all to the poor and to the excluded (Francesco, 2019). This is achievable with the concept of “Open Innovation”. With Society 5.0, there is no more technology like core factor, but innovation as an improvement of human conditions. Open and inclusive innovation, in order to meet the needs of a more advanced and personalized demand. Technological progress serves to improve the living conditions and work of man by increasing his skills. The approach is human-centered, where everyone can share the same opportunities and which guarantees economic growth and well-being for all without discrimination of age, gender, language or geographic belonging. A “Super Smart Society”, thanks to Artificial Intelligence and enabling technologies. The

task of research is to direct technological development toward Society 5.0, while Industry needs to maintain and/or increase its position on the markets. The collaboration between these two worlds, through Open Innovation, generates a virtuous relationship in which Industry becomes the enabler of solutions that generate profits and at the same time contribute to the improvement of the economic and social conditions of the individual.

“Open innovation is a paradigm in which companies can and must make use of external ideas, as well as internal ones, and access the markets with internal and external paths if they want to progress in their technological skills” (Chesbrough, 2006). Open Innovation allows companies to implement a networking that includes external agents such as universities, start-ups, public and private institutions, external suppliers, creating a mobile flow of information and exchange more adaptable to the current situation. According to Hitachi (2020), a central role is played by the private sector, by the business community. All companies, of any size and production sector, are called to make a contribution through the development of new responsible business models, technological development, targeted investments and multi-stakeholder collaborations.

The key element for the business is represented precisely by innovation. Companies must seek a combination of innovation and sustainability, shaping the Society 5.0 and at the same time positively impacting their competitiveness and that of the system, combining economic growth and sustainable growth. Collaboration between local public administration and businesses—also through forms of public-private partnership (PPP)—is one of the most important tools. These tools are born as regulatory systems, but are effective only if supported by digital tools (both to facilitate participation and to ensure transparency) and by adequate management and accountability systems (to ensure the technical implementation methods and report the results). Society 5.0 adopts a highly inclusive approach and requires the participation of the whole community in the definition of social problems and in the creation of shared and accepted solutions. In the era of Society 5.0, Micro small medium enterprises (MSMEs) are increasingly affected by digital technology while running their business. With digitalization, MSME managers can run their company in a more environmentally friendly way to

align with the Green Economy concept (Astadi et al., 2022). Manufacturing firms must adopt technologies network to connect their production with end users and respond quicker on changes but also reduce waste and overproduction in the same time (Waibel et al., 2017). Through purchases and relationships with suppliers, large industrial players and supply chain leaders can stimulate positive behavior and provide SMEs with soft and hard incentives to undertake the truly necessary investments, stimulating a digital transformation of the country's production base. This approach can promote a gradual and balanced evolution, fostering the propensity for cooperation and Open Innovation (HITACHI, 2020).

## 5 Concluding Remarks

The innovations are continuous, pervasive, and the obsolescence of the various professional qualifications is very rapid. In the context of the current revolution, enabling training is increasingly necessary. It is not necessary to provide predefined behavior patterns but maps to navigate the territories that disruptive technologies create in society. It is necessary to intervene on digital and professional skills, therefore education and training. This by promoting collaboration between business and universities, and the so-called life-long learning, encouraging upskilling and reskilling of the existing workforce.

Digital skills must be integrated with existing managerial or technical skills, so as to produce a virtuous transformation of the whole economic system and society. In this sense, Public Administration must define standards in an aware and transparent way and formulate functional policies for the creation of a Society 5.0, for example in the construction of tenders, guide co-design processes, carry out the collection, management and data analysis and therefore share information with added value. This avoids the risk of the so-called lock in technology, which makes the infrastructure and services dependent on a single player or on a specific technological platform. Training of public officials and managers is essential. Governance must clearly define political and technical roles, including those responsible for strategic development, management of systems for

data collection and protection. Through cooperation, technology can avoid being a source of social threats or fears. By enabling the Society 5.0 paradigm, technology and innovation can go beyond the mere creation of technological tools, which do not respond to the real social needs of citizens, on the contrary, they can enable solutions capable of placing citizens at the center, to responsibly address individual and societal needs and to support sustainable development from an economic, social and environmental point of view.

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# 8

## Collective Value Co-creation and Accountability in Purpose-Driven Place-based Companies: Theory and Practice

Maria-Gabriella Baldarelli and Simona Ceraulo

### 1 Introduction

In recent years there has been a lively debate on the company's *raison d'être*. A growing number of traditionally for-profit companies declare their commitment to a purpose, for the benefit of society, as a necessary condition for sustainable development. This chapter has the objective to answer the research question: "How does the 'collective' value co-creation process develop and is represented in place-based purpose-driven companies?" through an interdisciplinary approach.

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According to Gray (2007), the theoretical framework can be presented in three levels, from the macro to the micro. Theoretical micro-foundations involve literature review about value co-creation and tensions among different institutional logics. To complete the analysis, the “Mission, Governance and Accountability model (MGA)” framework is considered, because institutional logics’ tensions and value co-creation processes can be observed inside governance dynamics. Governance, in fact, is closely connected to Mission and to accountability (Matacena, 2010).

The methodology involves a single research case (Naumes & Naumes, 2006). Both quantitative and qualitative methodologies are applied. The qualitative approach of the case study is particularly suited to the needs of understanding a complex phenomenon such as that of business behavior (interpretative orientation) (Sena, 2021). In order to ensure rigor and reliability, a research protocol (see Appendix, no. 1) has been developed, according to the framework of Yin (Yin, 2018).

The quantitative analysis considered financial statement testing using a value added approach (Gabrovec Mei, 1984, 1986; Baldarelli, 2005) before the pandemic, because the focus is to understand the value co-creation process in a “standard” situation, postponing the analysis during and after the pandemic to other works. This analysis has been performed in order to present the results of the value co-creation process. At the same time, a survey has been implemented by a questionnaire, based on semi-structured interviews. The first set of interviews was addressed to the second and the third generation of owners, in order to investigate the tension areas, the eventual solutions and the value co-creation process. Each interview lasted one hour, every two months, from January 2021 to June 2021. The second step of the survey involved workers and employees, to understand their perspective about the contribution to value co-creation.

The expected results concern a better understanding of the dynamics that allow for the resolution of tensions among different institutional logics and conflicts, their relationship with the collective value co-creation process and how it develops.

The essay is structured as follows. Section 2 illustrates the conceptual framework, Sect. 3 analyzes Bertola Ltd case study and in Sect. 4 the conclusions are presented.

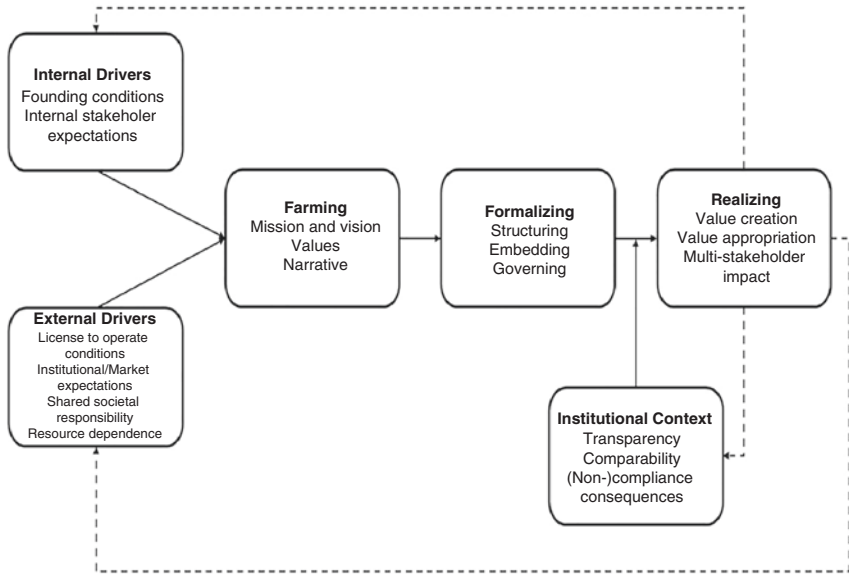
This work has limitations: only a few situations are presented here and they are relative to a single case study. This means that generalization of

the results to a larger population is not possible. However, some relevant insights about the nexus among corporate purpose, collective value co-creation process and tensions' management have been found, increasing theoretical knowledge on the topic.

## 2 Value Co-creation in Purpose-driven Firms: Theoretical Framework

The managerial narrative on purpose has been at its highest level for some years, in parallel with the growth in the number of for-profit companies that embrace a “purpose-driven” model as the best path for sustainability (Battilana & Yen, 2022; Cardona & Rey, 2022; Duell et al., 2022). Theoretical research in this regard is still in its infancy (George et al., 2021). Among the noteworthy theoretical contributions (Gartenberg et al., 2016; Mayer, 2021), we find that of George et al., who propose an updated definition of corporate purpose based upon the more relevant streams of research in line with current trends and a model for its determination and implementation in the company (George et al., 2021). According to these authors, corporate purpose can be defined as follows: “Purpose in the for-profit firm captures the essence of an organization's existence by explaining what value it seeks to create for its stakeholders. In doing so, purpose provides a clear definition of the firm's intent, creates the ability for stakeholders to identify with, and be inspired by, the firm's mission, vision, and values, and establishes actionable pathways and an aspirational outcome for the firm's actions” (George et al., 2021, p. 7). It is worth pointing out that in their framework (George et al., 2021, p. 9) stakeholders are recognized as having an important role in each step of the process, even if not always specified in detail (Fig. 8.1).

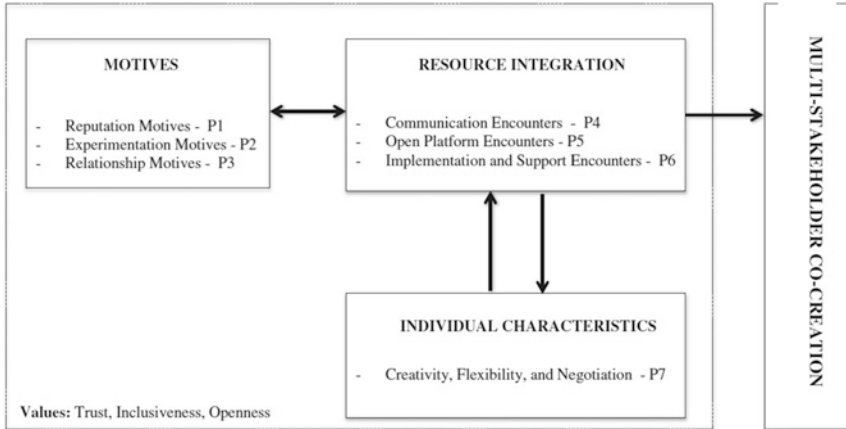
For the purposes of this work, it is interesting to cross this line of research with another topic that is still little studied, that of the collective co-creation of value (Cannas et al., 2019; Edvardsson et al., 2011; Gummesson, 2007; Laamanen & Skålen, 2015; Vargo & Lusch, 2008). According to Gummesson, value takes place “in a network of activities involving a host of stakeholders” (Gummesson, 2007, p. 16). Based on



**Fig. 8.1** A theoretical framework for purpose (George et al., 2021, p. 9)

an empirical study, Pera et al. develop a representation scheme of the process of collective co-creation of value in a multi-stakeholder context (Pera et al., 2016, p. 8; Fig. 8.2).

This study demonstrates that trust, inclusiveness, and openness are determining factors for the collective co-creation of value and that this process can take place in the respectful acceptance of the different (and sometimes even conflicting) identities, values and interests of the actors involved, giving rise to a “polyphonic multi-stakeholder co-creation” (Pera et al., 2016, p. 8). These results are further strengthened by the empirical study by Cannas et al., in which the role of social values, such as dialogue, trust and reciprocity, in the process of collective co-creation of value is highlighted (Cannas et al., 2019). The study by Pera et al. (2016) identifies three conditions favoring the collective co-creation of value: (1) Build a shared purpose. (2) Create an infrastructure developing specific touchpoints for co-creation. (3) Identify appropriate “gatekeepers” and dedicated teamwork by each involved stakeholder.



**Fig. 8.2** Multi-stakeholder co-creation process (Pera et al., 2016, p. 8)



**Fig. 8.3** A theoretical stakeholder-based framework for studying tensions among different institutional logics (Gigliotti & Runfola, 2022)

These elements of knowledge can be particularly relevant in the study of purpose-driven companies, if they are observed under the lens of the institutional logics involved. In fact, the idea of introducing a prosocial purpose into a commercial enterprise can be considered a form of hybrid organizing, and as such exposed to the risk of conflict between different institutional logics (Ebrahim et al., 2014; Mair et al., 2015; Baldarelli et al., 2017). In order to analyze and find solutions to hybrid tensions, the stakeholder approach proposed by Gigliotti and Runfola (Gigliotti & Runfola, 2022; Fig. 8.3) is the model of choice. As a result of a longitudinal empirical case study involving the Fair-Trade cooperative, the authors developed a taxonomy of main stakeholders, related tensions, empirically observed solutions and corresponding relational paths. This framework allows for the recognition of tension areas for each relevant category of stakeholders and then to identify an appropriate relational path in order to solve those tensions. This new original lens to observe

and manage hybrid tensions is very appropriate for this case study, aimed at identifying the characteristics of the process of collective co-creation of value.

Finally, in order to understand and illustrate the case study presented here, the interpretative paradigm Mission-Governance-Accountability (MGA) (Matacena, 2010) is used, which offers a key to understand the corporate ideal-type. “Its essential life experiences” in fact pass through the “bidirectional systemic coordination between mission, governance and accountability” (Ibidem). The corporate mission consists of the objectives of the subjects (“King”) for which the company exists and from which it was born; the subjects who ultimately have the power/right to control the results. Corporate governance is expressed by the methods of governance (chain of command-direction-control) of the same and by the relationships between governance and control activities implemented by the responsible party, the manager (King Maker). Accountability is understood as the information system for external reporting of company summary results, including those deriving from the company-environment relationship, environment considered in a broad sense, including all areas and subjects with which the company interacts and which are interested in it (Baldarelli, 2005). It is the area of relevance of the so-called Controller, responsible for the information addressed to the King Maker (Manager) as a decision support system, to the King (ownership), to evaluate the company performance and finally to the various stakeholders (Matacena, 2010). According to this paradigm, the structure of the relationships between mission, governance and accountability can be configured in a variety of modulations at the extremes of which we can place the ideal-type of the joint stock company on the one hand, and that of the social enterprise on the other (Table 2, in Appendix).



### 3 Value Co-creation, Mission and Governance in Bertola Ltd Place-based Company

Bertola Ltd has been working since 1946 in the field of industrial “galvanic treatments of superior quality” (<https://www.bertolasrl.it/en/services.html>), serving important industries. The company started its original activity in 1929 with a very different production process compared to the current one, but involving the same family: Bertola, which has now reached the third generation. In fact, Bertola started to deal with sports equipment, automotive, motorcycles, furnishings, building doors, windows and more. Bertola Ltd is a place-based firm, because during the years involved 600 workers on 3000 inhabitants of Marene—a small town in the province of Cuneo—Northern Italy. Data about Bertola Ltd in 2021: 6 million euros revenue, owners’ capital 110,400 euros and the average number of employees during 2021 was 43 (23 workers were hired in 2020 in the midst of the pandemic).

It is a purpose-driven company, because the mission is to implement the culture of giving inside and outside of the company and to pursue universal fraternity by the economic and social activity particularly addressed to the poor and stakeholders in economic or social difficulty (Del Baldo, 2020). This purpose had been shared with his family and the company, inviting home the workers who wish to do so, to listen to their needs in a less formal atmosphere than the one in the daily workplace (Pera et al., 2016). This and other activities, such as the foundation of AIPEC (Association for an Economy of Communion), intended to build a more shared purpose in order to try to prepare the avenue for “collective” value co-creation.

The governance system (Matacena, 2010) consists of the President, Livio Bertola, and his two sons, Paolo and Marco Bertola. Paolo is the General Manager while Marco is the Administrative Manager. In this regard, the set-up of infrastructure that better facilitates “collective” co-creation is based on the values of dialogue and trust (Argiolas, 2017), with the propensity to open ears and hearts to all those who may be in need. In the refinement of this method of governance, which is

transmitted from the second to the third generation, the ability to perceive the weak signals of human and market crises and to try to respond to them appropriately has become true (Pera et al., 2016). After showing Bertola's conditions of collective value co-creation, tensions are analyzed below, because it isn't hard to imagine what kind of possible tensions could be identified in such a long history of activity, involving several generations and embracing completely different historical periods. The present analysis focuses on some critical passages about corporate purpose, culture and governance, which created tensions and conflicts inside the company.

Following the Gigliotti and Runfola (2022) framework, some institutional tensions are analyzed.

The first tension considered in the present study refers to the period starting from 1973 ahead. In those years, in fact, the desire to help the poor by the current president (second generation—Livio Bertola) was clear from the beginning of his mandate in the company. Starting from that period, the grandfather and the founders found themselves in serious difficulties, due to the presence of obsolete machinery, which was severely polluting, damaging the environment. In fact, Livio had immediately thought that this intervention was also necessary to be able to continue to give work in the area in which he was located, improving the fortune of the company. He proposed the extreme need for a purifier, engaging in a fierce battle with his uncle and finding himself managing a conflict like never before. Despite this desire, in the eighties the company had a loss of 30% every year.

The first stakeholders involved were the first generation of family owners, characterized with a strong conservative point of view. Another stakeholder is the second generation of family owner, Livio, characterized with the tenacity to rake in odds. The third category of stakeholders here involved is represented by the surrounding society. The different market actors appreciated Livio's choices about the changes in the production process toward more environmental-friendly activities, while preserving the high quality of products, in coherence with the new sensitivity. The latest stakeholder is the environment, that benefited by the diminishing of pollution.

About the empirical solution (Gigliotti & Runfola, 2022), the following has been observed. After various internal vicissitudes and several attempts, the second generation, in the figure of Livio, managed to obtain the majority of the shares, with enormous sacrifices from his personal family, from a human and a material point of view. This provoked a profound company restructuring, which continued expeditiously until the 90s.

The corresponding relational path consisted in the daily effort of saving money in Livio's own family, to be able to buy all company's shares. The moral and material support of the Livio's family was fundamental for him to make this transition. Therefore, the collective value co-creation derived from the family's contributions (both monetary and moral) and the trust shown by various stakeholders, excluding the family of origin, in support of Livio's objectives.

The transition from the second generation (Livio Bertola) to the third one is indeed an area of interesting potential tension. The current General Manager, Paolo Bertola, is Livio's son. From the interviews it emerged (October 3, 2021) that, the transition initial phases consisted of a period of stages in different production departments, where Livio's sons could start knowing the specificities of the production process and learning/training by practice and work.

Therefore, the second tension is about the 90s, when the third generation (Paolo before, then Marco and finally Livio's daughter) arrived, finding the company in excellent condition.

During this period, in 1994, Bertola Ltd took part of the Economy of Communion network (EoC) (Baldarelli, 2011; Argiolas et al., 2010; Del Baldo & Baldarelli, 2019). This would have broadened the corporate purpose and changed many aspects of the company's way of governing.

Considering the second tension, the involved stakeholders are the second generation of family owners and the third generation too (two sons and one daughter). Secondly, the surrounding area remains fundamental and especially the social relationships developed over the years thanks to the possibility of drawing on the workforce. Competitors and the other market operators represent the third stakeholder. Furthermore, the natural environment is still very important, too. The Economy of Communion project is the novelty in this period, driving the company toward the

culture of giving and a wider purpose: the pursuit of universal fraternity, connected to the international EoC network.

The empirically observed solution consisted of a strong collaborative relationship between the second and the third generations since the initial stages, where, all the involved family members needed to be carefully trained during the slow and progressive learning phase. This entailed for them to start from scratch, grasping the specificities of the production process and training about work practices and culture. Afterwards, a progressive knowledge of the company and the awareness of one's own role inside of it needed to be acquired.

Corresponding relational paths that have facilitated the third generational transition, is manifest in the second generation's ability to delegate to the third one about all the involved governance processes, giving trust to the third generation, facilitating the transfer of knowledge, culture and values. From the interviews emerged the freedom and decision-making autonomy from the second generation to the third one, along with frank dialogue, truth and sincerity: "better red immediately than pale afterwards" better to say things to each other immediately than postpone and turn pale when misunderstandings develop (Interview—March 10, 2021).

Collective value co-creation derives from family owners including and giving trust to the new generation (Pera et al., 2016) and creating work within the territory, yet building relational goods (Gui & Sugden, 2005). Especially after taking part in EoC, Livio's sons say: "We can testify that, despite being a for-profit company, a different way of doing business is experienced: for example, competitors are let into the company" (Interview—March 10, 2021). Moreover, "I was struck by the fact that my father was hiring not based on skills, but ex-addicts or convicts. My father hired an ex-drug addict who was later convinced to go to a community; he formed a family with his own autonomy and dignity... Those who wish to do so, were invited to the Bertola's house to be able to talk about their problems, including company employees. In fact, there were many non-EU citizens who were helped to find a house" (Ibidem).

Even when hiring personnel, Bertola based his decisions on assessments of need rather than those of pre-existing professional skills.

This anecdotic evidence shows how the family owners were used to consider the company as a family that is open to solve together through dialogue both the work and personal problems of their employees.

The third tension area is about a very challenging order to fulfill, which would have required more skills than those the company actually had. The involved stakeholders comprehend the third generation of family owners and one competitor, even if in general the competitors do not help to fulfill the order of their competitors. The empirically observed solution is that the order was fulfilled thanks to the valuable advice of one of Bertola's competitors. This competitor had visited the company in the past and it was possible to establish a true dialogue with him, so that deep relationship of trust had been created. In the past this competitor had benefited from some of Bertola's advice to improve the quality of its production. Therefore, the transition from a professional relationship to a personal relationship with reciprocity, as previously described (Argiolas, 2017) generated the possibility of concrete help, which was crucial for satisfying the client's order.

In this case, collective value-co-creation involved the family owners for their capacity to give trust and to create deep dialogue with stakeholders and the competitor that had been involved in communion relationships with reciprocity. In fact, on a scale of 1 to 10, in the interview the importance of dialogue is considered to be "10".

After the description of some tensions and conflicts and value co-creation, summarized in Table 8.1, in the next section accountability is presented, to show the result of the solved tensions.

Table 8.1 Gigliotti and Rumfola (2022) model in Bertola case implementation

Tension area	Involved stakeholders	Empirically observed solution	Corresponding relational path	Collective Value co-creation
Tension area 1: The passage from the first to the second generation	First generation family owners; second generation family owners; surrounding area social actors; market actors; environment	The second generation in the person of Livio Bertola, managed to have the majority of the shares and this meant the beginning of a profound restructuring that continued expeditiously until the 90s	Strong relationships of trust and dialogue with Livio's personal family and other external social/commercial key stakeholders	The moral and material support of the family was fundamental for this transition. So, value co-creation with the family support (both monetary and moral) produced the desired outcome, a more effective governance structure

Tension area 2: The passage from the second generation to the third one	Second generation family owners; third generation family owners (two son and one daughter); surrounding area social relationships with social actors; market changes/ market actors; environment; Economy of Communion network	Transition initial phases consisted of a period of stages in different production departments for Livio's sons, to let them know the specificities of the production process and to learn and be trained by practice and work. This provided them with progressive knowledge of the company and awareness of one's role inside of it	Among the aspects, that have facilitated the third generational transition, are evident: the ability to delegate; trust in the new generations; freedom and decision-making autonomy from the second generation to the third one	Collective value co-creation involved the family owners; the creation of work inside of the territory; the work connected to dialogue involving eventual personal problems; from the family owners to the company as a family that is open to solve together both work and personal problems
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*(continued)*

Table 8.1 (continued)

Tension area	Involved stakeholders	Empirically observed solution	Corresponding relational path	Collective Value co-creation
Tension area 3: A very challenging order to fulfill, which required more skills than those the company had	Third generation family owners (two son and one daughter). Competitors	The order was fulfilled thanks to the valuable advice of one of Bertola's competitors	This competitor had visited the company in the past and a strong relationship based on trust and dialogue had been created. In the past the competitor had benefited from Bertola's advice to improve the quality of its production	Collective value-co-creation involved the family owners and the competitor

Source: Authors' elaboration of Gigliotti and Runfolo (2022) model



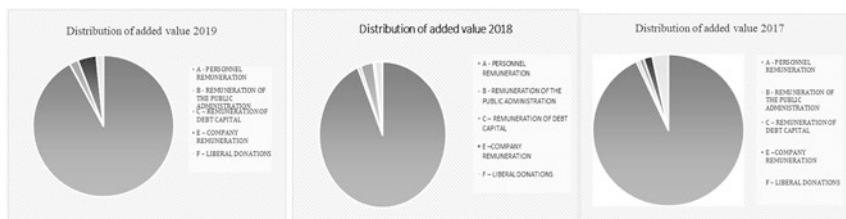
## 4 From the Collective Value Co-creation Process to Accountability in Bertola Place-based Company Research Case

From April 2021, the financial statements of the company were found to begin the reworking of added value produced and distributed. This is particularly useful for reading the company's results from the point of view of distributing the wealth it produces, rather than from the production of profit (Baldarelli & Baldo, 2017). These re-elaborations required the preparation of matrices with the Excel program and the preparation of the balance sheet data and graphs, of first summary, which are shown below (Fig. 8.4).

From the highlighted graphs (Fig. 8.4), which represent some results, a significant percentage of distribution of the company's wealth to personnel emerges. This recalls and confirms the logic that underlies EoC companies, which considers the person at the center of the company (Del Baldo & Baldarelli, 2019).

The information that derives from the trend that has been evidenced can be further underlined by the second step of the survey, from which the following emerges (Fig. 8.5).

Furthermore, the consolidation of the company is considered to be very relevant, and the liberal donations are present but do not seem so relevant. Therefore, it is important to show the specific distribution of charitable (liberal) donations (Fig. 8.6).



Source: authors' elaboration

**Fig. 8.4** Bertola distribution of added value from 2017 to 2019. (Source: Authors' elaboration)

The value of work for Bertola is:

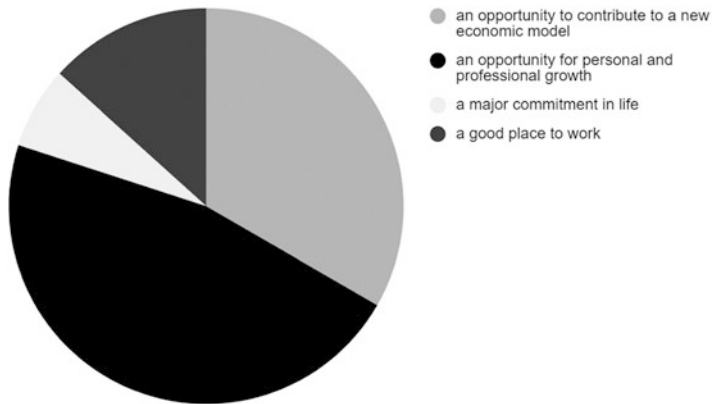


Fig. 8.5 The value of work in Bertola

Charitable donations trend 2006-2020

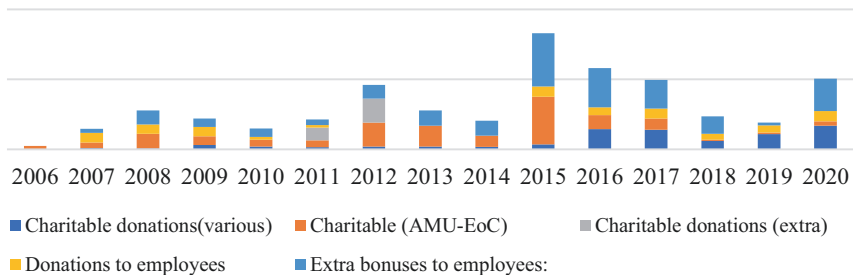


Fig. 8.6 Bertola Charitable (liberal) donations trend

It can be emphasized that solidarity activities have always been present and, while not considering the period of the pandemic in the reasoning, it emerges that solidarity in this period has, in any case, increased.

This seems to indicate that the value co-creation process activates a virtuous circuit also in the distribution of the value created, in this case through value-added measurements, and activates solidarity.

## 5 Conclusions

The present study aimed to answer the following research question: “How does the ‘collective’ value co-creation process develop and is represented in place-based purpose-driven companies?”. A literature framework about value co-creation in purpose-driven firms had been presented, especially focusing on Pera et al. (2016), that underlined the important prerequisites to try to reach collective value co-creation.

In the Bertola case Pera et al. (2016) model is implemented: there is no consolidated structure of “gatekeepers”, but an ethical and value background that allows them to be activated. Gigliotti and Runfola (2022) model is implemented in Bertola Ltd’s research case to understand how tensions have been managed and if and how a “collective” value-co-creation has been developed. Three tension areas have been identified and for each of them the different involved stakeholders have been detected, in order to underline the diverse processes connected to the collective value co-creation process.

The connection from the initial steps of the model and the value co-creation is involving Argiolas (2017), that is important to consider as the analytically observed solutions are able to obtain the result of value co-creation.

All the observed areas showed the peculiar contribution of all the stakeholders to concur in the collective value co-creation. Some surprising results emerge by the involvement of unconventional stakeholders, such as competitors, showing the importance to be a purpose-driven firm, which is implementing the culture of giving and pursuing the universal fraternity.

Moreover, the representation of the value co-creation process is described following mission, governance and accountability (Matacena, 2010) and value added model (Gabrovec Mei, 1984; Baldarelli, 2005). Regarding the main results evidenced, the amount of the value added distributed to workers and staff emerged. In order to underline the workers and employee’s perspective, the result of the survey about the value of work is shown. The main areas, that are evidenced in Fig. 8.5, are about the opportunity of personal and professional growth and to contribute to

create a new economy. That result is underlined by the solidarity trend (Fig. 8.6) in which workers remain at the core of the company liberal donations, but there are other donations to international networks (EoC) as demonstration of the coherence of the purpose-driven firm, the collective value co-creation process and the wider objective of universal fraternity.

This work has limitations: only few situations are presented here and they are relative to a single case study. This means that generalization of the results to a larger population is not possible. However, some relevant insights about the nexus among corporate purpose, collective value co-creation process and tensions' management have been found, increasing theoretical knowledge on the topic.

## Appendix

### Research protocol

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(A) Introduction	<p>Objectives: increasing the theoretical and empirical knowledge around the "collective" value co-creation process and its relationship with corporate purpose</p> <p>Auspices: the authors argue that there can be a virtuous link among corporate purpose, collective value co-creation and successful management of tensions among different institutional logics in purpose-driven companies. Empirical research could help to understand deeper this kind of relationships and the conditions under which they can be "virtuous".</p> <p>Research questions: "How does the 'collective' value co-creation process develop and is represented in place-based purpose-driven companies?"</p> <p>Literature: corporate purpose and purpose-driven companies; collective value co-creation; institutional logics and relative tensions' management framework; hybrids; Mission-Governance-Accountability framework;</p>
(B) Information collection procedure	<p>Identification of information sources, presentation of credentials, request for authorizations, timeline of the surveys (Jan 2021–Jun 2021), collecting methods: document analysis, questionnaires, semi-structured and in-depth interviews ( duration: 1 hour each). Guidelines on researcher behavior.</p>

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*(continued)*

(continued)

(C) Protocol questions	Enterprises' description (history, mission, governance, strategy, accountability). Meaningful events. Company decisions/actions. Company performance. The role of the stakeholders.
(D) Report framework	Data format: All paper documents have been transformed into PDF files; the numerical data were processed on excel files. All the documentation is registered and catalogued. The bibliography is listed at the bottom.

## MGA: Profit-making Enterprise and Social Enterprise Compared (Matacena, 2010)

Subjects	Profit-making enterprise	Subjects	Social enterprise
Shareholders	<p>Mission</p> <p>Capitalist benefit, that is, the optimization of yield for shareholders while pursuing an economic optimum which is sustainable in the long term</p> <p><i>Unidimensional mission</i></p>	Individual and collective users	<p>Mission</p> <p>Collective benefit, that is, optimization of individual, group and/or collective benefits while respecting maintenance of the condition of entrepreneurship as constraint on the continuity of the specific mission</p> <p><i>Multidimensional mission</i></p>
Entrepreneur actor innovator	<p>Governance</p> <p>Coherent company governance with a finalistic objective, coherence gained by strong command principle made clear by a finalized hierarchical chain and realized through a coordinated directional behavior in relation to social and economic stakeholders</p> <p><i>Hierarchical governance</i></p>	Collective entrepreneur	<p>Governance</p> <p>Ultrademocratic corporate governance due to the presence, in strategic direction, of all the actors of the ethical business; ultrademocratic nature made possible by collective concerted directional behaviors in relation to economic and social stakeholders</p> <p><i>Multi-stakeholder governance</i></p>

(continued)

(continued)

Subjects	Profit-making enterprise	Subjects	Social enterprise
Controller	<p>Accountability Internal information system useful for management separated from external information system which has the aim of producing documents with final data and values. This system is able to produce:</p> <ol style="list-style-type: none"> <li>1. Documents which conform to accounting obligations useful for entrepreneurship checking</li> <li>2. Financial reporting useful for investors</li> <li>3. Eventual socio-environmental reporting useful for stakeholders considered prevalent at that moment</li> </ol> <p><i>Unidimensional accountability</i></p>	Controller	<p>Accountability Single information system from whence comes information able to give rise to systematic communication through which to check levels of entrepreneurship and mission pursued and achieved by way of control of the:</p> <ol style="list-style-type: none"> <li>1. Administrative results, useful for checking obligations deriving from the presence of eventual subsidy legislation</li> <li>2. Managerial results, useful for checking constraint for entrepreneurship</li> <li>3. Institutional results, useful for checking specific social performances and activating mechanisms of fundraising</li> </ol> <p><i>Multidimensional accountability</i></p>

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# 9

## Evaluating Good Practices of Ecological Accounting and Auditing in a Sample of Circular Start-ups

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and Sergio Ulgiati

### 1 Introduction

#### 1.1 Circular Economy Model, Certification Patterns and Place-based Sustainability

The current transition to circular economy, CE, is an opportunity for rethinking and redesigning entrepreneurial activities in such a way they consider their impacts on the natural environment and all the

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stakeholders allowing the fulfilment of a more environmentally and inclusive society (Totaro, 2022; Fioravante et al., 2021; Ghisellini et al., 2021a; Morseletto, 2020; Club of Rome, 2017). This orientation of CE aligns with the aims of place-based sustainability that suggests a radical rethinking and reforming of our economies in order to assure a better people well-living, inclusiveness, humanity and care for the environment (Del Baldo, 2022).

The CE originates from different school of thoughts such as the System Thinking, Biomimicry, Environmental Economics and Industrial Ecology. The latter, in particular, underlines the importance of analysing the industrial system in its natural environment as such systems are not separated but strictly interlinked (Erkman, 1997). Systems ecologist H.T. Odum (1996) suggested to look at a system from the next larger scale in order to understand it thoroughly, that is, *looking at them through a “macroscope”, not just a microscope, capable to highlight the evolving relations of each system’s component with the other inside components and, very important, the relations of inside components with the external environment where resources and driving forces come from.*

The relations between the environment and society are based on exchanged flows that must be assessed and measured in terms of their quality (chemical, environmental, thermodynamic, social, embodied generation time, footprints) to integrate quantitative mass and monetary measures. Consequently, the quality of exchanged flows and feedback relations with the natural environment becomes a crucial aspect to evaluate and manage (Odum, 1996). The natural environment is then characterized by a complex web of relations between all the living organisms of a particular environment or ecosystem (Frosch, 1992).

In a similar manner, the consideration of companies within a broad vision of ecosystems is encouraged in current CE research (Kanda et al., 2021; Pieroni et al., 2019) compared to the conventional vision of a company that coincides with its boundaries (Evans et al., 2017). Kanda and colleagues (2021) suggest the *need to look beyond entities with which the company has direct interactions but also to investigate the broader ecosystem for potential connections to different industries and value chains* (Kanda et al., 2021).

So far, companies have adopted voluntary tools such as Life Cycle Assessment and environmental and social certification schemes of products and process in order to assess and communicate their environmental and social performances (Ghisellini et al., 2022). The increasing adoption of environmental and social certifications of process (e.g., the ISO 14001, the EMAS III, ISO 26001) and of products (e.g., the Type I, II, III Environmental Labelling ISO 14024, ISO 14021, 14025) shows the orientation of companies of taking into more account the impacts on all the stakeholders (employees, suppliers, customers) and the environment and their commitment to improve such impacts (Johnstone 2020; Atlas of the Circular Economy, 2021).

Environmental management systems (EMS) are suitable tools for adopting the principles of the CE in a company as they focus on the whole system level (Gusmerotti et al., 2019; Fonseca et al., 2018). EMS solicit the importance of measuring process circularity and sustainability in a scientific manner avoiding “greenwashing” strategies and shortcuts (Campioli, 2022; Lewandowska et al., 2011). However, the extent to which certification schemes are incorporated in companies depends on different factors including the mission, size, managerial culture and sector of the company itself (Merli & Preziosi, 2018; Murmura et al., 2018; Zamagni, 2016).

This study evaluates the CE application and the certification strategies and tools adopted by circular start-ups by means of a questionnaire survey. This approach has been adopted with the purpose of enlarging the initial sample of start-ups composed by six start-ups (Ghisellini et al., 2021b). A web-based document analysis methodology has been used to collect data about the sample of circular start-ups. Moreover, interviews to founders and managers of the selected start-ups are included in the research design to have a more comprehensive picture of the circular strategies and certification patterns of the start-ups. The attitude in adopting certification tools, circularity and human entrepreneurship (Kim et al., 2018; Parente et al., 2018) will be taken into account in order to grasp their values of civil responsibility beyond only profit-driven models feeding on the natural attitude of human beings to cooperate for the well-being of the local and global communities (Bruni, 2013; Zamagni, 2010). Attention will be devoted to consider their attachment to the local

community and place and the role that the latter has in shaping the sustainability of circular start-ups. This could contribute to give useful insights to place-based sustainability research creating a connection with CE research and disseminate new practices and knowledge scalable at larger scales with potential positive effects on global sustainability (Balvanera et al., 2017).

Therefore, the research questions of this study are:

- How circular start-ups apply the different principles of the CE (e.g., circular design, reduction, reuse, recycling, naturally regenerative strategies)?
- Which tools are used for evaluating and certifying their circularity and corporate social sustainability patterns?
- How is their attachment to the local community and in which way the local aspect is reflected in their organizations and in their sustainable strategies thereby contributing to a place-based sustainability?

The present study is organized into five sections. Section 2 provides an overview of the data used for the analysis and the method adopted to achieve our goals and respond to the research questions. Section 3 presents some preliminary results and Sect. 4 summarizes the main conclusions and implications of this study and its findings.

## 2 Materials and Methods

This section contains a description of the method adopted in this study to select our sample of circular start-ups as well as for the collection of the relevant information about them. As a first step we designed our sample. The latter considers mainly Italian circular start-ups operating in different economic industries which are responsible for relevant environmental impacts in the life cycle of products, such as textile, construction and food supply chain. We have chosen to analyze a sample of circular start-up companies because they seem more innovative at the cultural level (Bressanelli et al., 2019) and are particularly meaningful as they are less constrained in adopting CE in a radical way compared to traditional

companies (Bressanelli et al., 2019; Gusmerotti et al., 2019). Moreover, often this kind of firm is born as a circular start-up, showing further meaningful characteristics for this study.

The sample of circular start-ups is currently composed of 20 start-ups and extends our initial sample of 6 start-ups.<sup>1</sup> All the 20 start-ups have been identified by means of a search in the web page of the Atlas of the Circular Economy. There are two ways for identifying organizations including start-ups: by means of a direct search in the Atlas of the CE (<https://economiecircolare.com/atlante/>) by selecting their sector (textile, agriculture, construction, furniture, etcetera) or by dedicated articles on the topic of the CE in the news. In this latter way, it is possible to identify the circular stories of further organizations including start-ups even if with a much lower level of detail compared to the Atlas.

After this preliminary step, an in-depth analysis of each selected circular start-ups has been realized. In particular, further information was retrieved from the Internet, start-ups' websites and secondary sources (e.g., specialized magazines, press in general, scientific papers, etc.). Then, we created a database to identify for each start-up a list of CE approaches, practices adopted, and main orientations in certification schemes, relationships with the local community and environment. Moreover, we evaluated the literature on the topics of certifications adopted by small and medium companies (such as Murmura et al., 2018) and circular start-ups (Henry et al., 2020, 2022) in order to have useful insights to build a questionnaire to gather further information about the start-ups. The questionnaire has been modelled by means of a Google Form and is still available online.

In order to deepen on the key aspects of this study, reflected in our research questions, and collect missing information or clarify some doubts/issues, a set of interviews with start-ups has been considered (Angers & Machtmes, 2005; Bowen, 2009). The interviews to the founder/s of the start-ups are still ongoing and are performed by at least two members of the research team on the basis of an interview protocol. The latter includes a set of predefined questions about the circular

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<sup>1</sup> The initial sample was composed by the following circular start-ups: Equilibrium, Packtin, Pigmento, Orange Fiber, Rifo, Connecting Food (see Ghisellini et al., 2021b for more details).

start-ups, their foundation, the features of their circular activities, certification schemes, environmental and sustainable awareness, relations with the local community and so on (Gibbert et al., 2008).

The interviews last on average about one hour. At present we have interviewed about 30% of the start-ups of our sample. The data collected from the interviews are mainly analysed by two researchers and included in a database useful to identify for each start-up a list of CE approaches and practices adopted (Hsieh & Shannon, 2005; Bowen, 2009).

### 3 Results

This section presents the results coming from the analysis of the data collected about the 20 Italian circular start-ups. Table 9.1 shows some descriptive characteristics about our sample. It shows that the start-ups are distributed fairly homogeneously over three of the sectors (fashion/textile, agriculture and food and bioconstruction) while solid waste is the least represented.

#### 3.1 Classification of the Selected Circular Start-ups

Henry et al. (2020) identified five main categories of start-ups on the basis of the CE principles mainly implemented (design/reduction, reuse, recycling) or the aspects strictly connected to the CE they adopt (such as the use of digital technologies or the adoption of ecologically regenerative natural solutions) resulting in the following five categories: design-based, waste-based, platform-based, service-based and nature-based. With the regard to our results, 12 start-ups belong to the design-based category, while 2 of them are in the waste-based start-ups and 6 can be classified in the platform-based category.

In the following sections, we provide an overview of the start-ups in each of the three categories briefly summarizing their circular stories and strategies, the use of certification schemes and how they are contributing to a place-based sustainability.

**Table 9.1** Descriptives

Circular start-up	Foundation year	Localization	Sector
Rifò	2017	Tuscany	Fashion/Textile
Good Sustainable Mood	2019	Emilia Romagna	Fashion/Textile
Armadio Verde	2015	Lombardia	Fashion/Textile
Orange Fiber	2014	Sicilia	Fashion/Textile
Officine Frida	2013	Basilicata	Fashion/Textile
Drexcode	2014	Lombardia	Fashion/Textile
Progetto Quid	2012	Veneto	Fashion/Textile
Sfera Agricola	2016	Tuscany	Agriculture/ Food
3 Bee	2017	Lombardia	Agriculture/ Food
Squiseat	2015	Emilia Romagna	Agriculture/ Food
Too good to go	2015	Lombardia	Agriculture/ Food
Food Hub	2018	Emilia Romagna	Agriculture/ Food
Connecting Food	2016	Paris (France)	Agriculture/ Food
Packtin	2017	Emilia Romagna	Agriculture/ Food
Sfridoo	2017	Emilia Romagna	Solid waste
Circularity	2018	Lombardia	Solid waste
Prespaglia	2017	Apulia	Bio- Construction
Ricehouse	2016	Lombardia	Bio- Construction
Tecnocanapa	2012	Lombardia	Bio- Construction
Pigmento	2016	Basilicata and Tuscany	Bio- Construction

### 3.1.1 Design-based Circular Start-ups

This category focuses on start-ups having developed their circular production models on the principles of “Reduce” (in particular by means of circular design) or “Reuse” or both. Start-ups in this group such as Rifò, Good Sustainable Mood in the fashion sector and Prespaglia and



Tecnocanapa by Senini in bio-construction share in their visions and activities a relevant focus on the design of products/components and materials. Their design aims to reduce and improve the environmental and energy impacts of their product/materials, eliminate waste and pollution, circulate products/materials to the possible extent in agree with the concept promoted by the Ellen Mac Arthur Foundation that is one of the most involved organizations in the promotion of CE concepts, principles and models.

“*Rifò*” produces sustainable and quality clothes by recycling yarns from old garments. The latter are frayed and transformed again into raw material, spun, and then woven into new durable and quality garments. This process has a long tradition in the textile district of Prato (Italy) where the start-up is located and allows in most cases to avoid to re-dye or over-dye the fibers. The main secondary raw materials considered in their process are old cashmere sweaters from which they produce soft cashmere sweaters, old cotton jeans with a cotton content of at least 95%. These are recovered into new sweaters and denim fabrics. They also reuse recycled cotton from industrial waste for the creation of fresh t-shirts, polo shirts, beach towels and shawls.<sup>2</sup> One of their flagships is a timeless design that they claim is itself a form of sustainability. In that, most of their products are repurposed year by year because they think their sweaters have the same value whatever season they belong to. For this reason, they also do not apply seasonal discounts.

“*Good Sustainable Mood*” is a sustainable and innovative fashion brand whose vision is to redesign the relationship between the consumers and supply chain. They give their consumers the opportunity to buy their garments ready on the online shop as well as by means of the so-called pre-order that is their smart shopping option aimed to avoid fashion overproduction and waste. The garments in the pre-order are made only after the order from the consumer. Another distinct element of their business model is the adoption of a circular design that is essential and timeless for their garments made of Milk Fiber (obtained from milk by-products) and certified natural fibers such as Kapok Fiber, Organic Cotton, Eucalyptus Fiber and Wood Fiber. They use certified colours

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<sup>2</sup> Rifò, available at: <https://rifo-lab.com/>

avoiding most of the petrolatums to reduce the risk of allergies. They also adopt a vision of sustainability oriented over the long term and to investments in the research of materials and production methods aimed to reduce their environmental impact as much as possible.

“*Progetto Quid*” was born in the year 2012 by the idea of five women with a strong passion in fashion and social projects.<sup>3</sup> Since the beginning these two elements have been translated in their activity and fashion products made of high-quality fabrics leftovers and by people who are in fragile situations. The founders considered it fundamental to offer a job opportunity and social emancipation to disadvantaged people in order to create an innovative, sustainable, unique and highly creative product. The name “Quid” of the start-up tries to capture the extra added value of their products and their vision of integrating social, environmental and economic aspects.<sup>4</sup>

“*Officine Frida*” is a creative workshop inspired by a passion to combine the revival of artisan know-how with an ecologically circular sustainable mindset that gives a new life to local unused fabrics of high-quality material such as upholstery offcuts, silk tie scraps and advertising banners. These are used by means of traditional artisans’ techniques in the creation of their collections that consist of only handmade garments and unique pieces.

“*Prespaglia*” produces bio-construction products by using straw as one of the distinctive ingredients. Prespaglia aims to innovate traditional construction technology by contributing to the reduction of greenhouse gases and to improve people’s quality of life. The start-up has created the first modular block in straw ready to assemble, which allows the building of structures in a very short time, with a considerable saving on labour costs. The Ecoblocco in straw, clay and hydraulic lime is the concrete answer to the need for healthy houses, with high-quality products superior to traditional and modern houses. The Ecoblocco reconciles human housing needs with environmental protection. Prespaglia pays also great attention to the local community by using only straw produced locally.

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<sup>3</sup> <https://www.progettoquid.com/upcycling/>

<sup>4</sup> Progetto Quid, available online at:

“*Tecnocanapa by Senini*” operates in the green building sector, natural building materials and technologies for energy efficiency. The company is the evolution of the start-up “Equilibrium” and its mission is continuing to contribute to the reduction of energy consumption of new and existing buildings and improve the living comfort of its occupants, through the application of construction systems that include natural insulation with compounds based of hemp and lime such as BioBeton and Hemp-and-Lime block Blocco Ambiente. The development of solutions for energy savings and healthiness of the living space are increasingly becoming key factors for the quality of life of people and necessary conditions for companies in the sector in order to maintain its value over time. The company also share with the other organizations of its ecosystem the goal of regenerating the entire social, environmental and economic system.

### 3.1.2 Waste-based Circular Start-ups

Start-ups belonging to this category seek to extract value from unexploited external waste streams (e.g., from food waste) by means, most often, of innovative processes (Henry et al., 2020). Four of the selected start-ups belongs to this category. The main aspects of their production processes and life cycles are briefly described in the following:

“*RiceHouse*” was born from the idea of its co-founders to positively impact on society by promoting responsible change. “*RiceHouse*” realizes a line of building products deriving from the recycling of agricultural processing waste, in particular using the by-products that derive from the rice supply chain. These building products allow to solve the environmental problems directly related to their disposal practices. *RiceHouse* is the hub of the supply chain between agriculture and architecture through the industrial and artisan realities of the area. Finally, “*RiceHouse*” is also a benefit company.

“*Packtin*” recovers raw materials from food industrial waste of products such as orange, apple and tomato peels and spent sugar beetroots. From these, the company extract bio-polymers and active compounds for the creation of supplements, biodegradable packaging, edible coatings and ingredients for food preservation and safety. In that, such products

return in a new production cycle to be used in agri-food or other industries. Since their foundation in the year 2017, their innovative production process aims to meet three main challenges: decrease food waste; save materials and energy during the packaging disposal and start a virtuous cycle which uses secondary materials from natural origin to produce high-quality products with an increasing value.

“*Pigmento*” extracts pigments from agri-foods by-products (such as spinach leaves, coffee grounds, wine must, almond husk, onion skin, elderberries) for the production of dyes. These are used in textile, bio-housing, cosmetics, alimentary industries and are sold both in powder or liquid forms depending on the demand of the customers. The extraction of pigments in the company’s facility of Florence (Tuscany Region) for the production of dyes occurs without additives or chemical substances taking into account ancient processes but also advanced equipment so as to be able to produce the required quantities.

“*Orange Fiber*” was born in the year 2014 from the idea of two women as founders who were searching for an opportunity of valorization of the great amount of citrus juice by-products available in the local area of Catania (Sicily). For the purpose they have been able to produce the first prototype of fabric from citrus by-products and patent their pilot plant for the extraction of cellulose by the citrus pulp for the production of their fabrics. The activities of the start-up have grown over the years and now it is an important worldwide leader in innovative and sustainable textile production.

### 3.1.3 Platform-based Circular Start-ups

Platform-based CSUs adopt circular business models that focus on the following production and distribution solutions for delivering the surplus of resources: Business to Business (B2B), Business to Consumers (B2C) or Consumer to Consumer (C2C). The implementation of platforms supports the trading or sharing of products or waste, knowledge, infrastructure or services (Henry et al., 2020).

“*Armadio Verde*” was born as a second-hand clothing store, which today has more than 750 thousand members and moves 6 thousand

items in and out every day. This start-up is based on a simple idea to bring back into fashion what was destined to remain unused. The circular principle they mainly adopt is then “reuse”. People have the opportunity to give back the clothes that she/he no longer uses, without shipping costs. In addition, “Armadio Verde” pays for the collection of clothing, taking care of product selection, and quality control. On their website, each item on sale is accompanied by a tag describing its condition, measurements and any small defects (such as pulled threads or others) with the price. Moreover, what is not suitable to be marketed is either returned or ends up in an organization that collects used clothes for social projects. In a nutshell, “Armadio Verde” reuses items received from donors (one part is retained and one discarded and donated to Humana), repair garments through collaboration with social tailors and use scraps for new collections. In the last years, the start-up has been transformed into a benefit company.

“Drexcode” is a pioneer and leader in Italy in the rental of ready-to-wear looks and fashion accessories. The start-up in agreement with the concept of CE, also offers its customers the opportunity to buy those items that they really want to own by means of the model of “preloved”. In this category are included garments carefully selected from the rental wardrobe, with the aim of maintaining the highest quality at an affordable price. Drexcode has a section dedicated to “sustainability” in their website where they disseminate information with their community about the relevant environmental impacts of the fashion sector to the release of global greenhouse gas emissions and water consumption as well as the model of “rental” they adopt. They claim that rental can be considered a smart and sustainable solution as it extends the service life of their garments of high quality. It has also price advantages for the consumers. They also evidence that they use recycled, recyclable materials and implement sustainable processes and consider the impacts on the natural environment of their managerial decisions.

“Connecting Food” developed a platform that provides data of food products in their whole life cycle improving the information available for agribusinesses, consumers and society. Their platform tracks products in the whole life cycle and connects all the actors of the agri-food supply chain also avoiding food wastage and identify the most suitable recovery

options for food leftovers. The transparency in the food supply chain by means of the provision of the data of each stage is at the core of their circular business model and vision. The founders claim that trust in the food system will only be acquired through data-driven transparency, not blind trust as food brands can no longer depend on storytelling.<sup>5</sup>

“*Food Hub*” is an innovative start-up born in the year 2018 that supports the agri-food ecosystem through information, training and consulting services. The mission is to participate in the growth and innovation of agri-food sector through a critical contribution. In particular, the start-up aims to provide information and training content developed in collaboration with a network of experts in the agri-food area with all stakeholders through an online platform. The latter is able, through the use of a series of digital tools and algorithms, to automate the use of information content and the purchase of training content by each user in different ways. Also “*Food Hub*” is a B-corporation.

“*Squiseat*” has developed a web platform able to connect food shops, bakeries, restaurants and consumers. The latter have the opportunity of selecting food leftovers that are still available at the end of the day at local level before it becomes waste. This model of CE provides advantages for all from food shops that can sell all their food to consumers who can rely on very good food at lower prices and the society that prevents food waste. Their flagship is also an invite to encourage a cultural innovation embedded in the CE transition as they claim that “unsold lasagna is always liked”.

“*Too Good to Go*” was born in Denmark with the aim to reduce food waste by involving people and companies. They have designed a platform and an app that can be downloaded on consumers smartphones. Thanks to such apps, consumers can contribute to reduce food waste and, at the same time, get fresh and delicious meals by supporting local businesses. Merchants cut down on their waste and new customers taste their products. “*Too Good to Go*” is also a certified benefit corporation showing further also its attention to the environmental and social aspects. They are convinced that food waste can be tackled only by the involvement of

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<sup>5</sup>Connecting Food available online at: <https://connecting-food.com/about/>. Last accessed: 02/07/2022.

all the actors: people, companies, schools, politics. In that, they have set concrete objectives to be achieved. In 2021, they have launched with their partners the “responsible label” campaign involving about 10 million products available on the market with the specification “Often Good Beyond” and the related pictograms on pack. This has been an invite to consumers to reflect on the importance of the correct interpretation of the terms on food labels and appreciate the state of the products that has passed the Minimum Storage Term through their senses. In this way, food that is still good can extend its life avoiding being disposed of as waste.

“*Circularity*” provides a wide range of services to companies that aim to reduce their environmental impacts by means of the valorization of their production waste, the adoption of a more sustainable transport, the recovery of their waste and the use of secondary raw materials. More in general, they help companies to reconceive their business model from a sustainable perspective, supporting them in the valorization of their waste and the offer of integrated services that include: consultancy, information, certification and training.

By means of their platform and the characterization of the materials composing the waste they connect all types of companies in the supply chain: those involved in the production, recover, processing of the waste until companies reintroduce recycled materials into a new production cycle.

“*Sfridoo*” was born in the year 2017 with the aim to offer targeted services to corporations for the optimization of production residues and scraps. It uses innovative tools that exploit the most innovative technologies for the waste management sector. “Sfridoo” has implemented a platform where companies can “meet” to buy and sell scrap, by-products, inventories and corporate assets. Their mission is in fact developing industrial symbiosis between companies and promote the concept of market for waste resources that are conceived as a resource rather than a problem to manage.

Moreover, “this start-up is a certifier of the Corporate plastic responsibility scheme for offices, hotels, restaurants and similar structures. This certification follows the regulations dictated by the Italian Ministry of the Environment, as well as local and international regulations and

communicate to the stakeholders the responsibility towards the elimination of single-use plastic”.

### 3.1.4 Nature-based Circular Start-ups

“*Sfera Agricola*” is the largest and most innovative greenhouse in Italy. It was born in 2016 as a start-up from the pioneering idea of its founder. In particular, “*Sfera Agricola*” produces tomatoes, salads and basil with the recovery of rainwater in the cycle of cultivation and biological control and the use of beneficial insects and molecules of natural origin. Thanks to its technology, the hydroponic greenhouse is able to exploit every single drop of water and consume less quantity of water compared to traditional cultivation on the ground. Additionally, the adopted technology is able to recreate the ideal climatic conditions for growing tomatoes and lettuce. Finally, “*Sfera Agricola*” shows great attention to the well-being of its workers and local community.

“*3 Bee*” is an agri-tech start-up that develops intelligent monitoring and diagnostic systems for bee health. Since their foundation in 2017, they offer innovative system useful for beekeepers who can constantly and comprehensively monitor their hives in order to optimize the production of honey, save time and treat their bees by preventing problems and diseases.<sup>6</sup> The monitoring system is applied to the hive and to collect information on the health of the bees inside it. The data is communicated in real time to the beekeeper, who can intervene selectively and specifically. The model can also be exported to other types of farming, primarily pigs. The goal of the adoption of this model is shifting from an antibiotic-based to data-based bee farming improving in that way the quality of life of the bees, the effectiveness of interventions and the production of honey.<sup>7</sup>

So far, the start-up has developed a network of 10,000 beekeepers throughout Italy who, in turn, contribute to follow and use their technology. Thanks to the network the start-up has created their research and

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<sup>6</sup> 3Bee, available online at: <https://www.3bee.com/adotta-alveare/>. Last accessed: 02/07/2022.

<sup>7</sup> 3Bee, available online at: <https://futuroconsapevole.it/2019/10/28/esempi-di-start-up/>. Last accessed: 02/07/2022.



development circular economy programme “adopts a hive” who is the flagship of their activity.

### 3.2 Certification Schemes Adopted by the Circular Start-ups

In this section, we focus on the analysis on the certifications adopted by the analysed circular start-ups. Table 9.2 shows the circular start-ups in our sample that have adopted certification schemes. It is interesting to note that certified circular start-ups are concentrated in fashion and construction sectors as well as use more than a product or material certification. Moreover, about 35% of the whole sample are Certified Benefit Corporation or benefit corporation. This means that circular start-ups pay great deal of attention not only to the environmental impacts but also to the social impacts derived from their activity. From the interviews conducted to some of them also emerges high attention to certifications from the circular start-ups that still have not adopted such voluntary tools.

The selected start-ups communicate their environmental and social responsibility by means of their websites most often in the sustainability area or in a specific space for certifications. “Rifò” besides information about their certification schemes (Global Recycled Standard and OEKO TEX 100) also highlights that its supply chain is entirely located in the textile district of Prato, within a range of 30 km. The company says that it is committed to make all its products environmentally and socially sustainable by limiting fuel consumption, creating new job opportunities that are also fairly rewarded.

“Good Sustainable Mood” underlines their continuous commitment towards the improvement of its environmental performances. For instance, they use ECOVERO™ that is a certification of responsibility towards the environment that gives consumers the confidence that their purchasing choices are environmentally friendly. The viscous fibers with the ECOVERO™ brand are produced only from certified and controlled wood sources with a significantly lower use of fossil energy and water resources, up to 50% less than generic viscose. ECOVERO™ is a mark of environmental excellence, internationally recognized with the EU

Table 9.2 List of the circular start-ups in our sample that have certifications

Design-based start-ups	Name of start-ups	Product and materials certifications	Other certifications
Rifò		<ul style="list-style-type: none"> <li>• Global Recycled Standard;</li> <li>• OEKO TEX 100;</li> <li>• Life Cycle Assessment of their products;</li> </ul>	Certified Benefit Corporation; Agreements with their artisans on the four principles of International Labour Organization (including no-child labour)
Good Sustainable Mood		<ul style="list-style-type: none"> <li>• Wood fiber ECOVERO (from forests managed in a sustainable way);</li> <li>• Certified Eucalyptus fiber TENCEL™ Lyocell obtained from trees cultivated by companies certified by the Forests Stewardship Council (FSC);</li> <li>• Kapok is a natural functional fiber (hollow fiber) and therefore breathable from its origin and totally organic (certification GOTS, Global Organic Textile Standard);</li> <li>• Paper Packaging produced by companies certified by the FSC</li> </ul>	
Prespaglia		CE marking, ICEA-ANAB (certification for bio-construction products that require an LCA); Started the process to obtain an EPD for their products	
Tecnocanapa by Senini		CE marking, UNI EN ISO 14021 Content of recycled/recovered/by-product materials	ISO 14001, ISO 9001, Certificate of factory production control
Ricehouse		CE marking, Solar Impulse Efficiency Solution, ETA or EOTA for products <sup>s</sup>	Certified Benefit Corporation

(continued)

Table 9.2 (continued)

	Name of start-ups	Product and materials certifications	Other certifications
Platform-based start-ups	<i>Armadio Verde</i>		Benefit Corporation
	<i>Too good to go</i>		Certified Benefit Corporation
	<i>Squiseat</i>		Benefit Corporation
	<i>Food Hub</i>		Benefit Corporation
	<i>Circularity</i>	<p>It offers to companies the following certifications:</p> <ul style="list-style-type: none"> <li>• Sustainability Assessment for the achievement of UNSDGs,</li> <li>• BS8001:2017,</li> <li>• Green touch- ISO 26000 and materials under control (these two latter in collaboration with the organism of certification RINA)</li> </ul>	
	<i>Sfridoo</i>	<p>They are certifiers of a Plastic-free scheme. This certification is a voluntary tool for companies designed in compliance with national and international laws.</p> <ul style="list-style-type: none"> <li>• Nickel Free, Global G.A.P. Grasp, Global G.A.P. IFS Food, BRC Food</li> </ul>	UNI EN ISO 9001
Nature-based start-ups	<i>Sfera Agricola</i>		Benefit Corporation
	<i>3 Bee</i>		

Ecolabel certification. The ECOVERO™ logo therefore identifies those products and services that have a low environmental impact during their life cycle: from the extraction of the raw material, obtained using cellulose that derives from renewable resources in wood, to disposal. Moreover, they adopted also the Global Organic Textile Standard (GOTS) that was developed by leading international organizations in organic agriculture to guarantee the consumer that organic textile products are obtained in compliance with stringent environmental and social criteria applied at all levels of production, from the harvesting of the natural fibers to the subsequent manufacturing phases, up to the labelling of the finished product. GOTS, responding to the strong demand for common production criteria by the industry and the distribution of textile and clothing products, has obtained wide international recognition which allows those who produce and sell organic textile products to have access to a certification accepted in all major markets. In bio-construction, Prespaglia adopts for its products the ICEA-ANAB certification scheme specific for bio-construction. Such a scheme requires the use of a Life Cycle Assessment for the evaluation of the environmental performance of the product. Ricehouse is a certified benefit corporation and adopts for its products the solar impulse efficient solution label that is awarded to products, services and/or processes that guarantee credible economic and environmental performances. Finally, Tecnocanapa adopts a product certification scheme (ISO 14021) as well as adopts an environmental management system ISO14001 and a quality management system ISO 9001 that attests the commitment of an organization towards quality and customer satisfaction.

### **3.3 Local Aspects in Foundation, Goals and Activities of the Start-ups**

Most of the circular start-ups have a particular feeling with the place where they are located and its community. Instead, for platform-based start-ups that provide services (e.g., Armadio Verde, Drexcode, Circularity, Sfridoo) the aspect of local seems less relevant. Table 9.3 summarizes how

**Table 9.3** Overview on how the local aspects are considered by the circular start-ups

Type of start-up	Circular start-up	Economic sector	Local aspects in foundation, goal and activity
Design-based start-ups	Rifò	Fashion/Textile	<ul style="list-style-type: none"> <li>Local artisans (less than 30 km far from the start-up) involved in the activity of the start-up;</li> <li>Local funded projects by the start-up</li> </ul>
	Good Sustainable Mood	Fashion/Textile	Collaboration with local territory to guarantee a transparent, controlled and high-quality supply chain. Reuse of local materials.
	Officine Frida	Fashion/Textile	Recovery of craft traditions and high-quality materials, selected from local sources.
	Progetto Quid	Fashion/Textile	Reuse of Italian fabrics (90% of the total) coming within a distance of 250 km.
	Prespaglia	Bio-Construction	<ul style="list-style-type: none"> <li>Reuse of local straw;</li> <li>The start-up would like to be more involved in the improvement of well-being of local community</li> </ul>
	Tecnocanapa by Senini	Bio-Construction	Born with the aim of introducing sustainable innovation in the construction sector and to provide new development opportunities in Italy.

*(continued)*

Table 9.3 (continued)

Type of start-up	Circular start-up	Economic sector	Local aspects in foundation, goal and activity
Platform-based start-ups	Armadio Verde	Fashion/Textile	No
	Drexcodes	Fashion/Textile	No
	Connecting Food	Agriculture/Food	No
	Food Hub	Agriculture/Food	They have been involved in a project with the local schools
	Squiseat	Agriculture/Food	Born with the idea of recovering food leftovers from the local food shops, bakeries, restaurants avoiding food waste
Waste-based start-ups	Too good to go	Agriculture/Food	No
	Circularity Sfrido	Agriculture/Food	No
	Packtin	Solid waste	No
	Packtin	Agriculture/Food	Born with the aim of testing the practical feasibility of valorization of local food by-products
	Ricehouse	Bio-Construction	Born with the aim of providing a solution to the environmental local problems related to rice by-products' burning
	Pigmento	Bio-Construction	Born with the idea of creating un-allergic dyes as well as valorize the amount of food by-products available in the local area
	Orange Fiber	Fashion/Textile	Born with the aim of valorization of the great amount of by-products of the citrus juice industry available locally

*(continued)*

Table 9.3 (continued)

Type of start-up	Circular start-up	Economic sector	Local aspects in foundation, goal and activity
Nature-based start-ups	Sfera Agricola	Agriculture/Food	Products reflect the love for the local territory
	3Bee	Agriculture/Food	By means of their product "Adopt an hive" they promote Italian honey and help Italian beekeepers as well as connect the consumers with a specific Italian territory. They can day by day monitor the adopted hive, follow its growth and production and at the end of the season receive the honey at their homes <sup>b</sup> .

<sup>a</sup><https://www.eota.eu/>

<sup>b</sup>3BEE, available online at: <https://blog.3bee.com/miele-buono-qualita>. Last accessed: 05/07/2022.

the local aspect is connected to the foundation, goals and activity of the start-ups of our sample.

The other groups of start-ups (design-based, waste-based, nature-based) show high attachment to the local natural environment and some of them were born in response to prevent the generation of local waste problems in urban centres as in the case of Squisseat or better valorize the high abundance of agri-food by products available in their local area as in the case of Packtin, Orange Fiber, Pigmento and Ricehouse. Other start-ups share a particular feeling for the local Italian economic development (e.g., Tecnocanapa). Other start-ups (e.g., Rifò, Good Sustainable Mood, Officine Frida, Prespaglia, Ricehouse) collaborate with the local community as the latter is involved in the manufacturing of the goods of the start-ups (e.g., local artisans of Rifò) or provides the basic materials for the production of the goods (agri-food by-products or textile leftovers, silk-tie scraps, advertising banners) as for Good Sustainable Mood, Officine Frida, Prespaglia and Ricehouse. In these cases, the products of the start-ups reflect the local territory and cultural heritage. Both nature-based start-ups (Sfera Agricola and 3 BEE) also show a particular feeling

with their territory that promote by means of their products also guaranteeing their traceability and the connection with the consumers.

Finally, platform-based start-ups such as Squiseat by means of their app for consumers valorize food surplus of local restaurants, food shops and bakeries avoiding food wastage. The consumers have the opportunity to select only the desired food and amount at lower prices. They also contribute to disseminate alternative mobility systems suggesting the consumers to take away their food from the local shops by means of a bicycle or a scooter.

The existence of local relationships offers many environmental and social benefits such as the reduction of transport distances thereby reducing the use of fossil fuels and related local and global emissions as well as fuels costs for the start-ups, increase of the transparency in the production process as well as the maintenance of high-quality standards and lower costs for the final consumers.

Finally, only one start-up (Rifò) funds social projects in the local area. For example, this year, Rifò launched in Prato (Tuscany Region) the project “*Nei nostri panni*” that is a school programme useful to become “*cenciaiolis*” for people coming from the immigrant’s local reception centres. The programme requires six months to become “*cenciaiolis*” and involves five people in vulnerable situations and five local companies including Rifò.

## 4 Conclusions and Implications

This study aimed to evaluate how the selected circular start-ups are implementing the CE principles, which certification strategies and tools they adopt as well as understand their linking with the local natural environment and local community.

The implications of this research can be theoretical, practical and political. With regard to theoretical implications, the study tries to identify new models of sustainable entrepreneurship also more connected with the local natural environment and local communities connecting the research fields of CE with those of place-based sustainability, civil economy and human entrepreneurship.



Our study provides practical and useful guidelines and insights that are able to inspire innovative start-ups to adopt circular approaches, and to implement a circular business model since their foundation. In particular, the start-ups analysed show strong environmental and social awareness, strong cultural and social innovation, gender innovation, local identity and community attachment. They implement alternative production sustainable models that make it possible to narrow the boundary between economic and non-economic objectives, by pursuing both at the same time. In that, it is possible to create a connection between circular and place-based organizations confirming that also circular start-ups “*break with the economic logic of efficiency and profit maximization, and organize their activities around the ideal of encompassing feelings of identity with and attachment to a place*” (Del Baldo, 2022).

Policymakers could use our finding to better understand the features of the circular business models of different types of start-ups (design-based, platform-based, waste-based and nature-based) operating in sectors critical for their environmental and social impacts. More specifically, our study could support policymakers in defining effective and tailored measures to support the transition of the established SMEs and start-ups towards certified circular entrepreneurship models. Based on this, environmental and social certification is an important tool for supporting CE transition as it guarantees transparent and reliable information about the environmental and social performances of the products, processes and organizations.

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# 10

## The Emergent Smart Organisation with Emotional Potentials as Source of Creativity and Collaborative Intelligence in Responsible Companies: Well-being, Participation, Resilience and Spirituality over Competences for Possible Happiness

Luciano Pilotti

### 1 Participation, *Engagement* and Corporate *Welfare for a New Social Pact*

Welfare state—as is well known—in its nature as a lever to engage people, allows two fundamental needs to be kept in balance: to provide a solid basis to give a future to work and its transformations and to pay attention to the needs of workers (of health care, family support, insurance coverage, etc.). It is clear that the crisis and the complexities of modernity

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have undermined confidence in a progressive and dynamic future, forcing people to “protect themselves”, for example by increasing their overall savings and hoarding, in order to cope with possible *crashes* or sudden breaks in their purchasing and insurance capacity, leading to a growing lack of confidence. An initial response is to orient (concentrating) welfare services to families with support for the autonomy and training of young people, *ageing people* and disabilities on which WP (welfare proximity) should also act. This was also tried in the last metalworkers’ contract, which potentially involved more than 200,000 companies and 1.5 million workers. For the first time, in fact, the contract incorporates the possibility of corporate welfare for recourse to medical expenses, social security and—in addition—to a “welfare sum” of €100 available to all workers convertible into various services and not only into vouchers for a defined basket of goods. However, more information is needed on the opportunities for use and the advantages of the tool introduced if it is to be disseminated as it deserves. Moreover, it enhances the strategic functions of intermediate bodies (associations and specialised bodies) as channels and providers of some of these services.

The WP, therefore, cannot be reduced to a simple lever of fiscal restraint to be converted into vouchers from a basket of goods, de-taxed and de-contributed, but it must be able to put its hand to the entire system of industrial relations on the one hand and, on the other, to revolutionise the organisational models towards greater participation (from the SO, to profits up to venture capital). From this point of view, the WP understood as the possibility and ability to convert the Result Bonus (PdR) into welfare would become a strategic lever both for industrial relations and for productivity, with the employee able to take out coverage for significant social risks with reduced taxation that would allow him not to pay contributions. An advantage that therefore does not stop at the 10% tax saving alone, as a structural response to the standard social welfare crisis, but passes through a “new social pact” between companies, workers and territories. In this way, we would not only be faced with a simple tool to increase the purchasing power of workers (for more consumption) with tax savings for the company and the worker himself, but also to increase social protection networks with significant system effects as well as public finance.

To do this we need new co-designed ways of dialogue between companies, workers, trade unions and the state capable of guiding and orienting

the conversions of result premiums as (A) pay optimisation on the one hand, and on the other, (B) to develop other financing tools, for example, linked to territorial services, where to involve SME's systems that otherwise risk being excluded from these opportunities. In this sense, corporate welfare allows to robustly improve the value of the company on the territory, the reputation, the perception of the value of the products, develop attractiveness, allowing to retain also the best talents. As this is a tool to encourage a *life career* rather than just a *task career*, the objectives are identified with:

- (a) Understanding the tangible and intangible value of people and their relationships;
- (b) Measurement of the benefits to the company in the *engagement*;
- (c) assessment of *corporate reputation* in the field of social innovation;
- (d) measurement of investment and cost-effectiveness.

The areas in which this type of welfare operates range from support for family income, study and parenthood, health protection, to leisure proposals and commercial discounts on various types of useful everyday goods. More precisely, corporate welfare plans include fringe benefits, which are forms of remuneration in addition to the main salary paid by the company to the employee with the aim of supplementing the standard salary, encouraging greater productivity; and flexible benefits, which increase the purchasing power of employees through the provision of goods and services. Concrete examples of benefits and services, which, unlike a monetary increase in the pay packet, not eroded by taxation, belonging to the two above-mentioned macro-groups are:

- personal and family health care, prevention programmes, specialist visits, nutrition education programmes;
- meal vouchers, which can be spent in catering establishments but also in participating markets;
- home-work collective transport services, or reimbursement of subscription costs for mobility services;
- *time utility* services, such as administrative work, laundry or maintenance services for living spaces (“maid”);

- assistance to elderly or dependent family members;
- family assistance, baby-sitting, parental leave, flexible working hours;
- non-occupational insurance covering the risk of non-self-sufficiency or serious illness;
- social security and welfare contributions for income support, unemployment guarantee funds, wage subsidies in cases of termination of flexible contracts;
- use of assets provided by the company for the benefit of workers, such as company mobile phones, accommodation or company cars;
- loans and financing at below market rates;
- vouchers, which entitle the holder to a single predefined good for its full nominal value;
- energy-saving initiatives and training, conventions and activities aimed at increasing its environmental sustainability;
- other services, whether for the purposes of education, instruction, recreation, social assistance or worship, provided they are aimed at homogeneous and non-discriminatory groups.

It is not only benefits and perks, however, that are covered by the principle of facilitating the worker in this new “broader” interpretation of the company, but also the innovative concept of flexible working provided by the various types of *smart working*, which we will discuss later.

Welfare and social innovation are thus combined, moving from individual impacts to collective and territorial impacts by connecting the internal and external dimensions of the company and, in this way, entering into an ethical and social responsibility dimension, generating widespread positive externalities, which nevertheless require intentionality. For example, the question of equity in the conversion of RDPs must be able to go beyond aspects of proportionality, in favour of ecological effects by looking at needs and eco-systemic impacts.

On the organisational and inter-organisational level, we are faced with schemes of remuneration “enlarged” to partnership principles that revolutionise the organisational models themselves towards greater horizontality and sense of community such as to favour orientations towards self-organisation and co-planning by reducing authority levels and de-hierarchising organisational structures with lower costs of control and



information, as well as access to useful knowledge through greater physical and emotional well-being. In this way, whole eco-systems of enterprises and SMEs are moved towards a shared, inclusive and participated well-being, virtuously connecting the dynamic triangle between enterprise, community and territory, between individual, groups and creativity, between abstract and concrete, between manual and intellectual that are osmotically encouraged to weld, hybridise and contaminate each other towards organic and dynamic super-skills along the network and/or the enterprise chains. Processes that also reshape the very concept of leadership in favour of greater participation, i.e. towards *employeeeship* (Pilotti, 1991, 2016, 2017, 2019).

## 2 Second-Level *Welfare* as a Lever to Reduce Inequalities and the Asymmetrical Effects of Globalisation

Inequalities in income, in access to material and immaterial resources, in access to education (and also in access to “fair justice” and “appropriate care functions” or participation in political decisions and social life as part of active citizenship) have been growing for over five decades, as authoritative sources have been demonstrating for years (from the BoI to ISTAT, from OECD to ECB to EUROSTAT). The long crisis of 2008 has only accelerated but not in itself generated ex-novo those asymmetrical processes of inequality. Inequalities that cannot therefore be described as the ineluctable effect of the actions of markets that are always represented as “perfect”. It has been shown that the countries with the greatest inequalities (in income, access to education and health, and a higher *gender gap*) are those with less social mobility and between generations. These are the countries that grow the least. Moreover, where inequality grows, so does social morbidity (alcoholism, drugs, suicides). Among the “laggards” are the USA, the UK and Italy, followed by France and Japan. On the other hand, Finland, Denmark, Norway and Sweden are among the most dynamic and least unequal. In an intermediate (but favourable)

position are Canada, Germany, New Zealand and Australia. Reducing progressivity in taxation increases inequality while reducing the savings rate reduces it, but it still increases with a reduction in average household size (as well noted by J. Stiglitz, 2017 and in contrast with Friedman, 1970). Technological change rewards higher-skilled and lower-skilled jobs that increase their relative wages, but widens inequality to the detriment of *middle-skilled* jobs. The strength of the social-information oligarchs (Google, FB, Amazon, Apple, Alibaba, Tencent et al.) and the relative weakening of the international antitrust authorities have certainly increased their market power and the monopolistic position rents occupied by these new conglomerates of recommended attention. These attention pachyderms have contributed to widening inequalities at least along the fault line of the growing separation between hyper-connectivity on the one hand and hypo-socialisation on the other, introducing little transparency in the treatment of Big Data (Mazzucato & Jacobs, 2017).

The separation between finance and the real economy has certainly been an accelerator of inequality, as has the loss of power of intermediate bodies, including trade unions, due to policies that are often neo-corporative in favour of only some categories of workers. This is why data must remain under public control, as in cities or metropolitan areas.

Part of the dissatisfaction of more than 70–80% of planetary workers that produces inattention and *dislikes* can be compensated with welfare strategies, via involvement, engagement and participation (direct or indirect) (Fig. 10.1).

### **3 Self-organisation, Responsibility and Intentionality Between Life Cycle Governance and the Promotion of Core Competences Towards Life Careers**

By taking up the challenges of open innovation and open organisation, companies can reduce the costs of applying traditional control models. By doing so, it is possible to switch to internal forms of self-organisation in a life cycle perspective of welfare needs based on the needs of the individual worker.

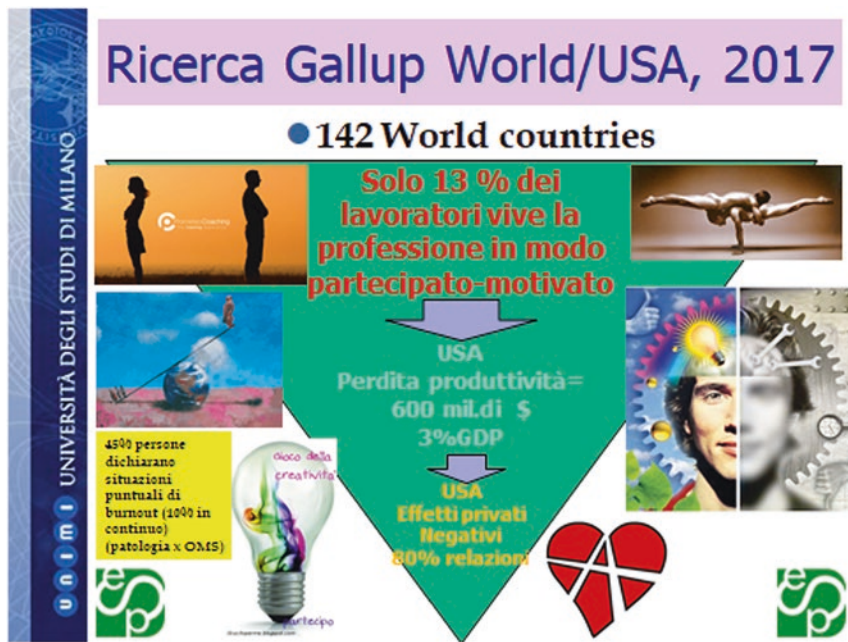


Fig. 10.1 Pilotti (2019), Organizzazioni emotive (creative e intelligenti), McGraw Hill. (Source: Pilotti, 2019)

Companies can then embrace the challenges of digital manufacturing change by opening up their corporate boundaries in a participatory sense and embracing the challenges of *open innovation* and *smart organisation* à la Chesborough. How? By supporting and retaining its employees, selecting and retaining the best ones with strategies that make the most of human resources and core competencies, extending the product culture to that of competencies along a chain-network and/or platform logic, promoting people and developing an attractive corporate climate (Porter, Kramer, 2011; Kotler et al., 2010). This is due to the fact that people are no longer so sensitive to monetary incentives from *task careers* but—more often—to non-monetary incentives consistent with a *life career* and because they act in a situational context. Trajectories often linked to the availability of time (e.g. extra-work time or even intra-work time as in the case of training and/or cultural programmes), to the company climate

and to family reconciliation within a medium-long-term horizon that is certainly able to favour a higher participation of women and young people in the labour markets and their contribution to organisational contexts that are more dialoguing and less hierarchical-functional. Organisational models that reduce the cost of information and access to knowledge and tend to replace the traditional and costly vertical control models with those of self-organisation where workers, technicians and managers are strongly empowered and where command is often replaced by information, dialogue and group, team and departmental interaction (Kaplan, 2019; Liang, Renneboog, 2017).

The company areas in which this type of welfare operates range from supplementary social security to health, from insurance for employees and families to equal opportunities protection, from family support to training for employees and their families, from support for the weak and social integration to extended territorial welfare. And all this following a sort of life cycle of the welfare needs of the employee (and of his family or community) along the trajectory of his life-work career, which has evidently changed in relation to the advancement of life expectancy, the female activity rate and the average retirement age, as well as the education and care needs of children and/or elderly family members (Censis-Eudaimon, 2018; Damasio, 2010; De masi, 2018).

The objectives of corporate welfare are normally, in decreasing order of importance, oriented towards improving worker satisfaction and the corporate climate and, in addition, increasing corporate productivity (physical and cognitive). But also to build worker loyalty and improve corporate reputation with effects on lower labour costs via tax advantages, also by integrating the benefits of the social and health system. All in all, they are capable of generating “positive externalities”, both inside and outside the company, i.e. in the area of reference or belonging. However, companies must promote appropriate information on the opportunities of the tools made available by legislation and by service providers specialised in this field. In fact, overall knowledge of the opportunities offered is good but just above 53% with 46% still not informed. While among “aware” companies only 28% use the conversion of productivity bonuses into actual welfare with bonuses of some significance (between 800–1200 euros) for a growing volume of contracts in the three-year period 2015–2017.

It is clear that we are faced with the “great virtuous exchange” between more internal flexibility in the use of labour resources and more wages (direct and indirect), which will also have to be combined with a demand for greater participation in profits and/or decisions, as in the “German lesson”, if we want to strengthen medium- to long-term transformative prospects, with reference to the sharing of the risk injected by the knowledge society. However, this will also have to be extended to trajectories of diffuse shareholding, given the enormous and growing risk of the age of innovation in which we are immersed, and which institutional risk capital providers are no longer able to cope with either on their own (through self-financing) or with the support of banks (through borrowing), or by simple recourse to the markets (stock exchange). We need to resort to instruments of widespread involvement in medium- to long-term risks, not least to stimulate additional creativity and productivity. Because the risks emerging from the digital society and the knowledge society are enormously more complex and largely unpredictable than those of the mass production society. They therefore require a broad participatory basis in terms of both organisation and society, with an innovative state acting as a “regulatory arbiter” in reducing the inequalities that we find in expenditure by income class and in self-financing (or waiving) health care costs.

In Italy (and in Europe in general) we therefore need to advance these practices with training, culture and education on the methods and tools used, in particular by spreading horizontal, vertical and territorial network contracts. These tools should be able to reduce inequalities, which have risen sharply since 2007. For example, by mobilising district instruments to support SMEs in the use of these participatory forms geared towards involving and motivating creativity, innovation and corporate-organisational growth along supply chain and/or platform lines. A trajectory of transformation necessary in the conditions of widespread *open/social innovation* imposed by Industry 4.0, overcoming limiting factors (high costs, organisational difficulties, employee and trade union resistance to grasping real needs, difficulties in linking company welfare to second-level bargaining).

## 4 Social Policies and Work Towards Well-being and Happiness

Thus happiness, individual and collective, is to be represented—in modernity—as a process that has no destination, because it is permanently in progress and has no end. But with these evaluations we adopt a meaning of happiness as freedom that we could synthesise with three strong components that can be well traced in the history of ancient and modern philosophy:

- (a) freedom as a condition beyond material constraints, or the ability to reduce obstacles made by people, whether intentionally or unintentionally, on the freedoms of other people;
- (b) freedom as an expression of shared social relations;
- (c) freedom as the expressive source of the “meaning of life”.

It straddles the line between individuality and subjectivity, between public and private, as an inevitable outcome of modernity and not easily measurable through various surveys, insofar as it is intentional and voluntary. For the simple reason that it has individual and collective perimeters that are always “subjective” and never finite (Plamper, 2017). To be contextualised in the historical period we are going through, quite different from the dawn of life in the caves painted by the first Neanderthals (65,000 years ago) who already controlled a language and the capacity for abstraction and the first ancestral forms of organised clan life. Certainly compared to the age of Enlightenment and the first industrial revolution, which that paradigmatic leap had triggered by autonomising science from religion. Happiness is represented throughout the long journey—not always progressive—of human growth up to the Enlightenment, in the substantial absence of individual freedom, widespread education and in the total absence of a role for science, which until then had been absorbed by deistic, monotheistic, polytheistic or pagan conceptions of life. A long road that saw the predominance of physical or primary and therefore material needs (hunger, thirst, protection) “not easily compressible” and essentially comparable. Distinct from immaterial needs, which are variously “compressible” and yet not comparable, because they are

dictated by subjective motivations and aspirations that are highly differentiated by cultures, traditions, customs and dominant institutional structures. Satisfaction and well-being should therefore be distinguished in one or another historical and institutional or cultural situation, as should the concept of happiness (Bateson, 1977; Varela et al. 2017).

Until the Enlightenment, satisfaction (and to some extent well-being) as an evaluation of life was configured within a linear scale of access to material resources to respond more or less reasonably to basic needs and vital parameters such as hunger, thirst, shelter from the weather and care of offspring. With the Enlightenment, that happiness became “public” and achievable on earth—and not only in the afterlife or in asceticism and individualism—on the basis of human know-how, which, by combining legal equality, individual freedom and widespread knowledge, opened the doors to the first industrial revolution. Not only was salvation opposed to the abyss, but also a non-situationist well-being emerged that aimed at a possible shared happiness. By reducing dependence on primary parameters, satisfaction for oneself and one’s family in the life cycle increased in a close connection of space-time (E. Felice, “*Economic History of Happiness*”, 2017). It is with the first industrial revolution—to simplify—that a perception of overall well-being is also triggered as a relationship between one’s work and the availability of resources, (material and immaterial) due to a break in the space-time relationship, triggered by technological advancement and a re-articulation between production and consumption. A process that decouples growth in income and satisfaction-well-being-happiness and that we can reconstruct by crossing Hofstede’s model of the “limit” and Maslow’s pyramid of primary and self-fulfilment needs reinterpreted in the well-known Easterlin paradox (Fig. 10.2).

With the onset of the industrial revolutions in the eighteenth century in England of the first mechanical spinning machines and the acceleration of labour productivity, the issue of choice in the use of resources arising from the differentiated availability of production and consumption was introduced, including access to basic education even for the working classes, as well as the birth of modern organisation as a system of machines supplemented by teams of educated men to perform defined and replicable tasks. The strong motivational drive at this stage sees

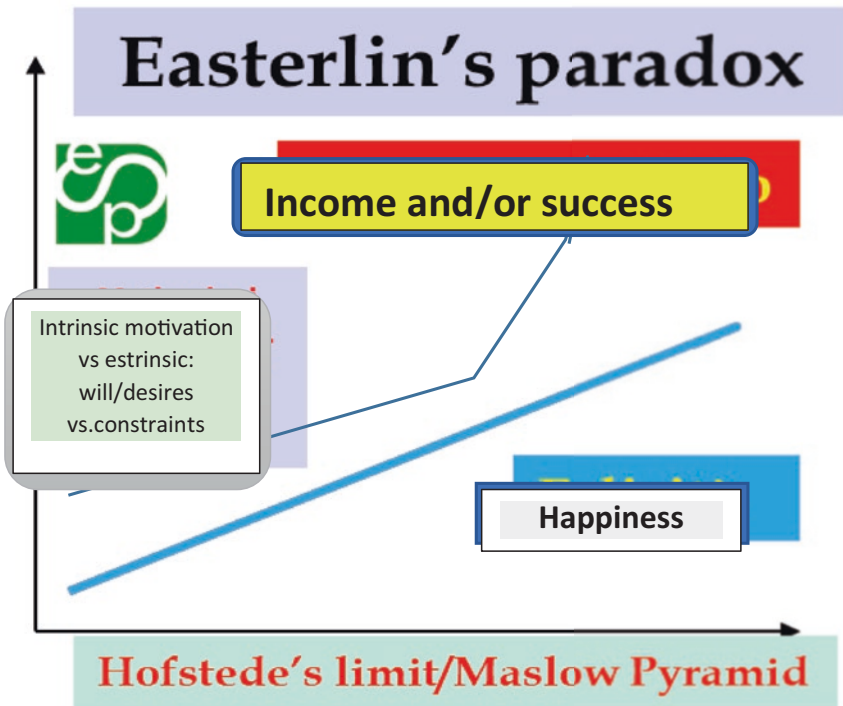


Fig. 10.2 Easterlin paradox. (Source: Pilotti, 2017, 2019)

happiness fuelled by the pleasure principle and personal enrichment. A modern organisation consolidated by the second industrial revolution, which clearly separated body and mind, task and ability, individual and community, abstract and concrete, manual and intellectual. Here, satisfaction is entrusted to the availability of money useful to buy—compensatively—the “well-being” outside the factory through greater consumption, material and/or immaterial also with a welfare of rights. A Taylorist-Fordist regime that—as is well known—underestimates the alienating effects on people of the fragmentation of tasks and their replicability. A bifurcation that would not have withstood the tests of the subsequent historical evolution of man’s needs, in search of freedom and not only of consumption for a well-being without adjectives and therefore not only physical. Satisfaction is realised in this context with the



spread of rights defended by the trade unions that will begin to consolidate in the factories as well as in the fields, and by the consolidation of democratic representation in modern constitutional parliaments that will initiate the first legislations of an advanced welfare state. Man's well-being expanded to include factors that were no longer just physical but became psychological and motivational (Avallone, Paplomatas, 2005). In addition to material needs that can basically be ordered and sustained by extrinsic motivations, which can be met with simple salary and monetary compensation, there are also immaterial needs that cannot be ordered and cannot be "compensated" with simple monetary incentives because they are sustained by intrinsic motivations (will and life choices) (Damasio, 2010; Fineman, 2008; Hatcher, 2008).

Satisfaction extends to a well-being without adjectives, and to those emotional potentials that push one to search for process factors involving a sort of expected happiness, connecting what one does inside the factory with what life is "outside" it, in the family, with friends, in the community and territory of reference. Work time is not always easy to monetise because it responds to a sense of the "good life" which has to be reconstructed and developed in relation to one's own trajectory of expected happiness and which changes in the contexts of space and time, and which calls for reuniting work time and non-work time, within new meanings and vital signifiers (Solari, 2016; Porter, 1991). Happiness no longer coincides trivially with the pleasure of the *hic et nunc*, but expands to an ethical space of sharing the sense of a "good life" (authentic and true) with the Other (Mellahi et al., 2010). Accepting the so-called Easterlin paradox that points out a decoupling between the level of wealth held on average and the rate of happiness beyond a certain threshold and starting from the 1960s, with a flattening of the latter. Because at a certain point wealth cannot buy everything, like friendship or love, or fraternity and reciprocity, listening. It becomes necessary to produce that *sensemaking* of connection between past, present and future in support of solid visions for a "good life" with strategies and behaviours of long-term enhancement of individuals and organisations, up to the involvement of their families and the territories involved. This trajectory leads Rebora in "*Science of Organisation*" (pp. 108–119) to spend several "unusual, non-rhetorical" and in many ways "heretical" pages on *sensemaking*, which are

widely shared, retracing the work of March and Weick of the 1990s up to the latest contributions of the first decade of this century (March, 2003; Weick, 2006). This confirms that ethical-moral and material dimensions influence each other, but not in a mechanically deterministic way. Looking at today's world, we see a country that is caught up in a radical selfish individualism (from utilitarian material post-well-being?) and is unable to break out of its economic deadlock and no longer knows how to grow despite the industrial potential available: between new backwardness (illiteracy and youthful return also from hypo-socialisation) and post-modernity (social hyper-equipment), with new addictions such as those of gaming (online and offline). Emphasised by enormous capacities to do but not accompanied by those of foreseeing, within an ever more expanded present without past and without future. Therefore, incapable of choosing what kind of progress we want or only desire. Reasons that make it clear why it is so important to find “*a sense of life*” and not fall into the abyss. And why it becomes important for organisations to monitor and recognise emotions in order to enhance the potential for well-being that sustains and “contains” negative impulses with favourable and welcoming contexts, meaningful within a “long and comprehensive vision”, and not only with a good salary and a welfare state (standard) of social security that is increasingly inefficient and fragile (Fig. 10.3).

With a return to the *Enlightenment* idea (perhaps today with less faith in hyper-rationalism as the only way out of human imperfections) of freedom from material needs and from pain, fatigue, and which today we would say from stress and widespread burnout, which the WHO states is present in one in two workers and for 20% on a continuous basis (see diagram above). Widespread dissatisfaction and lack of well-being therefore become a necessity to be addressed by modern businesses knowing that more satisfied workers will put their positive motivation towards creativity and innovation, feeling that they are living a life worth living. Estimates by Gallup (2020) show that over 70%–80% of workers are dissatisfied with their jobs in 142 countries around the world and that in the USA alone this accounts for \$1500 per employee per year, with losses amounting to 3% of GDP, i.e. \$600 million. Translated into the case of Italy and Lombardy—starting from the indicator of absenteeism equal to 7% of the total number of hours worked—we could estimate at about

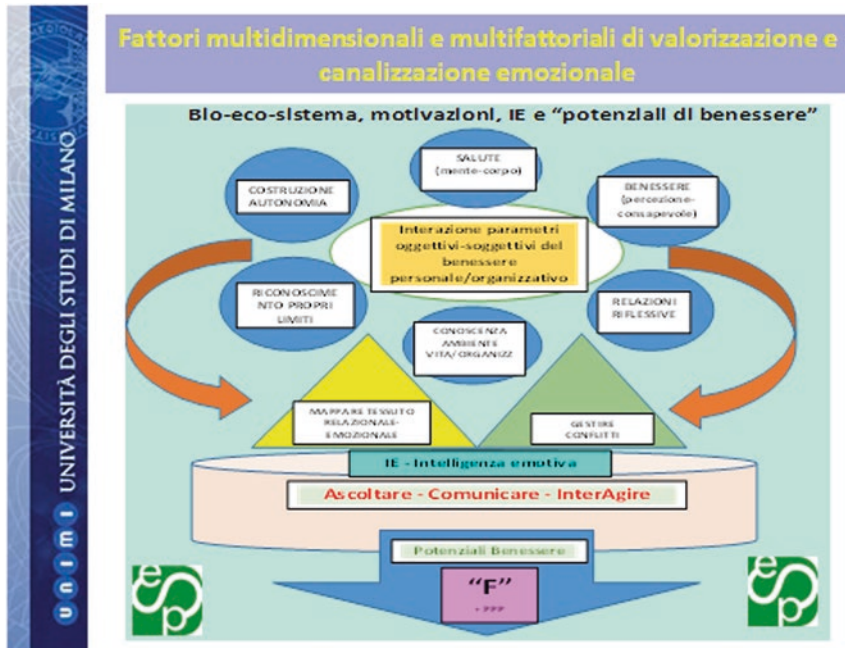


Fig. 10.3 USA - negative impact on private relationships in 80% of cases 45% of people declare conditions of burnout declared as a diffuse social pathology by OMS (Source: Pilotti, 2017, 2019)

1/3 attributable to dissatisfaction/absence of motivational well-being equal to the enormous figure of 3 million euro/year, i.e. with losses of about 800€/year per worker. In a country like Italy, which—as is well known—works 1750 hours/year among the highest in Europe along with Greece and Portugal, but with a GDP growth rate among the lowest for over 25 years. This means that we work a lot and badly, compared to Germany and northern European countries that work around 1350 hours per year per capita, with higher salaries and enormously higher productivity levels, and therefore with GDP growth rates 4–5 times that of Italy.

This is why it is necessary to insist (also with regard to legislation) on more advanced participatory models that improve people’s well-being and involvement, reducing hierarchies and focusing on a different relationship between men and between men and machines with physical,

cognitive and emotional engagement. In a territorial welfare framework, by means of appropriate corporate welfare levers that can involve small and not only medium to large enterprises (Ioannou-Serafeim, 2019; McKee, 2018). Improving working contexts and relations between people, in order to unleash their welfare potential towards creativity and collaborative intelligence. Aware that second-level corporate welfare cannot simply be a return to monetary incentives (canteen bonuses, transport, health, school book vouchers) but must widely involve work organisations and industrial relations themselves, beyond the German *Mitbestimmung* where limited to the exchange of information. Possibly by also adopting forms of risk involvement of workers (worker buy-outs also supported by the EU Commission, and not only management buy-outs, with the support of institutional investors and pension funds), in order to deal with the riskiness of medium- to long-term investments and contain or compensate for the pathology of short-termism dominant in contemporary capitalism, which is in part incompatible with the digital world and knowledge society (Winston, 2019; Vermaelen 2019; Zamagni, 2013). It is also an ethical barrier to a world of global businesses that risk self-destruction without limits and that need a globalisation that is tempered by sharing the effects of sustainability on the environment and human promotion. Trying to overcome at least some of the obstacles to shared happiness: excessive hierarchy and intolerance, lack of justice, absence of meritocracy and respect, excessive pessimism, excessive self-referentiality.

## 5 Organisational Obstacles to Shared Happiness Between Skills and Spirituality

The organisational obstacles to a possible and shared happiness can be listed as follows:

1. Excessive pressure for short-term results
2. Excessive hierarchical pressure against dissent
3. Excess pressure from antagonism-competition

4. Excessive verbal redundancy without value and facts
5. Lack of clarity on vision
6. Lack of respect
7. Lack of appreciation
8. Excessive pessimism
9. Excessive intolerance
10. Absence of equity and justice
11. Absence of a balanced meritocracy

With a transition towards a post-leadership or *employeeship* where the leader becomes a connector and a coach towards resilience to face complexity and formidable structural interdependencies of an “ecological” type. A transition that brings out the centrality of competencies in organisations, but that these are not enough if they are not accompanied by factors of a shared spirituality that connects us to the Other that is in us and outside us, to welcome it and meet it. So that this discover can lead to the recognition of diversity as a potential and not as a threat as a source of shared creativity. This is the ridge for interpreting the transformations of the organisation between environmental sustainability and digitalisation between short and long networks, starting again from people and their centrality (Rivkin, 2000; BRT, 2019). What is the way to move away from the abyss, with reforms that place man and his environment at the centre of the processes for a “good life”, fundamental for a “good organisation” towards ever higher and shared goals, and which have changed human aspirations from the *Cueva de Los Aviones* to the hunter-gatherer to today’s *smart workers*. By weakening their spiritualities and perhaps “emptying” them. Which have led us in the current post-modernity—as Reborá (2017) says—“to the explosion of subjectivities among people, businesses, and institutions” that requires advanced and innovative responses. Perhaps after the crisis of mass proletarianisation and the Piano State as well as of “perfect markets” suited to perfectly rational agents and complete contracts we should explore its opposite: becoming all “voluntary capitalists” since the “involuntary” ones have not given—nor are giving—good evidence within an increasingly asymmetrical and unjust globalisation?

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