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**Stakeholder Engagement and Corporate Social Responsibility**  
**An experimental study of the Economy of Communion Project**

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## INTRODUCTION

*“Along the course of history, we had often to acknowledge, alas, that possible becomes impossible, and we can guess that the richest human potential remains impossible to be realized. On the other hand, we had to acknowledge that the un-hoped for becomes possible and is realized as well. Then we need to hope for the un-hoped for and act for the improbable. ”*

*E. Morin*

This is an universally recognized time of crisis and therefore of transition for the world economy. However, a transition does not necessarily represent a negative stage, at least not completely, since from the dawning of the economic sciences or of other modern sciences as well, we always had to withstand an age of adjustment and re-organization, in order to prepare for a following stage. All this, to remind us that the present “economic crisis” is to be faced with an active and constructive attitude while seeking to extract from its past development the issues of concern, in order to understand them and find new, fit proposals to help us overcome it.

This hard, but otherwise necessary search and rediscovering of founding values - such as the “common good”, solidarity, gratuitousness, reciprocity is what civil society is to do nowadays. The search for such values has been obscured in these recent years, due to the evident increasing consumerism and relativism which permeate our society. Presently, it should restart with higher stamina, because a possible path out of the actual crisis travels through the so-called “brotherhood bridges” with other nations, people and continents to be built especially in the economic and social field, as the worldwide net

of interconnections makes “my own good” depending on another country’s good as well.

Minding only one’s personal interest and good is no more acceptable now, as it leads to exclude ourselves from the virtuous cycle where skills and abilities, goods and resources are exchanged. On the contrary, participating in this cycle has become so essential as to consider ourselves citizens of one only nation, the world.

With this in mind, we have focused our attention on the broad theme of Corporate Social Responsibility. This study is centered on business ethics, in particular on Stakeholder Engagement and the ways of involvement of the stakeholders, i.e., suppliers, customers, shareholders, employees, the whole society and so forth, all engaged at different levels in business management.

The issues of Corporate Social Responsibility and Stakeholder Engagement have been studied through a review of the international literature, mainly by means of examples and practical solutions in order to highlight the scholars’ efforts in trying to spread these themes and point out their importance. In this study, we chose to concentrate especially on the dialogue with the stakeholders and the thick net of relations which develop inside and outside of a company, to involve the whole society. In doing this, our goal is to highlight how the quality of these relations will affect the success of a business, and therefore of our society as well.

To provide evidence for “Building good relations is highly rewarding in business”, we described then the paradigm of the Economy of Communion which nowadays represents quite a new trend of action in economy, where people are positioned at the core of the business, as the agents of change which they are growing into. Through actions and activities of Social and Corporate Responsibility, Stakeholder Engagement is a powerful instrument for the creation of an economy centered on the person.

## Chapter I

### Corporate Social Responsibility

*“Firms may increase the total value they add to society by focusing on either the social or economic aspects of their operations. In today's financially competitive and socially concerned marketplace, firms usually must consider both aspects of their performance.”*

*J. Chrisman and A. Carroll*

#### FOREWORD

The focus of this work is on the relationship between the concepts of Corporate Social Responsibility (CSR) and Social Strategies (SS), which can be considered tightly related and on the implications of such relationship on business management, especially in regard to the role of all the subjects involved as “interest bearers”– from employees, clients, suppliers, shareholders, competitors to the whole community which we can refer to as the stakeholders (STK). According to Cantele (Cantele, 2006), the CSR contributes to define and clarify both contents and purposes of SS, whereas SS connote the CSR in a more management-like manner. In this perspective, a definition of CSR cannot be formulated without explaining what SS are; on the contrary, SS can be planned and defined without referring to the concept of CSR. In other words, CSR should not be seen as a sporadic display of charity from business organizations; actually, it requires a precise formulation of purposes and a planning for the management of resources and activities. Consequently, it needs also a previous definition and subsequent implementation of strategies.

## 1.1 Social Strategies

Speaking of “Social Strategies”, we refer to all the relationships existing between a business organization and its social interlocutors: such relationships can be of great importance and influence on the involvement of the STK. More specifically, the firm can be called to manage all these relationships as to achieve its business goals and, at the same time, to somehow adapt such goals to the requests of the subjects - both internal and external to the organization - involved in this process.

We are now going to introduce different classifications of social strategies, which highlight the relationship between STK and business organization, detailed as follows:

### CLASSIFICATION OF SOCIAL STRATEGIES

#### (A) Classification on the basis of the company’s strategic stance

Strategic stance is related to the responsiveness of a firm to the requests from the environment, i.e., the “openness” of a business organization. According to Ackoff (1974), firms can take four possible stances when facing the changes in the outer environment, as follows:

- (1) Inactivity: in this case, business organizations ignore environmental changes and keep behaving as they usually do;
- (2) Reactivity: this is a more passive stance; firms tend to wait and limit their action to responding to changes caused by external forces;
- (3) Pro-activity: business organizations try to anticipate what is going to happen and take a given stance before the expected event takes place. This is an anticipatory strategy;
- (4) Interactivity: business organizations choose to be actively involved with the external environment and strive for envisioning a possible future for all the implicated parties.

Carrol (1979) suggests a second classification which is not very dissimilar from the previous one; it consists of the following four behavior categories:

- (1) Reactive: the firm is passive and do not plan in advance a response to external stimuli. In some cases, this stance may point out that a firm is unconcerned with social issues; in other cases, the business organization can be fully aware of this choice.
- (2) Defensive: this behavior is typical of firms that react on a case-by-case basis whenever social issues emerge, therefore lacking a systematic, consistent approach.
- (3) Accomodative: in this case, the business organization strives for understanding and anticipating the change in the outer environment, in order to plan in advance a quick response and prevent potential conflict.
- (4) Proactive: here, the firm engages in understanding and anticipating the evolution's trend of the environment; doing this, the business organization adapts itself to the future issues before they take place, in order to participate in the social change.

Piantoni's classification (1984) basically follows Ackoff's line of thought with a few changes, as follows:

- (1) Passive approach: the business organization does not acknowledge any kind of social responsibility and does actually nothing to motivate STK. In fact, its actions have as the one and only goal an economic benefit in a product-oriented approach. Therefore, the firm suffers the consequences of other's action and is affected without influencing events. This approach can be chosen by either very strong and confident firms considering their interlocutors "weak" and their issues unimportant, or by small firms trying "to pass unnoticed".
- (2) Reactive approach: the firm, when forced to take action, can choose to meet the needs of STK. In this case, it admits its social responsibility but fights it, limiting its action to a minimum. This approach is usually chosen by market-oriented firms and consists of three stages, i.e. (1) identification of STK, (2) identification of the issue in question and (3) development of a strategy.
- (3) Interactive approach: according to this view, most often preferred by service-oriented organizations, the firm is considered an element of a wider system. The features of this approach can be summarized as follows in (a) cause-and-effect logic, focused on the issues which cause social pressure, (b) relational logic, where

the firm quits considering itself at the core of a system and acknowledges the existence of a net of relationships and interactive forces and finally (c) anticipatory logic, which is action-oriented.

- (4) Proactive approach: it is more future-oriented. In this approach, the system is considered as a whole and no more focused on the present interaction with its interlocutors. In fact, the firm acknowledges responsibility and anticipates STK' future requests and system change, willing to participate in and influencing it.

Table 1.1 Classification of Social Strategies According to Piantoni

|                                |                            | LOGIC OF ACTION      |                         |
|--------------------------------|----------------------------|----------------------|-------------------------|
|                                |                            | Consequential        | Anticipatory            |
| PERCEPTION<br>OF THE<br>SYSTEM | Aimed at<br>the single STK | REACTIVE<br>APPROACH | INTERACTIVE<br>APPROACH |
|                                | Global                     | PASSIVE<br>APPROACH  | PROACTIVE<br>APPROACH   |

Source: Piantoni (1984).

(B) Classification on the basis of the relationship between Structure<sup>1</sup>- Strategy - Performance

In Husted's view (2000), when specific social issues emerge both a specific organization structure and strategy exist to solve them. This second kind of classification is based on Husted's model of CSR and focuses on meeting the STK' needs; it also involves the choice of strategies and structure which prove more fit to reach an agreement between the firm's and the STK' expectations on social issues.

To start with, the business organization must identify the social issues in which a gap in expectations exists between the firm and the STK; whenever this gap is not present, we call such issues "nonissues".

<sup>1</sup> In Husted's words, structure is defined as "the overall mechanism in the organization that impacts the flow of information, the process of decision making, and the delineation of responsibility" (Husted, 2000).

According to Husted (2000), three kinds of social issues can be identified, as follows:

- (1) *What is – what is*: this social issue emerges whenever there is no agreement on the nature of facts in a given situation, i.e. if a cognitive conflict takes place;
- (2) *What is – what ought to be*: in this case, the gap takes place between what is and what ought to be;
- (3) *What ought to be – what ought to be*: this issue can be described as a gap between the company's and the STK' view on what ought to be, as respective goals and expected results do not correspond.

After identifying the various types of social issues, we can finally highlight four strategies that allow to reach an agreement between firm's and STK' expectations.

Husted suggests strategies based on four factors, namely: (a) information diffusion, (b) decision-making responsibility and (c) decision-making process itself. These strategies are detailed as follows:

- (1) **COMPUTATION STRATEGY**: its distinctive feature is the formulation of plans and procedures which result necessarily in pre-determined responses to environmental stimuli. Such responses are most suitable in the case of **NONISSUES**, as a previous negotiation is not needed; this because an overall agreement between company and STK has been already established. The organization structure is bureaucratic, thus decisions are made by top management teams and typical instruments could be ethic codes and social reporting.
- (2) **DISCOVERY STRATEGY**: it is suitable in the case of social issues of the first type, i.e. related to the nature of facts (*what is*) and consists in looking for the best solution to achieve goals on which an agreement has been already reached. The most suitable structure is *collegial* where majority-based decision-making is carried out after distributing the information among all the involved experts.
- (3) **INSPIRATION STRATEGY**: it is usually employed whenever a common vision is lacking. This strategy aims to challenge the dominant values in order to create a novel vision of the firm and of the relationship with the STK as well. The core of

this strategy is moral imagination<sup>2</sup> (Johnson, 1993), which can be fostered only by an environment of “*organized chaos*” where information is widely distributed and all parties are spurred into searching for a solution to the issue.

- (4) BARGAINING STRATEGY: companies can profitably recur to this strategy in the case of a conflict of interest, in order to find an agreement. The *representative* organization structure is the most suitable, since it gives voice to all the relevant STK.

Table 1.2 Classification of Social Strategies According to Husted

| SOCIAL ISSUE      | NON ISSUE    | TYPE 1                    | TYPE 2                             | TYPE 3                                      |
|-------------------|--------------|---------------------------|------------------------------------|---|
| EXPECTATIONAL GAP | none         | what is<br>vs.<br>what is | what is<br>vs.<br>what ought to be | what ought to be<br>vs.<br>what ought to be |
| ISSUE STRATEGY    | computation  | discovery                 | inspiration                        | bargaining                                  |
| STRUCTURE         | bureaucratic | collegial                 | organized chaos                    | representative                              |

Source: Husted (2000).

(C) Classifications based on the relationship with STK

In this third and final section, we concentrate on the relationship between the firm and its STK; this relationship is considered a pivotal point in social strategies.

Freeman (1984), the first Author who developed a classification centered on the relationship between firm and STK, suggests to categorize the STK in which the firm is interested.

The five strategies listed below intend to be an answer to the crucial question: “*What do we stand for?*”

---

<sup>2</sup> Johnson defines moral imagination as “*an ability to imaginatively discern various possibilities for acting in a given situation and to envision the potential help and harm that are likely to result from a given action*” (Johnson, 1993).

- (1) Specific stakeholder strategy: following this strategy, the firm can meet the needs of only one or few STK. For instance, a firm whose dominant values are client service and employee satisfaction can benefit mainly these two groups, namely clients and employees.
- (2) Stockholder strategy: in this case, the target group consists of the shareholders. This strategy is a particular case of the previous, more general strategy and find its rationale in the tendency of firms to see as predominant the interest of shareholders compared to other STK'. The main goal of this strategy is to maximize the value created for shareholders and therefore the market value of the company.
- (3) Utilitarian strategy: this strategy's goal is to maximize the utility of all categories of STK, thus improving the whole society by performing socially useful activities. In this case, the firm is considered a social institution whose purpose is to create the maximum possible output for the benefit of the highest number of people.
- (4) Rawlsian strategy: here, companies are seen as agents of social change. In implementing this strategy, the firm addresses to the most disadvantaged categories of STK and ensures that positions inside the company are available to all the society's members. This strategy is inspired by the values of freedom and equal opportunity.
- (5) Harmony strategy: social harmony is the principle on which this last strategy is grounded. On the basis of society equity, it requires that action taken be both desirable and supported by the majority of STK.

However, according to Meznar, Chrisman e Carroll (1992), Freeman's classification is not exhaustive since, in these Authors' words, strategy is the process through which the company "*matches its skills and competences with the opportunities (and threats) in its environment*".

Then, in this sense a strategy ought to identify the borders of such environment and define in which ways the enterprise utilizes resources and competences in order to meet its STK' needs; conversely, Freeman's classification takes into account just the different types of STK (i.e., the environment) and ignores what types of benefit they can obtain.

By combining both classification principles, i.e. types of STK and offered benefits, Meznar, Chrisman e Carroll's classification focuses on the concept of added value, defined

as “the difference between total benefit and total cost”, where total benefit is the sum of economic revenue and social benefit and total cost includes both economic and social cost, as detailed in Table 1.3 (Meznar, Chrisman and Carroll, 1992).

Table 1.3 Profit and Value Added

|  |
|--|
| <p><b>CLASSICAL INTERPRETATION</b></p> <p>Profit = Economic Revenues - Economic Costs</p> <p>Economic Revenues = Price x Volume</p> <p>Economic Costs = Operating Costs + Cost of Capital</p> <p><b>GOAL: Maximize Profit</b></p>                                  |
| <p><b>VALUE ADDED INTERPRETATION</b></p> <p>Total value added by firm = Profit + Net Social Benefit</p> <p>Profit = Economic Revenues - Economic Costs</p> <p>Net Social Benefit = Social Good - Social Costs</p> <p><b>GOAL: Maximize value added by firm</b></p> |

Source: Meznar, Chrisman and Carroll (1992).

The concept of strategy proposed by these Authors is centered on the idea of value added; enterprise strategy is thus defined as follows:

*"How the firm attempts to add value to its stakeholders in order to legitimize its existence and ensure its future".*

To exemplify more clearly the relationship between STK, benefits and strategies, STK have been divided into three categories, namely (a) economic STK, obtaining only economic advantage, (b) social STK, receiving only social benefits and (c) “mixed” STK who benefit of both types of advantage. Strategies have been also divided into five groups, as follows:

- (1) Classical: the company is interested in the economic gain only;
- (2) Defensive: in this case, the firm focuses on reducing social cost; besides, it does not invest on increasing benefits. This strategy can be considered “broad” or “narrow”, depending on the number of the STK involved;

- (3) Offensive: the enterprise is concerned with increasing STK' satisfaction level by boosting social benefits, without decreasing social costs. It can be broad or narrow;
- (4) Accomodative: the organization works on both sides, trying to increase social benefits and also decrease costs. It can be broad or narrow too;
- (5) Not-for-profit: the company offers just social benefits to only social STK.

The three categories of STK have been related to social and/or economic benefits, to the types of strategies used by the firm and to a narrow/broad dichotomy, that is, if a strategy is directed to a broad/narrow group of STK, as summarized in Table 1.4.

These relationships allow the Authors to outline the features of specific categories of strategies.

Table 1.4 Classification of Enterprise Strategies

|          |                          | STAKEHOLDERS                                      |        |                     |                     |                |
|----------|--------------------------|---|--------|---------------------|---------------------|----------------|
|          |                          | ECONOMIC ONLY                                     | BOTH   |                     | SOCIAL ONLY         |                |
|          |                          |   | NARROW | BROAD               |                     |                |
| BENEFITS | ECONOMIC ONLY            | CLASSICAL   |        |                     |                     |                |
|          | BOTH ECONOMIC AND SOCIAL | Economic and Lower Social Cost                    |        | DEFENSIVE NARROW    | DEFENSIVE BROAD     |                |
|          |                          | Economic and Higher Social Good                   |        | OFFENSIVE NARROW    | OFFENSIVE BROAD     |                |
|          |                          | Economic & Higher Social Good + Lower Social Cost |        | ACCOMODATIVE NARROW | ACCOMMODATIVE BROAD |                |
|          |                          | Social Only                                       |        |                     |                     | NOT-FOR-PROFIT |

Source: Meznar, Chrisman and Carroll (1992).

(D) Classification based on the STK' role as interlocutors of the company

A third and final classification of STK has been proposed by Frooman (1999); it arises from a key-question: "*how will the stakeholders try to get what they want from the firm?*". This classification describes what resources the STK offer as a contribution to the firm. Frooman separates the above-mentioned question into two parts, namely "*what are the STK' possible influence strategies?*" and "*what factors determine the choice of one or another strategy?*". In doing so, Frooman relies mainly on the STK theory, however, the latter emerges as especially relevant, in that the dependence of the firm on the STK' resources determines their influencing power on the firm itself.

From the relationships between the above-mentioned factors, Frooman outlined two types of classification based on the STK' influence on the company:

- (1) The former classification is based on STK' control of resources and describes two possible kinds of strategy, as follows:
  - (a) Retention strategy: STK attempt to change the firm's behavior by quitting the resource supply. On this ground, STK turn out to be no more dependent on the firm.
  - (b) Utilization strategy: STK keep supplying the firm with resources, but under new conditions because they want to change certain firm's behaviors they do not approve. In this case, STK is dependent on the company.

STK can choose either control strategy, depending on how much power they can exert on the company.

- (2) The latter classification focuses on what kind of influence strategy is adopted by the firm, envisioning two possible strategies, as follows:
  - (a) Direct strategy: in this case, a group of STK controls directly the flow of resources toward the company, manipulating it;
  - (b) Indirect strategy: here, a group of STK associates with other groups in the attempt to control through them the firm's behavior. In this case, the company is dependent on the STK through a balancing of company's and STK' power.

To summarize, we could speak of “control” whenever STK depend on the company: conversely, “influence” focuses on the dependence of the firm on the STK.

In addition to the strategies previously described, Frooman proposes an outline of four possible types of relationship between STK and firm. This approach focuses on the resource control (Cantele, 2006).

*Table 1.5 Stakeholder Influence Strategies*

|   |     | Is the stakeholder dependent on the firm?   |                                      |
|---|-----|---|--------------------------------------|
|   |     | No  | Yes                                  |
| Is the firm dependent on the stakeholder? | No  | Indirect/withholding<br>LOW INTERDEPENDENCE | Indirect/usage<br>FIRM POWER         |
|   | Yes | Direct/withholding<br>STK POWER             | Direct/usage<br>HIGH INTERDEPENDENCE |

*Source: Frooman (1999).*

We have discussed the role and importance of STK and the strategies that a firm can implement in order to engage them more actively in the company’s management. In so doing, we had as a purpose to prepare the ground for introducing Social Responsibility as a pivotal factor in business activities. In this way, economic and social issues can support each other and the so-called “STK issues” (i.e. their issues, needs and purposes) become part of the company’s mission.

In this view, Social Responsibility operates at all business operational levels, from the setting of goals and values of the company to the management coordination and implementation of business processes, to result reporting.

## 1.2 Corporate Social Responsibility

As Waddock reports, *“During the 1960s and 1970s, CSR tended to focus on product and consumer safety, driven in large part by consumer activists such as Ralph Nader and environmentalists such as Rachel Carson”*. Frederick (1987, 2006) named this stage “CSR1”. However, the rich and various literature on CSR provides no consensus on the precise definition of CSR (Scherer and Palazzo, 2010).

The first Authors studying CSR came from the United Kingdom and the literature describes how companies started to take into account the importance and relevance of implementing Social Strategies. This process explains how to incorporate SS, or CSR, in the daily business activity.

At this point, the relevance and importance of the Planning & Control process emerges with the pivotal issues described as follows:

- (1) INTERNAL ANALYSIS: to find strong and weak points, define needs and resources in order to achieve the business strategic goals, which allow the company to respond coherently to STK’ needs;
- (2) SURVEY AND EVALUTATION SYSTEM: it concerns the business performance, activities and results, the evaluation of the company’s core values and processes through which the company operates;
- (3) ANALYSIS OF THE ENVIRONMENT: here the company identifies all the groups of STK, their expectations and needs and their availability to contribute as resource suppliers.

### 1.3 Corporate Social Responsiveness

As previously noted, Frederick (1994) was the first to create the expression Corporate Social Responsiveness (CSR2) and defined it as: “*the capacity of a corporation to respond to social pressures*”.

With the term CSR2 we refer to a specific field of study that focuses on the internal processes that the firms adopt to respond to the social pressure from the outer environment. This new expression was introduced as the previous term CSR1 was thought to be too vague, not focused on the internal dimension of the organization. Moreover, it was utilized as a synonym of “obligation”. This last issue emerged as CSR was viewed as the companies’ duty to operate for the common and social good. However, in the past no one identified the institutional mechanisms through which the CSR could be “managerial/operative” and it was difficult to measure the trade-off between economic and social benefit and cost; there was little transparency about the ethical core values of the CSR.

On these bases, CSR1 and the issues emerged from the previous discussion have been left behind and the attention focuses now on the “responsiveness”, i.e. the corporate social sensibility and, moreover, on the creation of procedures and instruments to assure the firm both getting acquainted with social issues and responding adequately on time, through the analysis of the specific environment and internal business analysis.

In comparing CSR2 to CSR1, we can remark that the former changes the focus of attention from company’s obligation to operating management’s response to social environment. This response consists of three steps, as follows:

- (1) environmental assessment: control and evaluation of environmental conditions;
- (2) STK management: response to the STK’ expectations from the company;
- (3) issues management: plans and policies in response to environmental change.

Summarizing, we can say that the main features of CSR2 which led to its introduction are its strategic connotation, which refers to environmental analysis and internal business analysis, and its operating management posture. At this point, the need of performance indicators to measure the latter emerges undoubtedly. Whilst we could say

that CSR1 responds affirmatively to the question: “*Should a company respond to social pressure?*”, CSR2 is centered on how to respond to these issues.

Finally, CSR2 highlights the actual action that the firm carries out as a socially sensible entity. It also points out a need for adequate instruments, techniques, organizational structures and invites to empirical research on social issues.

On the other hand, the concept of CSR2 has been criticized and its main fault is the lack of a theory of CSR2, to explain what exactly “Social Responsibility” means and also to manifest the core values it refers to.

Furthermore, Davis (1973) criticizes the concept of CSR2 by affirming that CSR2 disregards the “Iron Law of Responsibility” which says: “*Society grants legitimacy and power to business. In the long run, those who do not use power in a manner which society considers responsible will tend to lose it*”. In other words, a company which is “responsive but not responsible” endangers its own social power.

## 1.4 Corporate Social Performance

Subsequently to CSR2's introduction, several studies focused attention on two pivotal issues. The former is Business Ethics. In the 80's Frederick (1986) coined the term Corporate Social Rectitude (CSR3) to identify a set of anticorruption codes, after the emerging of a number of corporate scandals and the junk bonds' crisis. The latter research topic, named Corporate Social Performance (CSP), is centered on the general principles and values embodied by the firm in addition to the action and results suggested by CSR2.

Studies on CSP use either of the following approaches:

- (1) Process-focused approach: it tries to overcome the limitations of CSR2, here seen as an element in a wider CSP model including principles, processes and policies. This model is proposed by Carroll (1979, 1991), Wartick and Cochran (1985) and Wood (1991).
- (2) Social results' measure approach: (Husted 2000) supports this view and prefers it to the former, as it inserts CSP's literature in the broader category of the studies on business efficiency.

Moreover, Husted proposes a classification on the bases of performance measurement, as follows:

- (a) Social audit studies: objective measure of the performance
- (b) STK theory studies: subjective measure of the performance.

Wartick and Cochran (1985), reformulating Carrol's model, affirm that the challenges in the CSR model have been overcome and included in CSP. These challenges are:

- (1) ECONOMIC RESPONSIBILITY: it is supported by those who believe the only firm's responsibility to be making profit. On the contrary, these Authors consider economic responsibility as a part of a broader social responsibility.

(2) **PUBLIC RESPONSIBILITY:** some believe the “traditional” responsibility, i.e. economic responsibility, to be extendable to public responsibility, refusing the concept of social responsibility of the firm. In these Authors’ view, this concept is at least as vague as social responsibility’s and, in a broad sense, public responsibility can actually be a synonym of social responsibility.

(3) **CORPORATE SOCIAL RESPONSIVENESS:** according to the CSP model, CSR2 and CSR are not antithetical, but coexisting at different levels, respectively at a “micro” and “macro” level.

Lastly, Wartick and Cochran’s final model defines three domains of CSP, as described in Table 1.6.

*Table 1.6 Wartick and Cochran’s CSP Model*

| PRINCIPLES  | PROCESSES   | POLICIES   |
|---|---|--|
| Corporate Social Responsibilities<br>CSR1   | Corporate Social Responsiveness<br>CSR2   | Social Issue Management<br>SIM   |
| <ol style="list-style-type: none"> <li>1. Economic</li> <li>2. Legal</li> <li>3. Ethical</li> <li>4. Discretionary</li> </ol>           | <ol style="list-style-type: none"> <li>1. Reactive</li> <li>2. Defensive</li> <li>3. Accomodative</li> <li>4. Proactive</li> </ol>  | <ol style="list-style-type: none"> <li>1. Issues identification</li> <li>2. Issues analysis</li> <li>3. Response development</li> </ol>              |
| Directed at: <ol style="list-style-type: none"> <li>1. the Social Contract of Business</li> <li>2. Business is a Moral Agent</li> </ol> | Directed at: <ol style="list-style-type: none"> <li>1. the capacity to respond to changing societal conditions</li> <li>2. managerial approaches to developing responses</li> </ol> | Directed at: <ol style="list-style-type: none"> <li>1. minimizing “surprises”</li> <li>2. determining effective corporate social policies</li> </ol> |
| Philosophical orientation   | Institutional orientation   | Organizational orientation   |

*Source: Wartick and Cochran (1985).*

Wartick and Cochran's model has been modified by Wood. In this Author's view, the previous model did not consider : (a) action and result issues, (b) the nature of CSR2 as a net of interacting processes. Moreover, Wood did not agree with (c) considering social politics a third domain, as a social performance can be carried out also in absence of social politics.

On this ground, Wood defines the CSP as: "*a business organization's configuration of principles of social responsibility, processes of social responsiveness, and policies, programs and observable outcomes as they relate to the firm's societal relationships*" (Wood 1991).

We are going to detail Wood's classification of the CSR principles in the four following levels:

- (1) institutional level: it deals with the society's expectations of the firms as economic institutions, as outlined in Davis's "*Iron Law of Responsibility*" (1973);
- (2) business level: it deals with the society's expectations of the companies more specifically regarding the results of their activities. This is the public responsibility described above;
- (3) manager behavior: a certain degree of discretion is always present in the manager's decision, as managerial action cannot be always prescribed by the company's policies;
- (4) performance in a strict definition: it does not consider only the mere social impact of the firm's activity, but also takes account of the existence of programs and policies that the firm can implement to manage social issues and relationship with STK. This last issue of four is the only one that is considered observable and valuable.

Wood's most interesting contribution is the integration of these four analysis levels which were previously seen as conflicting.

Lastly, Clarkson (1995) remarks that Wartick and Cochran's model lacks of a clear distinction between STK issues and social issues; in Clarkson's view, such a distinction is necessary, as both the manager and the firm, seen as a whole, relate to their STK and do

not interact directly with the society, in a broad, general sense. Besides, this Author highlights how each analysis ought to be implemented at an appropriate level, proposing the following: (a) institutional, (b) organizational and (c) individual level which are summarized in Table 1.7.

*Table 1.7 The Three Levels of CSR*

|                        |                      |              |                      |
|------------------------|----------------------|--------------|----------------------|
| CSR1 e CSR2            | Institutional level  | Business     | Society              |
| CSP                    | Organizational level | Corporations | Stakeholder groups   |
| Stakeholder management | Individual level     | Managers     | Issues/relationships |

*Source: Clarkson (1995).*

## Recent developments in research on CR

From the rich literature on CR now available, the most interesting topics for us are the involvement of STK in the firm's activity and the manager's and STK' role in it. Several theories describe such roles and highlight the relevant factors emerging from the different perspectives on CR. On the bases of recent studies on this topic, we are now going to analyze: (a) the factors which motivate managers to an active involvement in implementing CR and (b) the relationship between public expectations and evaluation of CSR's action as time passes.

## 1.5 Managers and Commitment to Corporate Responsibility

A recent study (Ditlev-Simonsen and Midttun, 2011) focuses on what motivates managers to pursue CR. Taking a pragmatic position, this work investigated what factors affect managers' motivation by interviewing three key STK panels, namely (a) corporate leaders, (b) MSc students and (c) non-governmental organizations (NGO) members. The interviewees have been surmised a list of CR theories and requested to evaluate the relevance of each approach in managers' motivation.

*Table 1.8 Perspectives on Corporate Responsibility*

|                       |  |
|-----------------------|--|
| Profit maximization   | Solely to increase profit  |
| Value maximization    | To create a long-term value for shareholders   |
| Stakeholdership       | To satisfy different stakeholders  |
| Cluster-building      | To build a strong cluster to provide a favourable business context for the company         |
| Branding              | To build a positive reputation and brand image   |
| Innovation            | To develop new products and business concepts  |
| Copying/imitating     | To resemble other companies  |
| Ethics/morals         | To do the "right thing" (a moral issue)  |
| Managerial discretion | To fulfill the personal preferences and interests of the manager or person in charge of CR |
| Sustainability        | To contribute to long-term sustainable development   |

*Source: Ditlev-Simonsen and Midttun (2011).*

A "practical" distinction have been introduced in the interview by asking the STK (a) what actually motivates managers (positivist approach) and (b) what should motivate managers (normative approach) to pursue CR. In Table 1.8, each theory is represented by a key concept which can also be considered a possible motivating factor. STK' answers to the two previously reported questions are analyzed in the following section. Each heading is the key word of a theoretical approach which we are to briefly introduce.

## Profit and value maximization: financial and core economics theories

In this perspective, CR is strongly related to profit and/or value maximization (Friedman, 1970; Jensen, 2001). Here, the investors delegate responsibility to management to act on their behalf, thus impeding the wide ranging STK' engagement highly encouraged by Freeman (1984). In Friedman's words (1970), society should structure a set of conditions through regulation and companies should maximize profits within this structure. On these bases, Friedman's view points out that social welfare is maximized when each firm in an economy maximizes its total market value. According to this logic, managers should pursue CR only if it promptly returns profit.

In a more recent concept, CR can be seen as profitable by concentrating on long-term value-maximization, leaving in the background the idea of short-term profit. This broader view, named 'enlightened value-maximization' chooses "maximization of the long-term value of the firm as the criterion for making the requisite tradeoffs among its stakeholders" (Jensen, 2001).

As a positive theory ("What actually motivates managers?"), profit-maximization as defined by classical economic theory does not encourage CR in business. Long-term, value-focused finance theory permits some stakeholder dialogue, but only to the extent it can create long-term value for the company.

As normative theories ("What should motivate managers?"), both approaches view profit- or value-maximizing business strategies as a means to maximize societal welfare.

## Stakeholder's satisfaction: business ethics theories

According to STK approach, (Morsing and Schultz, 2006), companies are required to justify their business strategies to shareholders, authorities with a regulatory responsibility, but - and this is the main point - also to a wide range of different STK, such as owners, financiers, activist groups, suppliers, customers, employees, trade unions, competitors, authorities and political groups. Stakeholder theory is therefore grounded in organizational theory, considering the organization's ties to its environment at the bases of its value creation. In Freeman's view (1984), the companies should systematically evaluate how their goals and action plans affect their stakeholders and negotiate to collaborate and find agreements satisfactory for all parties.

As a positive theory (“What actually motivates managers?”), stakeholder theory assumes that CR’s role implies understanding and satisfaction of the STK’ needs.

As a normative theory (“What should motivate managers?”), it could require the firm stakeholder engagement as a key to success.

### Communication and “branding”: reputation management theory

In this perspective, communicative and reputational aspects of CR come into the spotlight. Managers who do “the right thing” improve a company’s reputation and consequently its ability to gather new resources, build a better performance and become more competitive. Social welfare plans also help companies avoid reputational losses deriving from the alienation of important STK groups.

In recent years, a remarkable trend in marketing exhibited a shift from traditional product-focused marketing to relational marketing and brand development or “branding”, where the reputational approach to CR moves into new levels of engagement with customers and society.

The reputational approach to CR could be seen as a implicit extension of the concept, present in the CR literature, that corporate brands are required to be more appealing than product brands and be represented by meaningful identity symbols in a broader social context (Hankinson, 2007).

As a positive theory (“What actually motivates managers?”), it states that reputation and brand image are supporting factors to CR.

As a normative theory (“What should motivate managers?”), reputation management theory points out reputation and brand image as pivotal issues for successful business.

### Clustering: cluster-based theory

According to this perspective, business should contribute to the building and development of local infrastructure and industrial clusters. CR should therefore engage in increasing the competitiveness of the cluster and the firms that belong to it.

According to Porter and Kramer (2007), collective social investment can improve the condition of the firms belonging to a cluster and yet diminish the cost that each single participants has to pay. In this view, positive effects ensue from such investments independently of the specific condition and development of each company joining the cluster.

As a positive theory (“What actually motivates managers?”), it states that cluster-building have a constructive impact on CR.

As a normative theory (“What should motivate managers?”), the cluster-based theory of CR points out the role of cluster-building in successful business development.

### Social innovation: economic analysis theory

Development and growth can be considered also strictly related to innovation. According to this view, competitive pressure becomes a vital issue, but more as a stimulus to creativity rather than to cost minimization (Lundvall and Nielsen, 2007).

Moreover, through the partnership between private enterprise and public interest both parties could implement profitable change to reciprocal advantage. In particular, ecologically oriented innovation is concerned with environmental issues to a common good.

As a positive theory (“What actually motivates managers?”), the social innovation perspective on CR states that the search for opportunities for social innovation have a constructive impact on CR.

As a normative theory (“What should motivate managers?”), the social innovation perspective points out the role of innovative engagement in social issues in successful business development.

### Imitation: institutional isomorphism theory

According to this paradigm, business organizations under similar societal pressure tend to become more homogenous (DiMaggio and Powell, 1983). It can lead to corporate practices more focused on legitimacy than on efficiency and economics. CR activities can

thus be affected and three processes have been proposed to describe this influence: (1) coercive isomorphism, (2) normative isomorphism and (3) mimetic isomorphism, outline in the following examples.

- (1) Coercive isomorphism: the external pressure to implement CR standards may compel firms to engage in CR, though they have or not motivation to it;
- (2) normative isomorphism: normative diffusion of CR may happen through consultancy services;
- (3) mimetic isomorphism: imitation of CR practices in other firms may spread them even though in absence of a rationale.

As a positive theory (“What actually motivates managers?”), this view of CR suggests such practices can be implemented because of norm-related issues and are not always economically profitable.

As a normative theory (“What should motivate managers?”), it highlights how imitation can support CR implementation though no practical reasons emerge to do it (Ditlev-Simonsen and Midttun, 2011).

### Managerial discretion: personal values hypothesis

The manager’s personal interests are the focus of this perspective. In fact, corporations are usually considered individual entities, but empirical studies demonstrated that CR practices depend mainly upon the business apex.

In Fred Robins’ words, “*He who pays the piper will always call the tune [ . . . ] One may reasonably ask under what authority, and with what expertise such a self-appointed group of people make decisions regarding social or environmental issues in the community. This is not a trivial or unimportant question*” (Robins, 2008). However, this view does not necessarily consider personal benefit as the most important issue to give incentive to CR’s action. Yet, though independent of such pursue of personal benefit, the manager’s decisions may ignore the employees’ point of view.

As a positive theory (“What actually motivates managers?”), this perspective points out the correlation between personal values and attitudes of the persons in charge of CR.

As a normative theory (“What should motivate managers?”), it highlights how personal values and engagement are at the basis of CR.

### Doing the “right thing”: business ethics

A moral/ethical discourse in business focuses on action, and not on its consequences. The question is therefore one of moral character. In Hursthouse’s words, “*Virtue ethics is an art term, initially introduced to distinguish an approach in normative ethics, which emphasizes virtues, or moral character*” (Hursthouse, 1999).

As a positive thesis (“What actually motivates managers?”), the ethical approach assumes that firms’ engagement in CR is morally guided and ethically motivated to doing “the right thing”.

As a normative stance (“What should motivate managers?”), the moral/ethical approach indicates ethics as the “necessary” motivation to pursue CR in business.

### Sustainability: sustainable development and transformation perspective

Sustainable development has been a key issue related to a corporation’s role in societal development. According to the UN World Commission on Environment and Development (Brundtland Commission, United Nations, 1987) industrialized nations are following unsustainable paths of development. On this, the necessity emerges of economic growth both socially and environmentally sustainable. Following the Brundtland Commission, sustainable capitalism will be required to confront social equity, environmental justice, and business ethics.

From a positive view (“What actually motivates managers?”), this perspective states that the search for sustainable business models is at the basis of CR.

From a normative view (“What should motivate managers?”), it highlights how ecologically and socially sustainable forms of production of goods and services are becoming more and more important for successful business.

According to Lindgreen and Swaen (2010), CSR generally imply an engagement of organizations which choose to behave ethically and participate in economic development

but also improve the quality of life of employees (and their families), the local community, and the whole society. As organizations address a broader range of social and environmental issues, they are improving their CSR's activities.

Consequently, CSR can be seen as multidimensional and carry on, for instance, environmental programs and marketing initiatives to enhance social and environmental welfare. Organizations which perform CSR practices at an international level may create an impressive change and especially affect the human rights in developing countries (Lindgreen and Swaen, 2010).

In Vogel's words (2006), there are "*many reasons why some companies choose to behave more responsibly in the absence of legal requirements. Some are strategic, others are defensive, and still others may be altruistic*". Of course, the pivotal concept that CSR can support business invites organizations to "*create a competitive advantage by integrating non-economic factors*" (Porter and Kramer 2007), improving their image and reputation and also the employees' working environment and attitude.

On these bases, the development and implementation of CSR programs is a winning choice for both companies and their community (Lindgreen and Swaen, 2010).

## 1.6 The Issue Life Cycle

*“First they ignore you, then they laugh at you, then they fight you, then you win.”*

*Mahatma Gandhi*

### Present issues and time-dynamic of CSR

After so many years of CSR discourse, it is drawing an increasing interest: however, three questions on CSR still remain unanswered.

First, the concept of CSR is actually in need of a widely-shared definition, still being seen as “*vague and ambiguous*” (Schwartz and Carroll, 2003).

Second, how companies can profit economically from CR is also to be clarified.

Third, a contrast emerges between CR programs’ implementation on a voluntary basis versus a corporate behavior induced by compliance with laws and policies: either can produce CSR activities, which way can be more effective?

These questions did not find an answer yet, as the institutionalization of CSR activities through specific laws would make them no more a free choice but simply a compliance to rules, thus depending on a context. This would shift them from corporative ethics to conformity to laws (DiMaggio and Powell, 1983).

However, though the concept of CR changes with time as universally admitted, this time dynamic and its consequences have not been clearly described yet.

Therefore, we are going to use a *four-steps approach* to gain a deeper understanding of CR as a time-and-context-dependent concept. It must be said that the relationship between firm profitability and CR should not be considered in a static context of analysis, as CR time modifications change also what is profitable for the firm.

Then, a logical question ensues: Are either voluntary or law and regulations-based CR programs more efficient? Let us consider CR practices in a time-dynamic context.

With time, corporate behavior becomes the target of great expectations: yet, laws and regulation appear to follow as a response this emerging activity, rather than organizing and ruling it. For instance, child labour, civil rights and other social issues were the target of specific CR programs long before public policies were implemented to prescribe it.

Furthermore, many companies exhibit multiple bottom line or sustainability reports in order to make their corporate behavior manifest. To this end, several organizations choose the Global Reporting Initiative framework, that is a more strict and formal, but still voluntary tool to attest CR activity (Rivoli and Waddock, 2011).

## Potential profitability of CSR

From Martin Wolf's<sup>3</sup> speech on CR at the Harvard Business School: *"The notion of corporate social responsibility is intensely confused. In particular, it mixes up three quite distinct ideas: intelligent operation of a business, charity and bearing of costly burdens for the benefit of society at large. The first is essential; the second is optional and the third is impossible, unless those obligations are imposed on competitors"* (Wolf, 2008).

Therefore, business organizations find themselves in an alternative where both options are costly. Assuming that CSR activities are profitable, then we can see them as "intelligent operation of the business" rather than as "responsible" behavior; on the contrary, given that CSR activities are not profitable, no company could afford to implement them and survive in a competitive market. Consequently, implementing such activities should become mandatory and laws or regulations impose them on all competitors: in this case, their nature of "CSR" would be dramatically affected (Rivoli and Waddock, 2011).

To escape this stalemate, we can shift from a static "point in time" method of analysis to understanding CR in a more dynamic, time-and context-dependent manner.

In doing so, we can remember Mahatma Gandhi's words: *"First they ignore you, then they laugh at you, then they fight you, then you win"*. In describing the establishment's reaction to social activism, Gandhi clearly sees the "time factor" as the focus. The "public issue life cycle" (Mahon and Waddock, 1992) can help us outline this process.

The general life cycle highlights how, in a first stage, public issues become focus of interest through the actions of activists and opinion leaders, then gaining attention from the media and, consequently, becoming widely known to the public. In a second stage, these

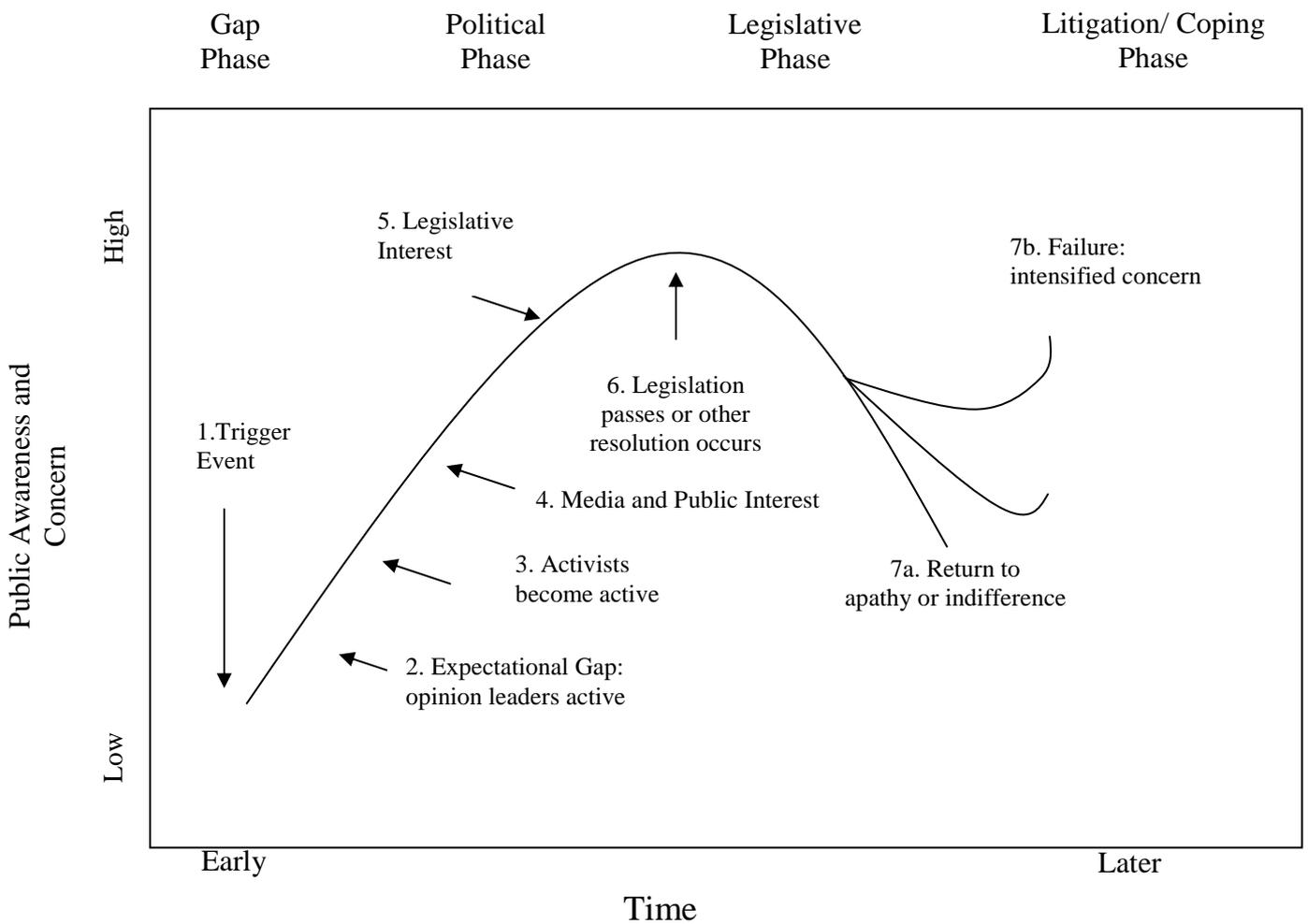
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<sup>3</sup> Martin Wolf is chief economics commentator at the Financial Times, London. He was awarded the CBE (Commander of the British Empire) in 2000 "for services to financial journalism".

issues can either end in being institutionalized into regulations or codes of practice or in becoming norms; or they can disappear from the public opinion, being forgotten to the time of emerging again in a possible future.

See the following Figure to a better understanding of the ‘issue life cycle’.

Figure 1.1 Public Issue Life Cycle



Source: adapted from Post (1978) and Tombarly (1984).

### “First they ignore you”

At the first stage of the issue cycle, a public issue emerges to attention as soon as pioneer activists notice “*a gap between desired and actual practice*” (Post, 1978). The awareness of the issue increases and spreads through the public opinion. At this first stage of development, the issue is usually ignored by corporations and CR is not activated as the public pressure on the topic is low, i.e. activists raising the problem are few and powerless. Furthermore, the public itself is also indifferent to the issue and ignores it. For instances, in the '60 religious shareholders raised the issue of corporate involvement in apartheid in South Africa, when there was little awareness of the problem.

### “Then they laugh at you”

At the second stage, a “trigger event” (see Figure 1.1, stage 1) draws public attention to a specific issue and starts the issue life cycle. For instance, in the 1980s, violence in South Africa and student activism calling for corporate involvement in the country began to gain public attention (Rivoli and Waddock 2011).

An example of a less striking but still noteworthy trigger event occurred when some firms signed the UN Global Compact (UNGC, 2010) and found themselves involved in the human rights activities that the UNGB required them. In Figure 1.1, stage 2 and 3, we can see how expectations for companies changes as soon as public awareness gains momentum. Activists may be “laughed at” at first, that is, not taken seriously and the business apex may see their protest as unworthy of attention.

As soon as the issue enters in the focus of public attention, it cannot be ignored by corporations.

Then, the media become more and more interested in the issue, setting in motion a process which will likely end in demanding change to the institutions.

Time is approaching to the emerging of CR .

## “Then they fight you”

As described above, the issue evolution implies an increased attention of the public that leads to resolve, displace or forget about it. At the top of the public attention, corporate responsibility for the issue emerges as a central factor. According to Lamertz et al. (2003), the outline of the issue as the public, the activists and the media highlighted it, can direct attention to business organizations requesting them to take charge of the situation and take responsibility to improve it.

In this process, the actors negotiate for a shared framing of the issue which will affect the following actions and the emerging of a policy in the “institutionalization step”.

For instance, in the ‘90s, the idea that a global apparel company could take responsibility for conditions in its supplier factories was seen as foolish (“*then they laugh at you*”) (Rivoli and Waddock 2011). Companies at first did not see the point and refused to take responsibility by fighting back the public opinion on the issue.

To reach the “fight stage”, an issue must have been supported by successful -at least in part- activists and also recognized as such by some innovative companies which first show willing to implement CSR activities. We can here mention Levi Strauss which in the 1990’s adopted an integrated workforce and a code of conduct regarding its suppliers (Rivoli and Waddock 2011).

In the “*then they fight you*” stage we can observe debate and compromise.

Though all these responses were a compromise from the previous “ignore” attitude, activists kept fighting on the bases of the idea that the corporate response was not sufficient.

The “resistance” stage shows how companies fight CR. However, these actions respond to an emerging need of and movement towards corporate responsibility. This stage sees pioneer companies that emerge among enterprises by implementing strategic initiatives.

Confrontation (“then they fight you”) will eventually evolve into collaboration in the next stage of the issue cycle.

## “Then you win”

At this point, “winning” can follow two possible paths. Either the desired behavior may become common or accepted practice, though not ruled by laws or become mandatory through a change in policies and norms. These two processes can often follow one another, i.e. a behavior first becomes accepted practiced and then ruled by norms.

It must be said that not all issues will evolve to the “win” stage: some will be ignored or easily forgotten, maybe due to the lack of a “good trigger”. In some cases, the confrontation will see the companies as the winner.

As the circle closes, the “win” stage sees the behavior at issue leaving the field of CR and becoming law’s matter, no longer identified as responsible behavior. “*As an innovation spreads, a threshold is reached beyond which adoption provides legitimacy rather than performance*” (DiMaggio and Powell, 1983). A CR practice which becomes either the norm or a legal requirement provides legitimacy, but no longer characterizes the firm as “responsible”). This because the issue shifts from “CR activity” to the commonly accepted or legally required way to do business (Rivoli and Waddock, 2011).

As outlined in Table n.9, the process from expectational gap to institutionalization that we have described as time and context dependent provides us a new understanding of corporate responsibility: “*Corporate responsibility, viewed as a temporal process, represents the ongoing tension gap between societal expectations expressed legally or through norms and company behaviour*” (Rivoli and Waddock 2011).

## Chapter II

### Stakeholder Engagement

*“Man is a relationship, though I would not say man is in a relationship, nor has a relationship. However, man is a relationship, and more specifically a relationship with the (ontological) being, a relationship with the Other”.*

*L. Pareyson*

A great credit to the "theory of Stakeholders" was to have explained in a strategic sense the network of relationships between the company and all those subjects that affect or are affected by its activities. All these relationships have been well known in the past but for a long time the profit was the only indicator of value creation and the main STK category was that of *stockholders*, i.e. shareholders and lenders. Only recently, under the pressure of new management theories, in response to civil society's requests for social and environmental responsibility, we can emphasize the importance of developing and managing relationships with all the STK interested in the business's life. Now the literature points out that the firm is not only centered on the owner's individuality, but it expresses itself through the entire community and all those relationships that entrepreneurs seek to build within the company by involving all the most relevant STK: employees, suppliers, customers, unions, banks, public officials, and so forth. The individuals involved in these relationships affect, directly or indirectly, the business management strategic choices and it is from this interactions that the success of the company can derive (Golin and Parolin, 2003).

## 2.1 The Stakeholder Theory

In 1984, the renowned economist Freeman first elaborated a *Stakeholder Theory* in his book *Strategic Management: A Stakeholder Approach* (Freeman, 1984). The focus of the theory is on the relationships between a company and its STK. Beforehand, two visions of business dominated the scene. First, the Production Vision described business as a “black box”, processing the resources received from the suppliers and elaborating a product to be sold to the customers, as shown in Figure 2.1.

*Figure 2.1 The “Input-Output” Vision of the Firm*



*Source: our translation from Social and Environmental Reporting Course, Cantele (2010).*

Second, the Managerial Vision completes the former by adding to the original frame all those relationships that the business is engaged with its Shareholders, Employees, Suppliers and Clients (i.e., the internal environment) and with Governments, Competitors, Customers, Non-Profit Organizations, Environmentalists, Local Community Organizations, Future Generations, Special Interest Groups, Media and so forth from the external environment. Of course, each firm has different kinds of STK, as illustrated in Figure 2.2.

For each one of the STK categories, the manager has to identify all the strategic constraints linked to them and try to formulate, implement and monitor the corresponding strategies.

Figure 2.2 The Managerial Vision of the firm



Porter (1988).

## DEFINITION OF STAKEHOLDER

The Stanford Research Institute was one of the first users of the term “*stakeholder*” in 1963 with this meaning: “*those groups without whose support the organization would cease to exist*”. Together with the Stanford Research Institute also Freeman wrote his definition of stakeholder, that is: “*any group or individual who can affect or is affected by the achievement of the organization’s objectives*” (Freeman, 1984).

Another early user of the term is Clarkson who gave a more restricted definition of STK (Clarkson, 1995), identifying them as those who take risks voluntarily or involuntarily: “*Voluntary stakeholders bear some form of risk as a result of having invested some form of capital, human or financial, something of value, in a firm. Involuntary stakeholders are placed at risk as a result of firm’s activities. But without the element of risk there is no stake*”.

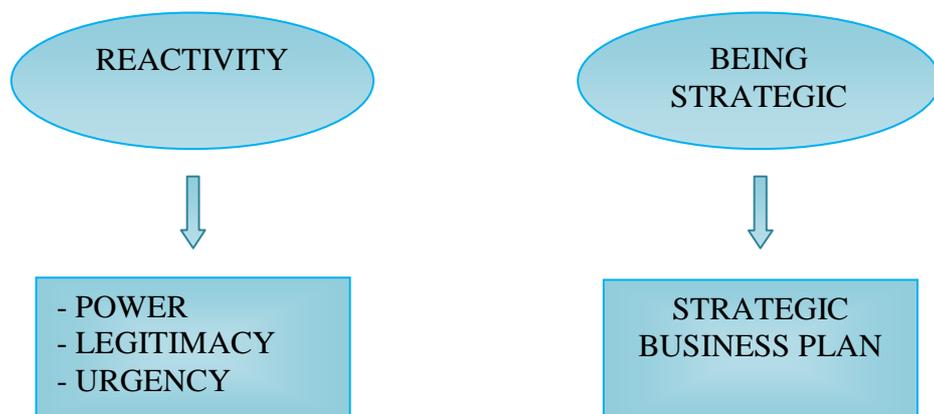
Clarkson divides them into primary and secondary stakeholders.

- (1) Primary STK are those groups without whose continuing participation the company ceases to exist, and those are typically Shareholders, Investors, Employees, Customers, Suppliers, Governments and the Community. Interdependence with primary stakeholders is so high that the company can be defined as a "system of primary stakeholder groups", a complex set of relations between interest groups with different rights, objectives, expectations and responsibilities;
- (2) Secondary STK are those groups who affect or are affected by the company, but do not engage in transactions with it and are not essential for its survival; Media and Interest groups are included in this class.

## MAPPING OF STAKEHOLDERS

We can analyze stakeholders by mapping them on a two-dimensional based analysis: the reactivity and the strategic dimension, as summarized in Figure 2.3. The first factor, named *Reactivity*, deals with how a STK is sensitive to another and how it reacts to what the company does. Being Strategic measures how important is a STK according to the strategies of the company: this is highlighted in the business strategic plan.

*Figure 2.3 Stakeholder Mapping*



*Source: our translation from Social and Environmental Reporting Course, Cantele (2010).*

Those Authors produced a classification by combining the three attributes that, in their opinion, contribute to stakeholder identification: Power, Legitimacy and Urgency.

**LEGITIMACY:** expresses the STK right to believe itself a stakeholder. It is the point of view of stakeholders what authorizes them to be considered as such, and not necessarily the fact of having any power to affect the firm (i.e. individual employee).

**POWER:** represents the ability to impose one's will in a relationship, i.e. the STK ability to influence the choices of the company.

**URGENCY:** STK press for the satisfaction of their needs and believe their issues significant.

Summarizing, STK power can be described as their ability to influence the company; legitimacy is the right to do so and urgency is the intensity and the hurry with which the STK exert their influence on the company.

The second important factor for STK mapping is the Strategic Relevance, that is central in order to discriminate the strategic salience of the different groups of stakeholders.

According to Mitchell et al. (1997), we measure this second variable focusing on the single business unit. This classification is based on the role of each STK in the implementation of business strategies, as follows:

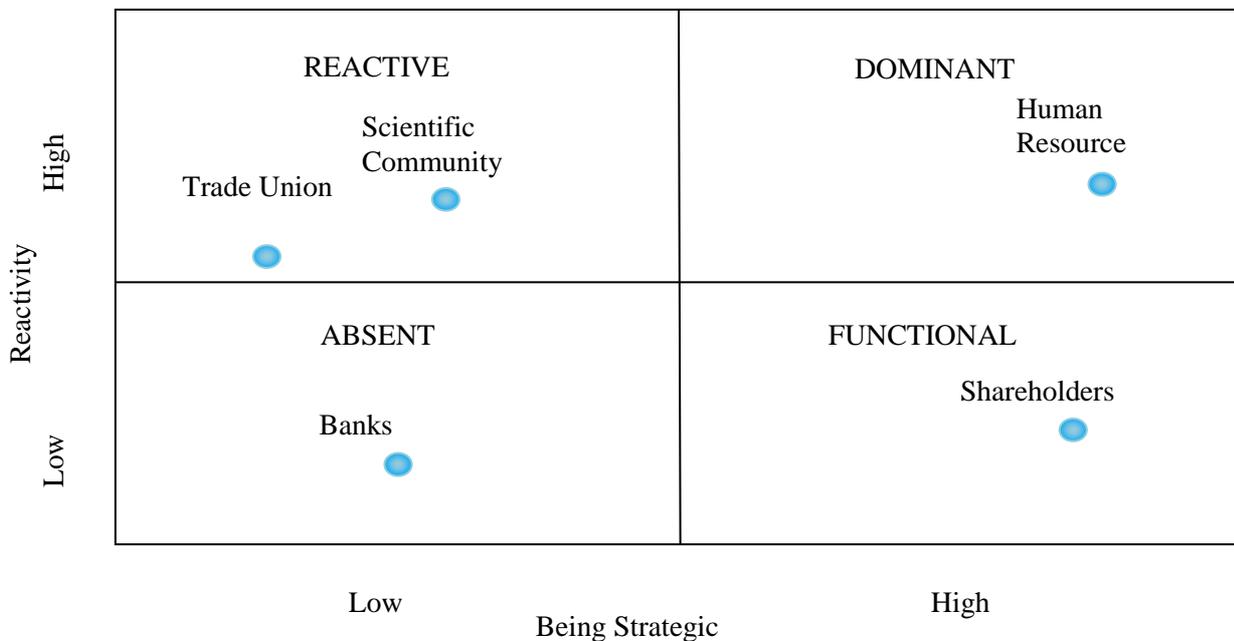
- ✓ **CORPORATE STRATEGY:** working at the shareholder and employee level
- ✓ **ECONOMIC-FINANCIAL STRATEGY:** working at the shareholder level
- ✓ **PORTFOLIO STRATEGY:** working at the customer level
- ✓ **COMPETITIVE STRATEGY:** working at the customer level
- ✓ **FUNCTIONAL/ACTIVITY STRATEGY:** related to the type of organization chart
- ✓ **SOCIAL STRATEGY:** it consists of the search for legitimacy in the relations with STK.

According to the previous analysis, we can cross the two above described attributes, i.e. Reactivity and Being Strategic, and the four classes of STK as summarized in the following graphs (Figure 2.4 and 2.5).

In the first graph is explained that we can obtain four type of stakeholders:

- ✓ **DOMINANT:** they are relevant for strategic objectives and they are very reactive; for example Human Resources.
- ✓ **ABSENT:** they remain out from the business management; for example Banks.

Figure 2.4 Stakeholders' Reactivity and Strategic Relevance

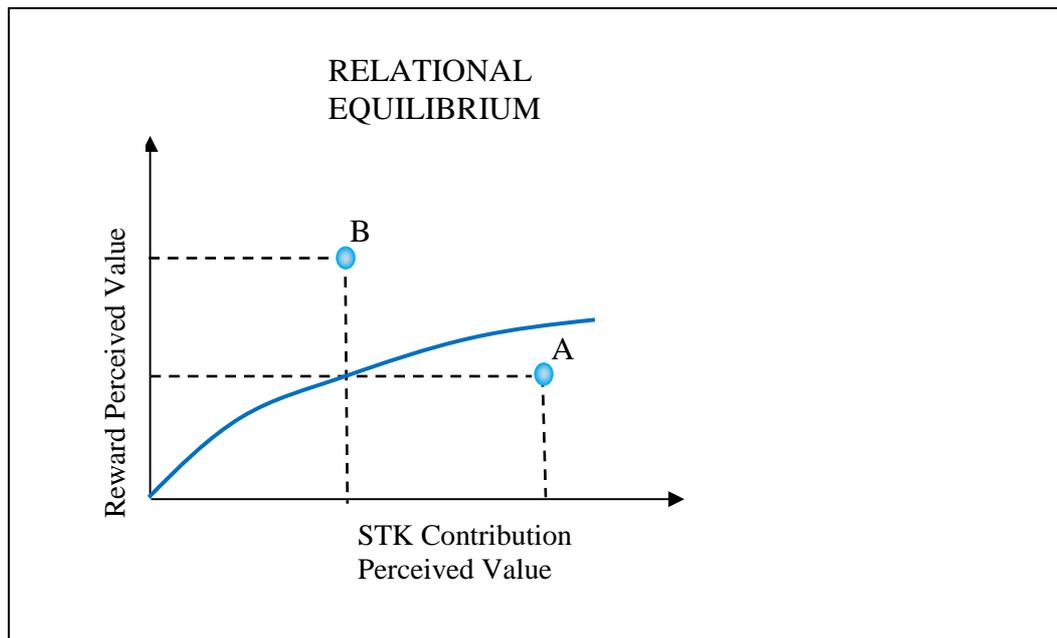


Source: our translation from Social and Environmental Reporting Course, Cantele (2010).

- ✓ **FUNCTIONAL:** they participate in a strong way following the business objectives; for example Shareholders.
- ✓ **REACTIVE:** they accept to be influenced by the company and to react to it; for example Scientific Community.

From the second graph we can see the so called Relational Equilibrium, with it we can measure the relational quality and the business can improve his relationships with stakeholders. If the stakeholder was in the point B he is not in the best zone because it would be the best position in or above the red curve, for example in the point A because the 'perceived value' is much more then the 'gives value'.

Figure 2.5 Stakeholders Relational Equilibrium from the STK Point of View



Source: our translation from Social and Environmental Reporting Course, Cantele (2010).

Stakeholder Mapping can also be outlined as follows, dividing the STK into groups according to the "Reactivity" classification. On the basis of the features of power, urgency or legitimacy eight types of STK have been defined (Mitchell, Agle and Wood, 1997).

- Dormant stakeholder (power);
- Discretionary stakeholder (legitimacy);
- Demanding stakeholder (urgency);
- Dominant stakeholder (power + legitimacy);

- Dependent stakeholder (urgency + legitimacy);
- Dangerous stakeholder (power + urgency);
- Definitive stakeholder (power + urgency + legitimacy).

This mapping is crucial to management, as it allows a deeper understanding of the strategic relevance of the different STK groups, both considering their current and envisioning their future attitude, which could possibly move them to another category. It is the company's hardest task to foresee such future development and anticipate the trend.

## 2.2 How Companies Can Manage their Relationships with Stakeholders

Though the importance of STK engagement is widely recognized at a global level, it is not yet present an established idea of what “STK engagement” means and what features it can have (Sloan, 2009). Both small and large enterprises ought to give more and more importance to their STK and manage their needs, requests and interests, sometimes contrasting.

A primary corporate goal is to establish relationships with STK in order to attain a high organizational performance, from both an economic and financial point of view. However, presently these issues are not satisfying anymore and the corporate world ought to aim at new attainments, related to the social and environmental fields.

Then, the concept of *STK engagement* can be defined as a process through which individuals and groups which affect and/or are affected by the organization can be engaged in the corporate activity (Sloan, 2009). On this basis, STK can be divided into two classes, as follows:

- *close* STK, i.e. shareholders, employees, customers and suppliers, which are in a high proximity and tight interaction with the company;
- *distant* STK, i.e. local communities, non-governmental organizations and activist groups, which interact with the company in a less “intimate” manner.

According to IFC (2007), presently “... *the term Stakeholder Engagement is emerging as a means of describing a broader, more inclusive, and continuous process between a company and those potentially impacted that encompasses a range of activities and approaches, and spans the entire life of a project*”.

This change in importance of the relationships with STK “*reflects broader changes in the business and financial worlds, which increasingly recognize the business and reputational risks that come from poor stakeholder relations, and place a growing emphasis on corporate social responsibility and transparency and reporting*” (IFC, 2007).

This perspective on STK relations provides a viable “starting point” for the involvement of the STK in the business, in order to outline the strategic planning and improve its competitiveness in a fast-changing environment. The STK engagement process focuses on a radical change which requests the companies much more than a “strategic” and sporadic involvement with STK issues. According to Gable and Shireman (2005), the STK engagement process takes place in the organization according to a three-stage sequence.

(1) “Internal Preparation”: this stage requires to define an *Internal Company Leader* and a *Stakeholder Team*.

The Internal Company Leader position implies the capacity to lead change in the firm and keep the situation under control. For these reasons, this position requires good communicative skills and also to be highly esteemed by everybody in the organization, in order to speak frankly and honestly. A throughout knowledge of strong and weak points of the organization is also needed to be capable of influencing effectively the company’s trend. The Stakeholder Team should include representatives from the main business functions and therefore from marketing, human resources, communication and relations with investors. In this manner, the resulting perspective will be shared by everyone in the firm.

Before shifting to the second step, it is interesting to mention two fatal mistakes that a company can possibly make when a precise definition of STK involvement is lacking. The first error is to idealize the STK engagement to a point of believing that it would make all the company’s problems disappear. Actually, it is risky as usually, at the beginning of the engagement process, the STK relations would become more complicated, especially in the case that the groundwork had not been done properly. Or else, a wrong choice of STK groups would lead to negative consequences for both the firm as a whole and all its level of organization.

In order to avoid this mistake, it is necessary to take the time for organizing the process of STK engagement, without expecting impatiently immediate results. In fact, this process will become highly rewarding in the medium and long term, as it requires a preliminary preparation and a sharing of goals. It is necessary to take time also to analyze

doubts and obstacles as they are perceived by the organization members, in order to understand deeply the meaning of this process and carry it out in the best possible manner.

At this point, it becomes important to investigate what is the company's image in its STK eyes. In order to do so, it is necessary to discriminate between the company's *performance* and *perception*. In fact, performance can be assessed in practice, as it deals with choices, actions and decisions which the company makes regarding procedures and policies to comply with. On the contrary, perception is an external issue from the firm's perspective.

In order to evaluate the perception of one's company in the eye of the public implies the understanding of how STK consider and measure the company's performance. Quite often these two concepts do not coincide. Consequently, it may happen that a firm believes to practice a fair behavior according to standard procedures of salaried job, safety, fairness in recruitment and so forth, but the external environment's perception of such practices could ignore "fair behavior" and react in a negative manner.

The second mistake related to perception is : "*If bad news isn't true, it can't hurt us*" (Gable and Shireman, 2005). It consists of believing that a false piece of news on the firm will not damage it. In most cases, this is actually not true as bad news take much longer to be forgotten, compared to good news, especially by the customers and investors.

In such a case, a company ought to do a much greater effort, both from an economic and marketing point of view, in order to uplift its image and reputation. A striking example is how NIKE, the world's leading supplier of athletic shoes and apparel and a major manufacturer of sports equipment, needed years to redeem itself from the charge of child exploitation and labor through the institution of brand new procedures and policies. It is hard to believe that such illegal labor practices will be ever forgotten by the public.

Finally, the company has to measure the STK' perception of the performance of the firm. In order to do so, opinion leaders should be detected within each of the following five categories: (1) Corporate Governance (shareholders), (2) Workplace (managers, employees, suppliers), (3) Community (local government representatives, neighbors and

local entrepreneurs), (4) Marketplace (competitors, other suppliers and consumers), (5) Environment (advocacy leaders for natural resources and systems).

As soon as the STK team leader and the team members have been identified and trained and tools for measuring the performance and its perception have been defined, it is time to shift to the second step of STK engagement process.

(2) “Stakeholder Mapping and Strategic Planning”: the second stage of STK engagement consists in STK mapping. The strategic planning of this phase is a crucial time for the firm. As a matter of fact, in most cases this stage conveys the biggest problems, as either companies are not accustomed to planning or when doing it, they privilege short-term thinking. On the contrary, long lasting results need both planning and a continuous mapping of the firm’s STK.

Future 500<sup>4</sup> outlined eight simple steps to attain the firm’s goals and, at the same time, respond to the needs and requests of its STK.

### Step 1 Goals Setting

The current condition of the firm and its purposes are clearly detailed. Doing so, the best STK and the most effective strategies for their engagement can be selected. According to Gable and Shireman (2005), this first step is crucial, as a firm cannot support the society if it cannot support itself.

### Step 2 Stakeholder Categorization

After setting the goals, i.e. “*where we are going to*”, the company ought to map its STK. In other words, it first should identify the *whole universe of STK* with which it interacts; secondly, it should define their *geographic scope*, that is where they reside all over the world, either in one country, more than one or everywhere in the world; and finally, what *category* they belong to, namely clients, suppliers or dealers. By doing so, the company can produce a list of 200 to 300 most relevant

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<sup>4</sup> Future 500 is a non-profit organization network which develops and uses tools for STK engagement, <http://www.future500.org/> (2011).

STK and, in the end, it divides them into three classes, which are: technology, policy and marketplace.

### Step 3 Strategic Priority Setting

In this step, STK are divided into classes on the basis of the specific goals of the firm. First, they are described as “supporters”, “neutral/ mixed” and “opponents” of the corporate goals. Later on, they are ranked according to their potential influence on the firm.

### Step 4 Building STK Databases

At this stage, each STK is further characterized on the basis of the following parameters: STK description; history of the company’s relationship with the STK; contact information and geographic focus (local, national or international). It is also important to describe the intercourse between a specific STK and the firm and the relations between all the firm’s STK, detailing the “*chain of influence*” of each stakeholder (Gable and Shireman, 2005).

### Step 5 Preparing Stakeholder Maps

The firm is ready to create its STK map. It consists in a graph or map which highlights the path from the current state to the attainment of the company’s goals. Along this path, the most relevant STK are identified, then classified on the basis of the sectors which they influence, namely: technology, policy or market. Maps are devised to be interactive and outline the whole net of relation between the firm’s STK, i.e. the “chain of influence”.

### Step 6 Selecting Modes of Engagement

As soon as all STK have been identified, mapped and related to each other, the best kind of engagement for each is to be described. For instance, a STK may be capable of either supporting the firm’s activity or collaborating with the company; or creating partnerships or networks with other groups, as illustrated in Table 2.1. Doing so, the STK are ranked from low to high and complex engagement. Finally,

it can be observed that the number of STK ascribed to each mode of engagement is inversely related to the complexity of its engagement. In other words, though a firm may enroll hundreds STK, it can only establish a partnership with a few.

*Table 2.1 Modes of Stakeholder Engagement and Sample Actions*

| Mode        | Sample Action  |
|-------------|--|
| Track       | Monitor, compile Actions                               |
| Inform      | Annual Report, Quarterly Communiqué                    |
| Consult     | Back Channel Dialogue                                  |
| Support     | Strategic Philanthropy/Sponsorship                     |
| Collaborate | Joint Project (informal)                               |
| Partner     | Joint Project (formal)                                 |
| Network     | Joint Project (formal or informal with several groups) |

*Source: Gable and Shireman (2005).*

### Step 7 Prioritizing Project Options

A brainstorming step in which the firm produces a list of possible or existing projects for each mode of engagement. For instance, the company can implement an email newsletter for the “Inform” mode or sponsor sporting or philanthropic events for the “Support” mode. Once each STK is assigned to specific projects, the latter are categorized by the relevance of the respective goals for the attainment of the whole organization’s purposes.

## Step 8 Collecting Projects into a Cohesive Plan

Finally, all projects become part of a one Corporate Strategic Plan, a tool including “three Ps”, i.e. Plans, Projects and Programs.

To conclude, a leader is assigned to each project and time and modes of developing of each project are set, listing also all the activities and tasks to be carried out. The relevance and effectiveness of this 8 step-process depends on its being simple and clear. A software to implement it is available, called s-Mapping. At the beginning, the understanding and implementing stages will take longer, then change will reward the firm with both satisfaction of the STK’ needs and attainment of the corporate goals.

(3) “Stakeholder Engagement”: at this point, most activities have already been performed, as described in the previous steps. Some adjustment still remains to be done. The Business Strategic Plan has already identified what are the most suitable modes of engagement, as summarized in Table 2.2.

Each group of STK is assigned a team person as a primary contact: the choice must be done on the basis of skills, abilities and of the relations between group and member. Before the firm begins to interact with STK, it is necessary to measure the efficacy of the company’s relations with them. To do so, it may be useful to add a new column to Table 2.1, inserting the data from Table 2.2. This column (“Measurement”) shows how each mode of engagement needs specific tools to assess the quality of the relationship between a firm and its STK. For a deeper understanding of how the Business Strategic Plan affects the company’s performance, the firm should carry out the so-called “audit processes” on a regular basis, sessions in which the firm investigates on its response to external stimuli, its relations with STK and what activities should be planned to harmonize all different goals.

*Table 2.2 Modes of Stakeholder Engagement, Sample Action and Measurement*

| Mode        | Sample Action  | Measurement   |
|-------------|--|---|
| Track       | Monitor, compile Actions                               | Selected CSR/SRI Standards, Opinion Leader Survey   |
| Inform      | Annual Report, Quarterly Communiqué                    | Selected CSR/SRI Standards, Opinion Leader Survey   |
| Consult     | Back Channel Dialogue                                  | Informal Feedback                                   |
| Support     | Strategic Philantropy/Sponsorship                      | Feedback, Organization Branding, Project Evaluation |
| Collaborate | Joint Project (informal)                               | Project Evaluation                                  |
| Partner     | Joint Project (formal)                                 | Project Evaluation                                  |
| Network     | Joint Project (formal or informal with several groups) | Project Evaluation                                  |

*Source: Gable and Shireman (2005).*

As soon as the STK mapping is done, engagement modes have been identified and metrics to evaluate them have been defined, the organization is getting ready to begin the real “STK engagement stage”. During this phase three kinds of really effective tactics have emerged; they have been assessed by several enterprises and found out to positively affect the relations with suppliers, customer, employees and so forth.

“Acknowledge Imperfection”: this first kind of strategy deals with the image of the firm in the STK’ eyes. Presenting itself as absolutely faultless, a company can have a negative impact on the relationships with its STK; on the contrary, an open, human image of the firm can help develop trust and understanding. To acknowledge its own faults can improve the company’s image in the eye of the public.

“Apologize in Person”: the second kind of strategy consists in doing so when needed. At first it can be somehow embarrassing and quite difficult, but it encourages to open up in a more easy relationship.

“Attribute an Impact”: this strategy consists in acknowledging the impact of STK when demanding change in policy or other issues and considering it as constructive

criticism. Pretending to ignore it can damage the relationship and intensify the criticism from STK, while acknowledging it as a help to improve the firm's organization will positively affect the STK relationships (Gable and Shireman, 2005).

Finally, Gable and Shireman (2005) believe that "multi-stakeholder dialogue" would harmonize the STK' and firm's needs, by creating a schedule of activities and taking care of the relationships. By doing so, the firm begins to get out of its shell of internal interactions and can therefore avoid to implode: this can be done just directing the company's gaze outward and taking charge of issues previously considered out of the firm's jurisdiction. In Mike Brune<sup>5</sup> word's, *"What we've seen over the last five to ten years is not only an expansion of who companies consider as stakeholders, but an expansion of the environmental and social issues that corporations consider important"*.

In conclusion, as a stakeholder-oriented concept, CSR holds that organizations exist within networks of STK and ought to face their potentially conflicting demands: then, firms should translate the demands into CSR objectives and policies. According to Young (2003), *"To achieve the successful implementation of CSR, managers must build bridges with their STK – through formal and informal dialogues and engagement practices – in the pursuit of common goals, and convince them to support the organization's chosen strategic course"*.

Business leaders are presently to face the ethics issues arising from the myriad of STK claims and build long-lasting, mutually beneficial relationships with relevant STK. Current developments in stakeholder engagement head to a concept of "CSR in action". However, organizations can choose how to manage their STK relationships in different manners according to various practices.

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<sup>5</sup> Mike Brune is executive director of Rainforest Action Network (RAN), an activist organization based in S. Francisco.

## 2.3 Dialogue with Stakeholders

According to David Grayson and Adrian Hodges (2004), there is still a “*considerable gap between the corporate CSR rhetoric and actual practice on the ground because of difficulties in making it operational*”. Companies are therefore at a loss when the time comes to implement the abstract concept of CSR into action. At present, CSR remains an indefinite though highly popular construct. Consequently, the correct dimensions of a company’s social responsibilities and the relationship between corporate social performance (CSP) and financial performance (FP) are still the vital core of an endless debate.

The purpose of the next paragraph is to analyze how companies actually put CSR into practice and to identify some of the factors which influence this process.

In recent years, STK theory has more and more become the focus of discussion on CSR. A company should take into consideration and try to satisfy the needs of its STK, including employees, customers, investors, suppliers, and the local community. Up to now, the shareholders are the most relevant group of STK and shareholder wealth is considered the only relevant criteria for evaluating company behavior (Harrison and Freeman, 1999).

The shareholder perspective deals with business, i.e. with economic and not social goals. On these bases, companies should ignore the latter. In real-life, economic decisions usually entail social consequences and the social and economic fields would become indistinguishable. Furthermore, though it was possible to distinguish between the two, they should not necessarily conflict. Several Authors have also questioned the belief that the only corporate goal is profit maximization. Others Authors suggested that profit maximization in itself cannot outline real-life decision-making processes which always include a “zone of discretion” that gives the managers a chance to freely address social and environmental issues.

In addition, some supporters of CSR simply state that firms bear responsibilities toward the STK and cannot drop them. Companies can stay in business just if they behave accordingly with the dominant norms, rules, and values in society. Still, despite the current popularity of both CSR and the STK approach, “stakeholder” or “CSR” still lack a precise

definition. With regard to the former, Freeman originally defined STK as *“any group or individual who can affect or is affected by the achievement of the organization’s objectives”*.

On these bases, consensus on the definition of CSR would hardly emerge from discussion. However, as early as 1960, Frederick (1960) called for a precise definition of CSR.

In fact, CSR means different things to different people at different times, and new issues can easily be included in existing definitions. Moreover, the multiplicity of related concepts, such as corporate citizenship, corporate accountability, sustainability, business ethics, triple bottom line, and philanthropy have undoubtedly fostered the confusion about the true nature of CSR. In this work, we are going to join van Marrewijk’s view which loosely defines CSR as *“company activities - voluntary by definition – and clearly demonstrates the importance of the inclusion of social and environmental concerns in business operations and in interactions with STK”* (Marrewijk, 2003).

## Levels of engagement in stakeholder dialogue

As previously mentioned in van Marrewijk’s definition of CSR, the company’s interaction with various societal groups and individuals is vital part of CSR. In fact, the relationships between the firm and its internal and external STK make it possible to take hold of the elusive nature of the values, stance, and behavior of their STK and respond accordingly. Consequently, terms like “participation”, “inclusion”, “voice”, “involvement”, “collaboration”, “partnerships” and “engagement” are very popular in CSR literature. The term “STK dialogue” will be from now on used to describe the engagement of STK in the decision-making processes related to social and environmental issues.

Table 2.3 Stakeholder Dialogue: Levels of Engagement

|              | LEVEL OF ENGAGEMENT  |      |  |
|--------------|--|------|--|
|              | LOW  | HIGH |  |
| INCLUSION    | Only a few privileged stakeholders are included in the dialogue.                     | ↔    | All relevant stakeholders are included in the dialogue                                 |
| OPENNESS     | Dialogue is structured around a fixed set of questions/problems/issues.              | ↔    | Dialogue is structured around open questions/problems/issues.                          |
| TOLERANCE    | One position has priority over all the others.                                       | ↔    | New, alternative and critical voices are respected.                                    |
| EMPOWERMENT  | One stakeholder dominates the dialogue and decisions.                                | ↔    | Freedom and equality in dialogue as well as in decisions.                              |
| TRANSPARENCY | No access to information about the process and outcomes of the stakeholder dialogue. | ↔    | Full access to information about the process and outcomes of the stakeholder dialogue. |

Source: from the work of Young and Torfing, in Pedersen (2006).

The many-sided nature of STK dialogue implies the necessity of an analytical framework in order to evaluate how the company actually involves STK in the decision-making processes. Figure 2.3 outlines the various domains of STK dialogue and the corresponding level of engagement. This model can be used as a reference frame in order to evaluate how the company's STK dialogue is either participatory and inclusive or hierarchal and exclusive.

- INCLUSION

The identification and inclusion of STK in the dialogue is a vital factor. It logically ensues that shutting out relevant STK from decision-making will shrink the benefit expected from the dialogue. In Pedersen's words (2006), "*As a participatory ideal, the STK dialogue should include the important groups and individuals who affect and/or are affected by the decision on the issue in question*". Yet, as we will discuss in a following section, to define which STK have a significant role and which have not affects the business. Therefore, the participatory ideal of inclusion need to face also efficiency concerns. Consequently, we can easily foresee that, as the number of participants becomes higher, efficiency will decrease, given that coordinating the dialogue and reaching a general agreement will be a more and more difficult chore.

- OPENNESS

To be open to the nature and features of a specific issue will make the dialogue richer and will invite different views from all STK. In this manner, potentially controversial issues will be at the focus of attention and will not be put out of the dialogue by unwilling participants. Moreover, all STK will be free to elaborate a personal position and give voice to their opinion, giving a contribution and increasing the general level of engagement.

- TOLERANCE

Favoring a view over another will advantage the STK who propose it. For instance, giving more importance in discussion to issues as "efficiency" and "profit" over "fairness" and "the public good" will become a self-fulfilling prophecy. In other words, both STK and the company ought to take fairly and open-mindedly critical or alternative opinions, to a deeper and richer elaboration of the solution of a given issue.

- **EMPOWERMENT**

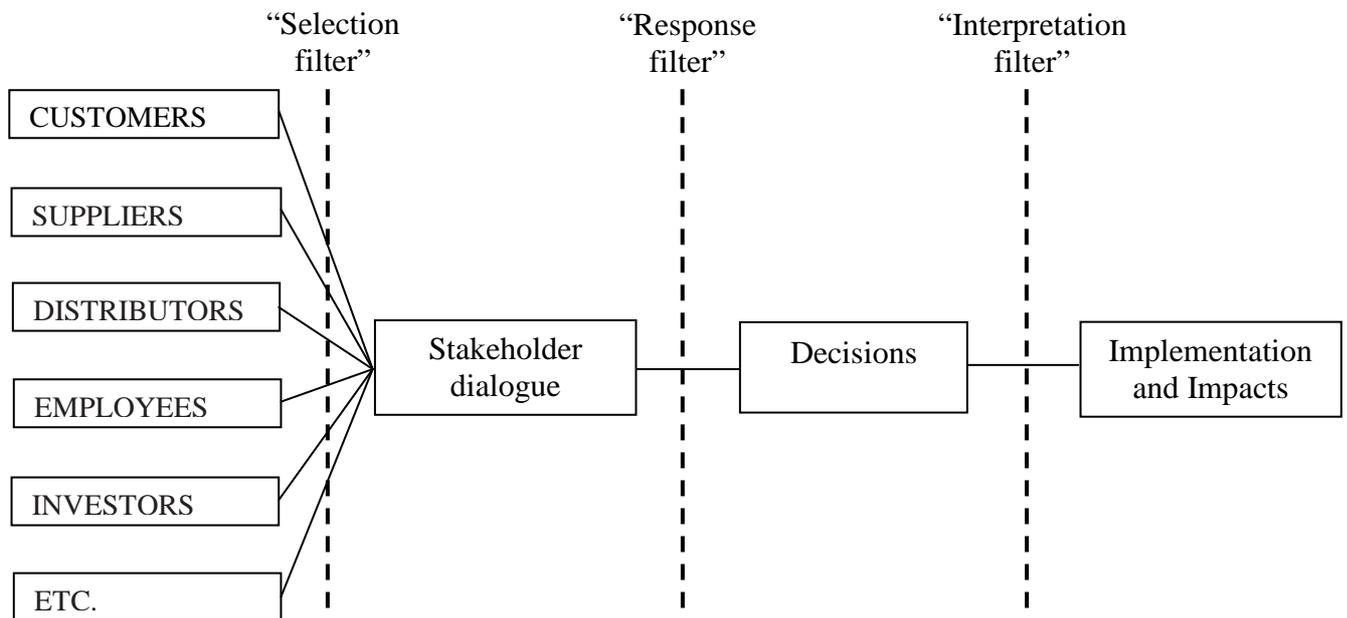
All participants to the dialogue should have a fair amount of power. In fact, the higher the power, the deeper the engagement of the STK. For example, when only a few participants are empowered by the company's dialogue rules and traditions, this imbalance kills the idea itself of the participatory ideal.

- **TRANSPARENCY**

Nowadays, companies ought to inform STK on their social performance. In fact, transparency levels of information on the process and outcomes of the dialogue are a vital factor to the accountability of the company, both in social accounting and reporting activities (Owen, Shift and Hunt, 2001). For instance, whenever there is not enough information available on the decision-making from the STK dialogue, it is not possible to evaluate whether it has represented a participatory approach to problem solving or just a mere public relations activity.

Figure 2.3 shows the wide spectrum of STK engagement and is useful in evaluating real-life dialogue situations. The right-hand side of the figure represents the most wide-ranging STK dialogue, characterized as the "participatory ideal," but this type of stakeholder engagement may not always be obtainable or even desirable. Likewise, the STK dialogue in the left-hand side of the figure does not automatically indicate window-dressing companies with questionable morals. In practice, STK dialogue is likely to be located somewhere between the two extremes because identification of and communication with STK is costly and time consuming, and because decision makers have to balance these activities with other priorities. In practice, therefore, STK dialogue means simplifying the complex by focusing on a limited number of stakeholders, a limited number of issues, and by developing rules and procedures for the dialogue.

Figure 2.6 The Phases of Stakeholder Dialogue and Related Filters



Source: inspired by the writings of Olefsen on Strategic Issue Management, in Pedersen (2001).

Figure 2.6 shows how the STK dialogue can be outlined by a three phases-model process. For each phase, a “filter” has been identified that makes the STK dialogue easier, yet, considering the activities and the related benefits, less profitable than expected for the company. These filters, as described in literature, affect the operationalization of the STK dialogue.

#### THE SELECTION FILTER: REDUCING THE NUMBER

Quite obviously, participants to STK dialogue ought to be selected. The selection filter singles out which STK can enter the dialogue. A logical question emerges, that is “Many or few STK will enter this dialogue?” and “Are they part of a well-known micro-environment or from a broader range of interlocutors?” Of course, a necessary selection will affect both the process and the outcome of the dialogue. Quoting a metaphor by Linda Smircich and Charles Stubbart, “*It is difficult to analyze the world’s oceans using a glass of water*” (Smircich and Stubbart, 1985). Needless to say, it can be the only possible

choice whenever our limited capabilities of generating information do not encompass the complexity of the environment. Therefore, the company needs to develop a selection filter to discriminate more relevant STK from less important ones. This to avoid the STK dialogue to include every single STK and issue.

In order to categorize STK in groups, they have been classified into primary/secondary, involved/affected, and voluntary/involuntary STK. Moreover, as previously described, it has been proposed three factors to classify STK - urgency, power, and legitimacy—whereas Harrison and St. John hold that the strategic importance of a STK depends on (a) the contribution to the environmental uncertainty, (b) the ability to diminish such uncertainty, and (c) the strategic choices of the management.

In order to implement the STK dialogue, a selection filter is needed to reduce both the environmental complexity and the number of STK relationships. As a matter of fact, reducing the number will makes it virtually impossible for enterprises to satisfy the more idealistic literature on CSR, as certain groups and individuals will be excluded from the dialogue (Crane and Livesey, 2003). Though necessary, the selection filter will cause stigmatization even of the most socially responsible company, since critical voices will always condemn it for failing to integrate the interests of all relevant STK in decision-making. Consequently, no enterprise can state to be "really inclusive" of all the relevant STK in the dialogue.

## THE INTERPRETATION FILTER: BALANCING INTERESTS

At this point, the multiple voices from the dialogue ought to find expression through a limited number of decisions. Of course, it will be hardly possible to implement solutions that satisfy all STK. Furthermore, hindering factors like the presence of cliques and alliances which impose their specific interests, leaving the voices of other STK unanswered or misunderstood, may have the effect that the problems remain unsolved. Hence, the decisions emerging from the dialogue may satisfy the request of only few or none of the STK.

*“Tot capitae, quot sententiae”* implies that everybody does not have the same reason and, consequently, the same perception of the environment, making it really difficult to choose the “right for everyone” action. Besides, the firm frequently has to deal with multiple and not always compatible interests both from between different STK groups and between STK from the same group. Thus, *“misrepresentations and misinterpretations may occur when the interests of multiple STK are transformed into a limited number of decisions”* (Pedersen, 2006). Through the interpretation filter, the divergence between the decisions resulting from the STK dialogue and the interests of the individual STK become manifest.

Idealistically, some CSR literature considers all STK as equally important. Needless to say, this cannot find expression in practice and a necessary trade-off between the desirability of responding to the requests of all STK and the need to make effective decisions must take place. In Kaplan’s words, *“Attempting to be everything for everyone virtually guarantees organizational ineffectiveness”* (Kaplan, 2001).

## THE RESPONSE FILTER: TRANSLATING DECISIONS INTO ACTIONS

At the end, the decisions are to be translated into actions. Disturbing factors like local interpretations, environmental changes, conflicting interests, and organizational changes may affect the actual results of the implementation. Through the response filter, the divergence between the actions accomplished and the intentions underlying the decisions emerging from the STK dialogue becomes evident. In other words, the response filter deals with the difference between the decisions and the actual implementation of activities and their corresponding impacts.

However, it might still be hard to convert these decisions into activities. For instance, implementation of the decisions might encounter a string of technological, economic, and political boundaries. Further, implementation is usually carried out by experts who did not join in the dialogue. Of course, their interpretation of the decisions and the activities that have to be performed might be highly different from the first concepts of the participants in the dialogue. Finally, unpredictable changes in the course of the

implementation may affect the results, and impacts may substantially diverge from those originally expected.

## STAKEHOLDER DIALOGUE: ORGANIZATIONAL BOUNDARIES

The relationship between business and society forces companies to communicate with different STK groups. Obviously, dialogue with all relevant STK is an unattainable goal. To reduce the environmental complexity to something more manageable, the firm must represent it by means of a model containing less information than the original phenomenon. The three filters described in the previous sections outline this “reduction of complexity”. It must be said that simplification is not only a loss of information. Actually, reducing the complexity of the environment is a prerequisite for making the STK dialogue practicable. On the other hand, simplification implies that the company ought to leave out some STK interests.

Lastly, *“the CSR literature and its inseparable companion, STK theory, capture the current ‘zeitgeist’ by highlighting the importance of seeing the company as integrated into rather than separated from its environment”* (Pedersen, 2006), though constraints or “filters” make it hard for firms to put into practice the participatory ideals of the STK dialogue.

## 2.4 Collaboration with Stakeholders, an Invaluable Tool

STK relationships can be seen as the measure of corporate sustainability and enterprises need to take into consideration their STK and their diverse, and often contrasting interests. The ideal situation implies to have relationships that build sustainable, competitive organizations from an economical and financial, but also social and environmental point of view. Though the importance of STK engagement is generally acknowledged, STK engagement and the characteristics of effective engagement still await for a more precise, univocal definition. As shown in Table 2.4, STK engagement is a key parameter to identify socially responsible companies, in the case of agencies that rate companies on the basis of sustainability and social responsibility, ethical investors owning or managing different firms, or organizations that define standards for a sustainable performance – such as the Global Reporting Initiative (GRI) – and for inclusion into stock market indices – such as the SAM and the Dow Jones Sustainability Index.

Different organizations propose different reasons to consider STK engagement important:

1. according to the GRI, it is important to understand the reasonable expectations and interests of different STK. Moreover, GRI argues that STK engagement is likely to increase accountability, thanks to a growing trust and corporate credibility;
2. likewise, SAM and the Dow Jones Sustainability Index affirm that STK engagement increases acceptance and trust of a broad group of different STK. Consequently, performance itself can improve, as trust-building can put the bases of both current and future corporate growth;
3. social rating agency Innovest also highlights the performance benefits of STK engagement, asserting that STK capital is a key indicator of the management quality and long-term financial performance (Sloan, 2009).

Given the different rationales for STK engagement, different manners for its identification and assessment are:

1. policy commitments to STK needs: companies enforce policies for local suppliers, policies on human rights and native people;
2. STK engagement activities: companies engage in dialogue with STK, community support programmes, investments in the health and development of employees, measures to increase the capability of suppliers, employee training and development, disclosure and verification of social and environmental performance;
3. performance outcomes: for instance, companies control the level of environmental emissions, fines, product safety, employment equity, job creation, the impact of plant closures, and the levels of philanthropy.

At this point, questions emerge, such as: How important are the perceptions of opportunity and risk in the main processes for engagement? Are managers to focus on controlling risk or seizing opportunity? Many of the key practices used as indicators are centered on the need to comply both with laws and externally ratified agreements. Problems and difficulties can ensue from non-compliance, and failure is obviously considered negative by organizations. In order to “manage the risk”, surveys and focus groups can provide an active monitoring of STK, as suggested by GRI. Further, written communications to STK about corporate activities as, for instance, in externally verified reports on sustainability performance, as AccountAbility proposes. STK engagement is also evaluated through efforts aimed at creating opportunity. In other words, the key concept is commitment to partnership, while SAM/Dow Jones values mutually advantageous relationships, especially with clients and employees. In conclusion, companies can learn from their STK and benefit from it.

## 2.5 Collaboration or Control?

A recent, innovative study focused on social responsibility and sustainability in global corporations (Sloan, 2009) has provided a deeper understanding of STK engagement. More specifically, it highlights the different manners in which managers perceive STK and the different manners in which companies engage with their STK<sup>6</sup>.

A first, striking issue that emerged among the findings was how often managers report that social responsibility means managing risk and avoiding harm to STK. Though social responsibility and sustainability are presently seen as an opportunity for corporate innovation and sustainable growth, today's managers are not deeply convinced of it. According to this study, 64% of the sample managers see corporate social responsibility in terms of risk management. On this ground, "*STK become important because they provide and control critical resources needed for firm survival and success, including financial capital, knowledge, skills and reputation*" (Sloan, 2009). On the contrary, STK do not see the companies' social responsibility in terms of avoiding harm and managing risk. In fact, about 50% of the STK interviewed report that avoiding to harm is important, while the remaining 50% highlight the importance of "doing good", i.e. implementing programs to support education, health care and environmental protection. Interestingly, only 20% of managers report that being socially responsible includes also "doing good". As a matter of fact, STK can be considered either as sources of risk or opportunity, or both. According to this study, managers feel more deeply the need to manage risk in the relationship with their STK.

A second interesting finding from this study points out that STK engagement processes and practices did not apparently relate to the alignment between managers' and STK' views. STK engagement processes are devised to gather information about the STK' interests and expectations. In other words, companies which interact with their STK gain a deeper understanding of their needs and interests. However, no direct evidence was found

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<sup>6</sup> Project response is a three-year research project on corporate social responsibility. It is the first systematic attempt to understand the factors that affect the perspectives and mind-sets of managers and stakeholders towards social responsibility. The project especially focused on the alignment between the mind-sets of managers and their companies' STK, and explored how manager/STK alignment relates to a corporation's strategic processes, organisational practices and performance. The research for Project RESPONSE was completed in October 2007. The Final Project Report to the European Union is available at [www.insead.edu/ibis/response\\_project](http://www.insead.edu/ibis/response_project).

till now of it. Unfortunately, corporations that engaged in a broad range of CSR activities did not exhibit a better understanding of STK interests and needs compared to less engaged companies. Even worse, the level of STK engagement did not relate to the perceived performance of the enterprises. A possible reason of it could be that interaction alone may not be sufficient. The form of interaction could be the crucial issue instead.

Needless to say, a problem emerges whenever the stress on gathering information on STK makes it more important than implementing CSR activities. In this case, the time and commitment spent communicating with STK can be at the expense of taking care of their needs and concerns.

On this ground, the importance of discriminating the different forms of STK engagement becomes evident. However, engaging in activities may not be enough; engagement with STK will become fruitful when inclusive, supporting learning and change within the corporation, as *“integration of social responsibility and sustainability into core strategic business processes is one of the factors that help companies to excel”* (Sloan, 2009).

According to these findings, two different models for STK engagement have been outlined: the Control Model and the Collaboration Model. The former is centered on communication and monitoring to control and manage STK risk. The latter is focuses on collaboration and partnership to foster organizational learning and transformation, as summarized in Table 2.4.

Table 2.4 Models of Stakeholder Engagement

| DIMENSIONS                            | CONTROL MODEL  | COLLABORATION MODEL                                   |
|---------------------------------------|--|---|
| Corporate focus                       | Arm's – length engagement                            | Inclusive engagement                                  |
| Manager orientation to STK            | STK are a source of risk                             | STK are a source of opportunity                       |
| Key engagement processes              | Monitoring, listening, telling                       | Collaborating, partnering, learning                   |
| Relationship to core business process | 'Bolted on' to core business and strategic processes | Integrated into core business and strategic processes |
| Potential for corporate change        | Limited change                                       | Transformative change                                 |
| Likely performance                    | Good   | Great   |

Source: Sloan (2009).

### Control model of STK engagement

Being a source of risk for enterprises, STK ought to be monitored, assessed and managed in order to foresee and keep under control their problematic issues. This can be done by paying attention to STK' needs and interests and also by keeping them well-informed about corporate activities. Usually, STK engagement activities are implemented in a parallel planning with the company's strategic activities, basically without connections. Needless to say, organizational change cannot gain from STK' feedback, and innovation and new value creation will not profit from it.

### Collaborative model of STK engagement

Being STK a source of opportunity for corporations, effective engagement practices will have managers and their STK collaborate and learn from one another, provide the

ground for innovation and basic organizational change. STK engagement emerges as an integrated part of corporate strategy, increasing the strength and sustainability of the corporations.

The Control Model and the Collaborative Model outline respectively a “good” or a “great” social performance, depending on the degree to which social responsibility and sustainability become a living part of business operations and strategic decision-making. As previously reported, STK expect corporations to listen to their concerns and interests, contributing to society not just in economic terms, but in social and environmental impacts as well. STK engagement is therefore to be integrated into core business processes by fostering collaboration, learning, innovation and basic corporate change to carry out tomorrow’s STK engagement strategies.

## Chapter III

### International Reporting Standards

*“At the international level, standards are becoming a pillar of the new global trade system. As barriers to trade and investment are eliminated and information technologies continue to evolve, standardization is taking on an increasingly important role in global affairs.”*

*Standards Council of Canada*

Recently, International Reporting Standards have become important tools for companies to legitimate CSR practices towards their STK and society as a whole. The importance of such tools is gaining more and more acknowledgement at a national and international level, as they make it manifest and public what a firm does or does not for its STK, helping prevent un-ethic activities and encouraging responsible and collaborative behavior.

#### 3.1 Social Reporting Process

In this chapter, we are going to focus on why the Social Reporting is relevant to the practices of Social Responsibility of the firms. Social Reporting is a strategically controlled process which allows the company to harmonize the interests of both the firm and its STK. It consists of the “Planning & Control” (P&C) process and can ensure the transparency of the overall process. The P&C process starts with focusing on the company’s mission. From the firms’ perspective, it consists of the achievement of both the economic and the relational equilibrium with its STK. At this point, the firms are ready to “build” their own social strategies which have to be set for each of the STK categories and

represent the long-run guideline. Subsequently, they are ready to implement their social goals, which correspond to social strategies, but are more specific and measurable.

The last step of the P&C process consists of the definition of specific social performance indicators. They represent the instruments to evaluate whether the business is achieving its social purposes and to what extent. In the case social performance indicators do not measure the business performance with sufficient validity and reliability, the process will turn back to social strategies in order to reformulate them and restart from there until new social performance indicators will be defined.

Firstly, one important issue that we need to pay attention to is the quality of the relationships between the firm and its STK. Such relationships should be balanced and the business is to devise what kind of goods and services must be provided for its STK and, on the other hand, what contribution the company can expect from them.

## The phases of Social Reporting Process

### (1) Stakeholder Identification and Analysis

In this first step, the firm has to identify its STK. According to what we previously reported on STK theory, the company ought to map its STK and categorize them, on the basis of their level of reactivity and being more or less strategic.

### (2) Stakeholder Mapping

In this stage, the firm is to find out which STK groups are strategic for the business, in order to focus its action on them.

### (3) Relational Quality Analysis

In this step, the firm will examine its STK' issues in terms of: "What are their priorities?" and "What are their expectations of the organization?". In this way, a firm can gain an overall, still deep enough vision of the Relational Quality process with its STK.

### (4) Trade-off between Business Information System and STK Information System

In this step, the firm analyzes its business information resources, in order to verify its consistency.

#### (5) Information Tools

In this stage, the firm reorganizes its informational tools so that the Relational Quality be represented and mapped; for example, the Balance Sheet is the most immediate tool to do so through the outline of the company's goals, its structure and content, the information system, recipients, advertising and timing.

#### (6) Stakeholder Goals Identification

In this step, the firm plans its social and environmental reporting, according to the needs and expectations of its STK.

#### (7) Performance Measurement and Gap Analysis

In this stage, the organization verifies whether its goals have been achieved and measures them, highlighting any possible gap between the initial goal and the final result.

#### (8) Final Report

In this last step, the Social Reporting process is almost accomplished. Eventually, the manager is to write down a final report in which all the gaps and results from the mapping and analysis stages will be listed and feedback from the STK about the overall Relational quality system will be filed.

Recently, the Institute for Social and Ethical Accountability (ISEA) and the Global Reporting Initiative (GRI), which is sponsored by the Coalition for Environmentally Responsive Economies (CERES) and emphasizes business impacts on the physical environment have recently published interesting studies about the development of international accountability standards (Logsdon and Lewellyn, 2000). In the next section, three international standard frameworks about CSR will be described in their use and importance with respect to STK engagement.

### 3.2 The AccountAbility AA1000 Standard

The Institute of Social and Ethical AccountAbility (ISEA, 1999) has as its primary mission to develop standards for social accountability (Logsdon and Lewellyn, 2000). Among these, the ISEA defined the AccountAbility (AA1000) standard, which is a voluntary standard for social and ethical accounting, auditing and reporting. From the AccountAbility standard's website<sup>7</sup>: *“AccountAbility's AA1000 series are principles-based standards to help organizations become more accountable, responsible and sustainable. They address issues affecting governance, business models and organizational strategy, as well as providing operational guidance on sustainability assurance and stakeholder engagement. The AA1000 standards are designed for the integrated thinking required by the low carbon and green economy, and support integrated reporting and assurance. The standards are developed through a multi-stakeholder consultation process which ensures they are written for those they impact, not just those who may gain from them. They are used by a broad spectrum of organizations - multinational businesses, small and medium enterprises, governments and civil societies”* (AccountAbility, 2011)

AA1000 comprises a set of quality principles and of social and ethical accounting process standards. In addition, specific guidelines identify the relationship between the standards and clarify their interpretation (AccountAbility, 2011).

The AA1000 Series of Standards include:

- (1) AA1000 AccountAbility Principle Standard (AA1000 APS) 2008;
- (2) AA1000 Assurance Standard (AA1000 AS) 2008;
- (3) AA1000 Stakeholder Engagement Standard (AA1000 SES) 2011.

In this work, only AA1000 SES 2011 is to be discussed in some depth, as relevant to STK engagement, in the following section, while the first and second standard's description is available in Appendix 1 (information gathered from AccountAbility, 2011).

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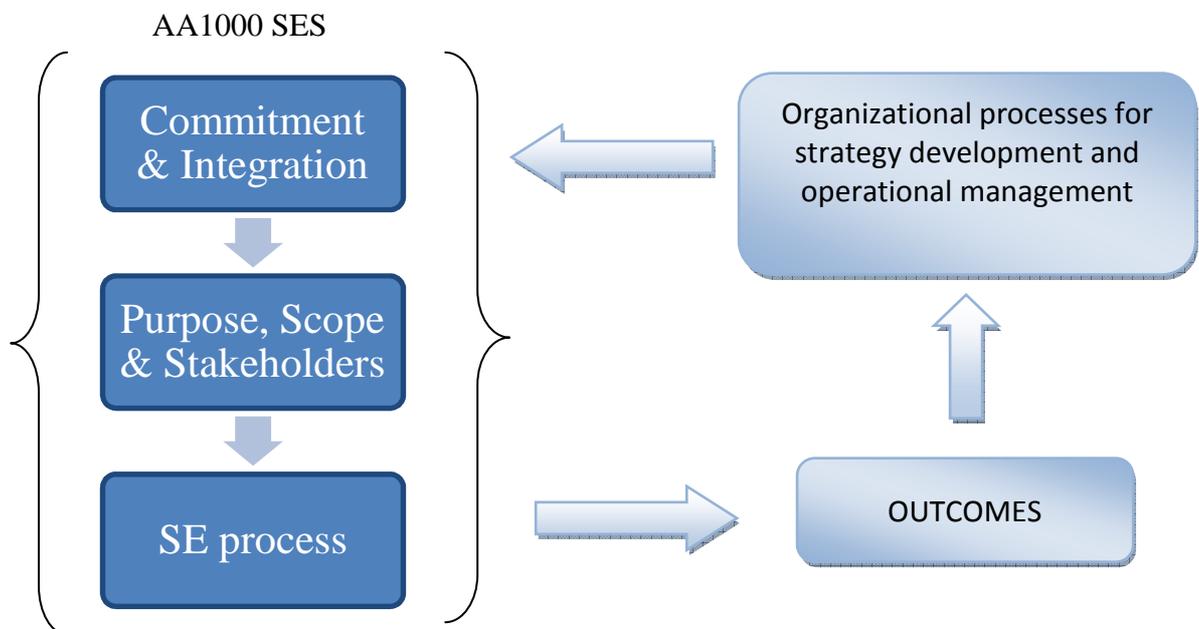
<sup>7</sup> The information about the AccountAbility (AA1000) standard has been collected from the website <http://www.accountability.org> (2011).

## The AA1000 Stakeholder Engagement Standard, draft 2011

The AA1000 SES is to set the benchmark for good quality engagement. STK engagement is here defined as *“the process used by an organization to engage relevant STK for a clear purpose to achieve accepted outcomes”*(AccountAbility, 2011). AA1000SES (2011) is divided into four sections. In the first section, the standard’s goals and intended users are listed. In fact, though primarily intended for practitioners and engagement owners, *“it will be of significant use to all those involved in engagement as well as all who will benefit from it”* (AccountAbility, 2011).

The following three sections define the requisites for quality STK engagement. The three section are the following: *“(1) how to establish the necessary commitment to STK engagement and how to ensure it is fully integrated in strategy and operations; (2) how to define the purpose, scope, and STK of the engagement; and (3) what a quality STK engagement process looks like”*. In Figure 3.1, the relations between AA1000SES and processes and outcomes in STK engagement have been summarized.

Figure 3.1 Purpose and Scope of AA1000SES (2011)



Source: AccountAbility (2011).

All types and levels of STK engagement can utilize the AA1000SES, which is “applicable to both internal and external engagement, for public, private and civil society organizations of all sizes. It can be used for project-based activities as well as for on-going purposes. The AA1000SES is intended for use by STK engagement process owners. It will also be of use to managers and others responsible for making decisions, as well as to participants in STK engagement” (AccountAbility, 2011).

Reasoning on the bases of inclusivity, materiality and responsiveness needs a precise definition of the process of STK engagement, including a comprehensive and balanced involvement and resulting in outcomes which respond to issues in an accountable way. Formalization of the commitment to the three principles in a way consistent with the governance of the organization is also necessary and may require to implement a specific policy statement or the inclusion of the commitment in the vision, mission or value statements of the organization.

After defining the purpose, scope and STK for the engagement, it must be ensured that there is a quality STK engagement process in place. The AA1000SES STK engagement process consists of four steps: Plan; Prepare; Implement; and Act, Review and Improve.

Figure 3.2 Stakeholder Engagement Cycle



Source: AccountAbility (2011).

The four steps through which the organization can implement the STK engagement process is outlined in Figure 3.2.

“Plan” consists of five sub-steps:

- (1) Profile and Map STK;
- (2) Determine engagement level(s) and method(s);
- (3) Identify boundaries of disclosure;
- (4) Draft engagement plan;
- (5) Establish the proper indicators.

“Prepare” is composed of three sub-phases:

- (1) Mobilize resources;
- (2) Build Capacity;
- (3) Identify;
- (4) Prepare for engagement risks.

“Implement and Engagement” comprises six sub-steps:

- (1) Invite STK to engage;
- (2) Brief STK;
- (3) Engage;
- (4) Document the engagement and its outputs;
- (5) Develop an action plan;
- (6) Communicate engagement outputs and action plan.

“Review and Improve” is formed by four sub-phases:

- (1) Monitor and evaluate the engagement
- (2) Learn and improve;

- (3) Follow up on action plan;
- (4) Report on engagement.

In conclusion, the time has come for assurance practice to evolve from data accuracy assessment in reports to evaluation of processes such as STK engagement and the way companies align strategy with the expectations of their STK. *“The future sustainability assurance will involve multi-STK teams focused on information that is material to these STK groups. This concern for STK-based materiality is central to enable STK to choose the information they require assurance on and has influenced AccountAbility’s calls for the convergence of assurance approaches and standards focused on STK needs”* (O’Dwyer and Owen, 2007).

### 3.3 ISO 26000 Standard

All over the world, business organizations as well as their STK are becoming more and more conscious of the need for and benefits of socially responsible behavior. Social Responsibility has as its goal to offer a contribution to sustainable development. Both the impact that an organization's performance has on the society in which it operates and its impact on the environment have become a measure of its overall performance and its future chances of development, due to a new awareness of the need to ensure healthy ecosystems, social equity and good' organizational governance. In the long run, all organizations' activities depend on the health of the world's ecosystems. Organizations are subject to greater scrutiny by their various STK.

ISO 26000<sup>8</sup> is an International Standard of SR. It has been devised for use by organizations in both the public and private sectors, in developed and developing countries and economies in transition as well, in order to support them in achieving a socially responsible behavior, more and more necessary to our society. ISO 26000 does not contain requirements, being devised for use only on a voluntary basis, thus, differently from ISO 9001:2008 and ISO 14001:2004 it is not intended as a certification standard.

#### REASONS TO USE ISO 26000

Enterprises can carry out sustainable business if they operate in a socially responsible manner and respect the environment as well, while providing customers with products and services. An increasing pressure to do so comes from customers, consumers, governments, associations and the public at large. Managers are increasingly becoming aware that success in the long run is to be built on socially responsible business practices, in addition to the prevention of fraudulent accounting, labor exploitation and similar practices. Many programs of SR are now available and many principles of SR as well; it is now necessary to find a way to put the principles into practice and to implement SR effectively and efficiently, though the meaning itself of "social responsibility" may differ from one program to another. In addition, previous initiatives mainly focused on "Corporate Social Responsibility", while ISO 26000 will provide SR guidance not only for

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<sup>8</sup> Information collected at ISO 26000 website [www.iso.org](http://www.iso.org)

companies, but also for every kind of public sector organizations. *“ISO 26000 will be a powerful SR tool to assist organizations to move from good intentions to good actions”* (ISO26000, 2010).

## GENERAL OUTLINE

Recognizing social responsibility and STK identification and engagement are the two main practices of social responsibility. The main principles of social responsibility are the following:

- 1) Accountability –organizations should be accountable in respect to their impact on society, the economy and the environment;
- 2) transparency –organizations should be transparent in their decisions and activities that may affect society and environment;
- 3) ethical behavior –organizations should behave ethically;
- 4) respect for STK interests – organizations should respect, consider and respond to the interests of its STK;
- 5) respect for the rule of law –organizations should consider as mandatory the respect for the rule of law;
- 6) respect for international norms of behavior –organizations should respect international norms of behavior, while adhering to the principle of respect for the rule of law and
- 7) respect for human rights – organizations should respect human rights and recognize both their importance and their universality.

ISO 26000 focuses on seven crucial issues of SR defined in the standard, outlined in Figure 3.3.

Figure 3.3 Seven core Social Responsibility Themes



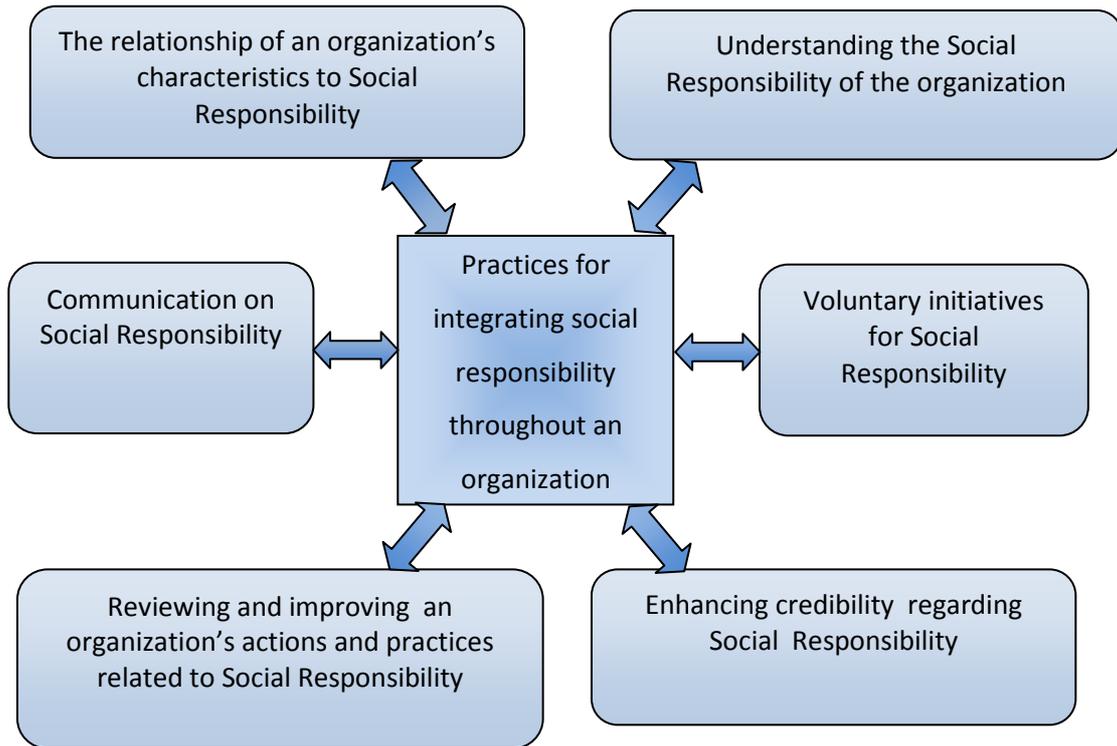
Source: ISO 26000 (2010)

The following step requires to integrate all of these core social responsibility subjects throughout the organization.

*“It is intended to promote common understanding in the field of social responsibility, and to complement other instruments and initiatives for social responsibility, not to replace them”* (ISO26000, 2010). In applying ISO 26000, an organization should take into consideration societal, environmental, legal, cultural, political and organizational diversity and differences in economic conditions as well, also complying with international norms of behavior. *“ISO 26000 will integrate international expertise on social responsibility – what it means, what issues an organization needs to*

address in order to operate in a socially responsible manner, and what is best practice in implementing SR. ISO 26000 will be a powerful SR tool to assist organizations to move from good intentions to good actions” (ISO26000, 2010).

Figure 3.4 General Outline of ISO 26000



Source: ISO26000 (2010).

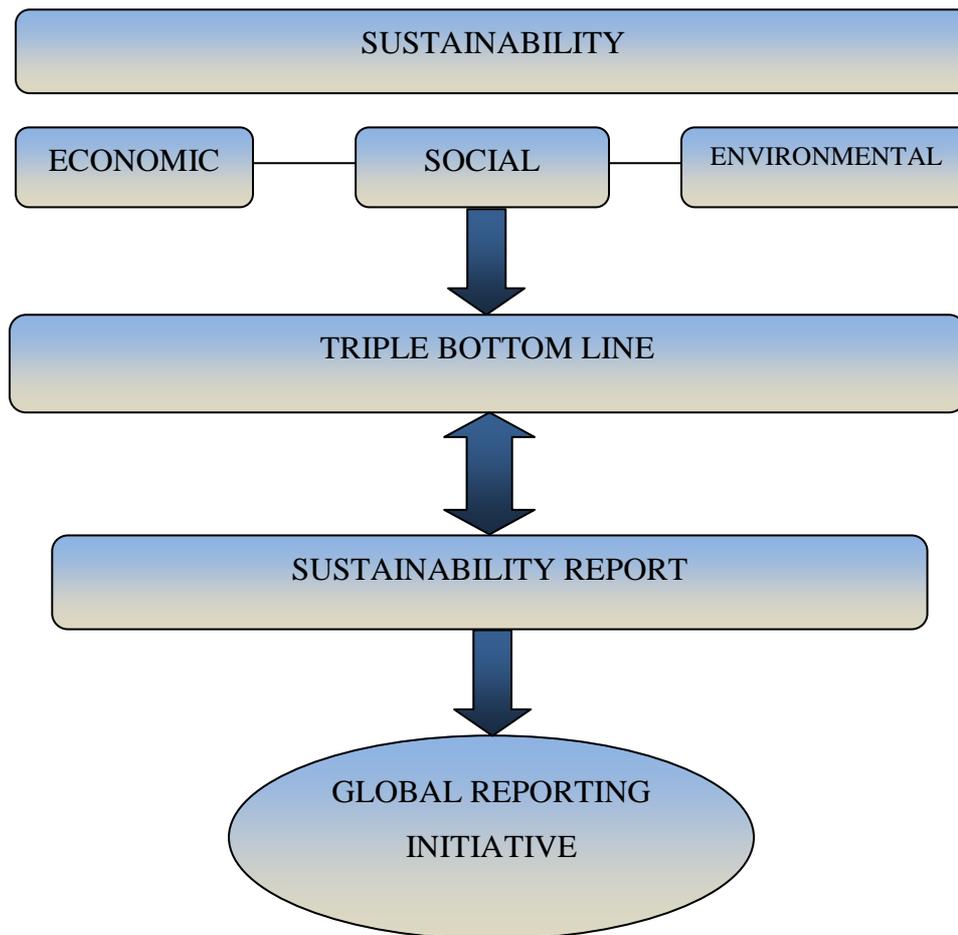
### 3.4 The Global Reporting Initiative Standard

The Global Reporting Initiative (GRI), is a type of sustainable development. As a goal it has been described as to “*meet the needs of the present without compromising the ability of future generations to meet their own needs*” (World Commission on Environment and Development, 1987). Sustainability reporting has been described as “*the practice of measuring, disclosing, and being accountable to internal and external STK for organizational performance towards the goal of sustainable development*” and it is to be used as a synonym with others which describe reporting on economic, environmental, and social impacts such as “*the triple bottom line and/or corporate responsibility reporting*” ” (ISO26000, 2010).

Triple bottom line is the last line of the balance and the final figure does not come only from its economic performance, but from its social and environmental performance as well. The GRI is a sustainable performance standard where these three dimensions are meant to be together.

The GRI is an independent NGO (nongovernmental organization) established in 2002 and its global secretariat is based in Amsterdam. The GRI Reporting Guidelines were defined to standardize the measurement and reporting of non-financial performance. “*The GRI’s stated mission is to enhance responsible decision making by promoting international harmonization in reporting relevant and credible corporate economic, environmental and societal performance information. The GRI uses a process of open dialogue and collaboration to design and implement sustainability reporting guidelines in pursuit of its mission*” (Woods, 2003).

Figure 3.5 From Triple Bottom Line to GRI



Source: our translation from *Social and Environmental Reporting Course*, S. Cantele (2010)

GRI's purpose is the development and promotion of a coherent framework for non-financial reporting. In order to do so, the GRI on a regular basis updates its Sustainability Reporting Guidelines in complex multi-STK processes including *"the participation of business, organized civil society, labor, consultancies, academics and representatives of governmental as well as intergovernmental organizations"* (Dingwerth and Eichinger, 2010). At the present time, the current reporting framework is called the G3, being the third generation result of Sustainability Reporting Guidelines. The G3 consists of reporting principles and performance indicators, the former defining the report content and quality and provide guidance on how to determine the boundary of a report.

The performance indicators role is to define which aspects of an organization's activities and impacts are relevant and to be included. The indicators encompass different

important sectors, such as “*economic and environmental impacts, impacts on labor practices and human rights, and the broader issue of product responsibility*”(Dingwerth and Eichinger, 2010).

Lastly, in addition to the reporting principles and performance indicators indicator protocols have been provided, in order to specify how “*data on particular indicators is to be calculated and presented, and by sector supplements that specify the reporting needs for a range of business sectors*” (Dingwerth and Eichinger, 2010).

Table 3.1 Elements of the Reporting Framework

| Elements             | Function   | Example(s)  |
|----------------------|--|---|
| Reporting Principles | Define the report content and quality  | <ul style="list-style-type: none"> <li>- Content: Materiality; stakeholder inclusiveness; sustainability context; completeness</li> <li>- Quality: Balance; comparability; accuracy; timeliness; reliability; clarity</li> </ul>  |
| Indicators           | Define the areas in which organizations are asked to report and the measures to use          | EN 15 “Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk”   |
| Indicator Protocol   | Provide guidance for reporting on individual indicators                                      | <ul style="list-style-type: none"> <li>- Indicator Protocols Set Economic;</li> <li>- Indicator Protocols Set Environmental;</li> <li>- Indicator Protocols Set Human Rights;</li> <li>- Indicator Protocols Set Labor;</li> <li>- Indicator Protocols Set Product Responsibility;</li> <li>- Indicator Protocols Set Society.</li> </ul> |
| Sector Supplement    | Provide guidance for individual industry sectors   | <ul style="list-style-type: none"> <li>- Electric Utilities Sector Supplement;</li> <li>- Automotive Sector Supplement;</li> <li>- Mining and Metals Sector Supplement;</li> <li>- NGO Sector Supplement.</li> </ul>  |
| Application Level    | Defines how closely the reporting framework has been followed in the preparation of a report | Level “B”: An organization has reported on at least 20 indicators and on their management approaches for the different indicator categories   |

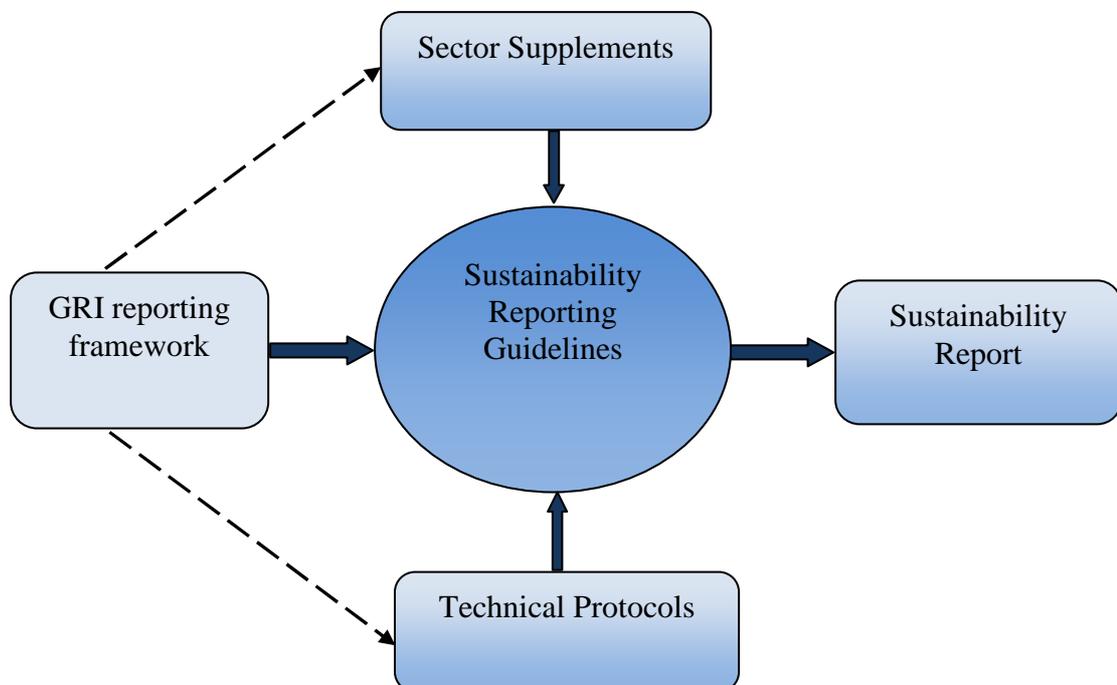
Source: Dingwerth and Eichinger (2010).

The Sustainability Reporting Guidelines, as shown in Figure 3.6, consist of Principles which specify report content and guarantee the quality of reported information. To complete report, preparers are to specify the level to which the GRI Reporting Framework has been applied. This system consists of three levels, in order to meet the needs of new beginners, advanced reporters, and learners-in-progress as well, respectively named C, B, and A level. The reporting criteria for each level indicate an increasing

application or coverage of the GRI Reporting Framework. More specifically, “an organization can self-declare a “plus” (+) at each level (ex., C+, B+, A+) if they have utilized external assurance. An organization self-declares a reporting level based on its own assessment of its report content against the criteria in the GRI Application Levels. In addition to the self declaration, reporting organizations can choose one or both of the following options: (1) have an assurance provider offer an opinion on the self-declaration; (2) request that the GRI check the self-declaration” Dingwerth and Eichinger, 2010).

Standard Disclosures composed of Performance Indicators and other disclosure items are available, and guidance on specific technical topics in reporting are available as well. The Guidelines are also complemented by specific Sector Supplements which help applying the Guidelines and by sector-specific Performance Indicators. Technical Protocols are also present and help dealing with issues in reporting, such as setting the report boundary. A fuller description of GRI is available in Appendix 1 (information have been gathered from the GRI website, [www.globalreporting.org](http://www.globalreporting.org)).

Figure 3.6 GRI Reporting Framework



Source: our translation from *Social and Environmental Reporting Course*, S. Cantele (2010).

## Chapter IV

### The Economy of Communion Paradigm

*“New persons who are capable of surpassing their modern identities as producers and consumers, and finding something extra which will help them to open up to others and to liberate them from isolation and egoism... capable of giving rise to the category of gift or sharing within economic activities”.*

*J. Chrisman and A. Carroll*

In this chapter we are to introduce the Economy of Communion (EoC) paradigm, the beliefs it is grounded on, the fundamental values underlying this enterprise, and its purposes. The first emerging of this idea occurred in 1991, as an intuition of Chiara Lubich during a sojourn in Brazil: since then, hundreds of small and medium sized businesses developed around the world. The central idea is that these organizations share part of their profits with developing countries in order to sustain social projects. This endeavor has attracted the attention of economists and academics, representing an advanced example of social economy.

## 4.1 The Focolare Movement, its Origin and Beliefs

The Focolare Movement originated in the city of Trent, in Northern Italy, during the World War II. Trent was then the target for the aerial bombardment of Italy by the Allies. As the conflict prolonged, the industrial and agricultural infrastructure of the country was devastated, leading to widespread poverty. At the time, life in Northern Italy was *“characterized by dire poverty and brutality, and the shadow of suspicion of neighbors and friends, leading to the destruction of many communities”* (Gold 2004). Social and civil norms lost importance and meaning, and the endless bombing through the summer of 1943 saw a young woman named Chiara Lubich and her companions emerge from the moral and material wreck and deeply feel that the tragedy of the war would eventually end, and only God would remain to trust in.

These young women strongly believed that the Christian commandment to *“love one another as I have loved you”* (Jn, 13:34) could be a way to fight the hatred that surrounded them. Willing to live out this Christian commandment, they participated in the creation of a small community, devoted to the immediate needs of the suffering. Lubich and her companions believed that unbelievably difficult situation to be *“like a training field which brought love into action, not only among them but among those whom they encountered”* (Gallagher, 1997). In no time, 500 people had joined them, sharing their possessions as in the early Christian communities with the goal of solving the problems of misery and social distress around them: *“Among the large number who had become believers there was complete agreement of heart and soul. Not one of them claimed any of his possessions as his own but everything was common property, a wonderful spirit of generosity pervaded the whole fellowship. There was not a single person in need among them. They would distribute to each one according to his need”* (Acts of the Apostles, 4:32-35). The members of this early Focolare community did not find it *“difficult to share each day their sufferings and joys and their poor possessions”* (Gallagher, 1997). In this group everything was shared: the word *focolare* was originally a nickname for this first community in Trent. *Focolare* means ‘hearth’, associated with a sense of family, love, security and warmth. Moreover, it reminded of a past in which *“poverty was widespread and life was harsh, but nothing could take away from the closeness of family and friends huddled together around an open fire”* (Gold 2004). From this first community, the

Focolare Movement evolved into a global movement and a formally recognized 'lay organization' within the Catholic Church, when approved in 1962 by Pope John XXIII.

This movement is grounded on a deep belief in the unity of the human family, rising above the differences of nationality or religious creed. According to this vision of fraternity, since its beginning in Trent, the movement focused on Jesus' prayer, "*May they all be one*" trying to build unity through the practice of universal brotherhood (Gallagher, 1997). At the time, a resistance group of young Marxists in that area had some interaction with the community, and such exchange anticipated the movement's current social engagement and dialogue with persons without a religious creed (Focolare Movement website, 2006). The Focolare movement's statutes "*provide for adherents not only from within the Catholic Church, but from other ecclesial communities, from other Religions and from among 'people of good will with no religious belief'*" (Gold and Linard, 2002) and set a "mutual and continuous charity" at the basis of life for its members, as stated by every article describing the structure and functioning of the community (Focolare Movement Statutes, 1995). The lifestyle of members of the Focolare Movement is based on charity in their realization of different cultural, social, political and economic activities. The movement's statutes are continually revised in order to address the needs of the movement in today's society, i.e. in continuous evolution. Lately, the use of language in the statutes highlights the fact that non-Catholics are to be considered full "members" of the movement, rather than "aggregates".

Nowadays, the Focolare Movement flourishes in 182 countries among people of differing ages, languages, cultures and creeds. Most members are Catholic, but there are also Christians from 300 different denominations, believers from all the main religious creeds, and men and women with no religious beliefs, who all participate in the values and lifestyle fostered by the Focolare Movement (Lubich, 1999). For instance, African American Muslims who follow the teachings of Imam W.D. Mohammed and Japanese Buddhist Rissho Koseikai Movements participate in the Focolare Movement, focusing on the common practice of benevolence or, in other words, on the Golden Rule: "*Do unto others as you would have done unto you*". Since its origin, the Focolare Movement developed all over the world almost entirely by word of mouth and through the personal witness of its members. As an example of how the movement spread in other countries, in the next section the story of the Focolare in Brazil is reported.

## 4.2 Economy of Communion in Brazil

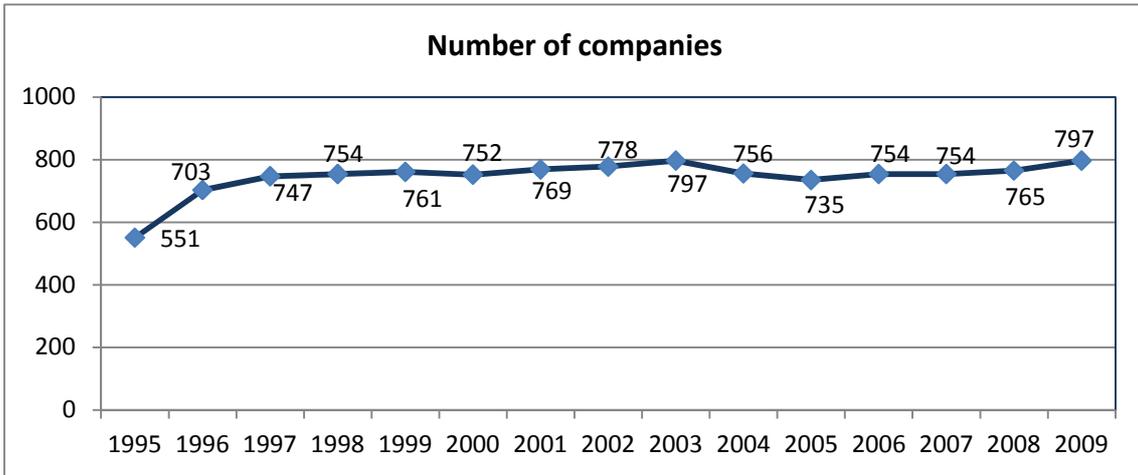
The broad ring of "favelas" or "shanty-towns" contrasted deeply with the skyscrapers nucleus, when Chiara Lubich's plane landed in San Paolo, Brazil. As soon as she arrived to Mariapolis Ginetta, the small city of the Focolare Movement, close to San Paolo, she had to realize that the sharing practiced by the Focolare Movement was not enough to support Brazilians who lived in absolute poverty. Lubich saw the necessity to supply food, shelter, medical care and, if possible, a job to earn a living for as many as possible. Right after the publishing of the Encyclical "Centesimus Annus", by John Paul II, she started the project of "Economy of Communion".

According to Lubich's vision, companies will share their profits as in early Christian communities. As a first action, they will help the poor, or find them a job, so that no one remains in need. Second, they will use part of their profits to develop and support the small cities of the Focolare Movement where people will be taught how to live and work in a culture of giving. In Lubich's words, a little city like Mariapolis Ginetta in Brazil, a country where a widening disparity divided the rich and the poor, could become a source of inspiration for many people. Lubich's vision struck the people present at the meeting, and they eagerly accepted her proposal.

Moreover, they began to contribute to the movement in different ways, recreating the communion of goods which the Focolare Movement practiced since its beginning with strength and deep enthusiasm, by sharing goods, time and work. Donating all their savings, \$ 4,000, one couple affirmed to do so *"because we are part of this ocean of love, like a drop of water and may God transform this dream in a great reality that will light up the beginning of the Third Millennium"*. As such dream was shaping as reality, many companies were started, in Brazil and in many other countries all around the world. Many firms, already working, entered the project and changed both their style of management and the distribution of their profits.

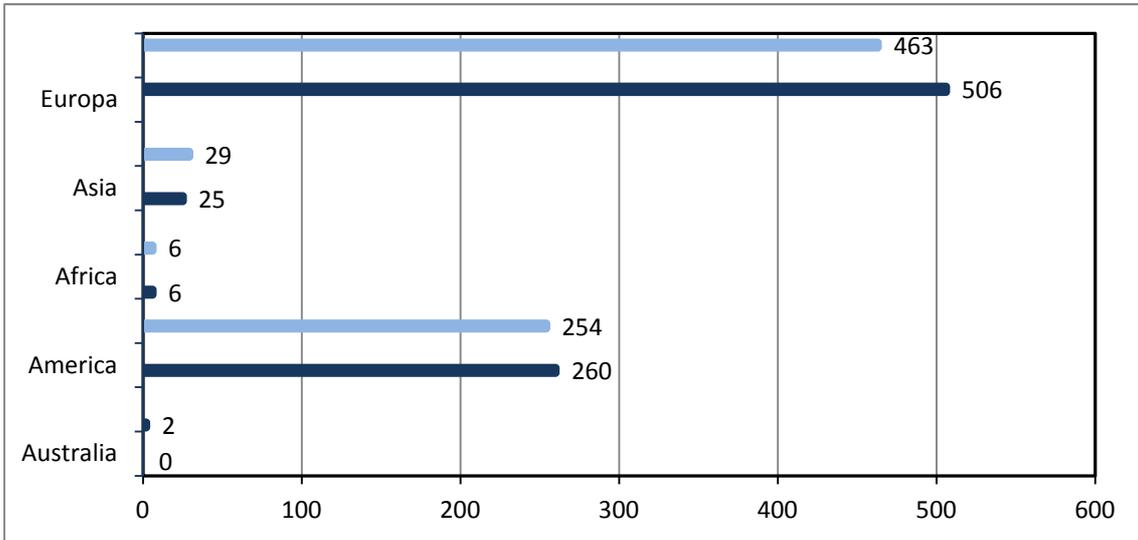
At present, an increasing number of companies has joined the EoC project, as summarized in Figure 4.1, 4.2 and 4.3.

Figure 4.1 Evolution of the Number of EoC Companies Around the World



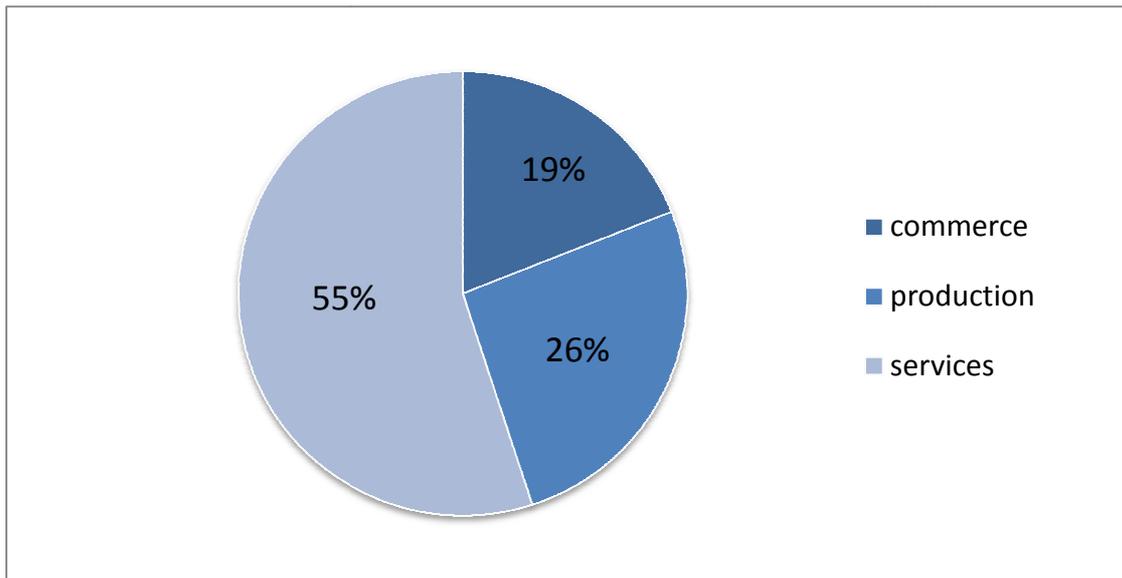
Source: Economy of Communion, Report 2009/2010.

Figure 4.2 Businesses Spread Throughout Continents



Source: Economy of Communion, Report 2009/2010 (the orange line for 2007, the red line for 2010).

Figure 4.3 Work Fields of EoC Companies



Source: *Economy of Communion, Report 2009/2010*.

The Focolare Movement expanded all over Brazil, with more than one hundred social welfare projects run by the members (Focolare Movement website, 2011). In these projects, the Focolare Movement plays the role of an umbrella organization for many local, regional and international NGOs which strive for eradicating poverty. As in such social projects, the Focolare's action embraces many smaller projects, that are supported locally and are a lively facet of community life of those who join the movement.

Needless to say, “attending to the needs of a vast and constantly changing international community, whilst retaining that intimacy of the hearth” (Gold 2004) that was created in Trent is not an easy task for the Focolare Movement. Yet, this challenge lead to the flourishing of various local initiatives whose purposes are social integration, the eradication of poverty, and the development of internationally recognized NGOs<sup>9</sup>.

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<sup>9</sup> These NGOs refer to the roughly 1000 social projects run by the movement mainly under the NGO New Humanity (Category 2 consultative status in the UN Economic and Social Council since 1985), as well as Azione per un Mondo Unito (AMU), which was founded in 1986 and recognized by the Italian Ministry of Foreign Affairs in 1987. Azione per un Mondo Unito aims at the development of countries and peoples focusing on developing nations in addition to a focus on dialogue between peoples of differing nations.

### 4.3 Economy of Communion, its Proposal and Structures

Soon Lubich understood that the “communion of goods” practiced since the beginning of the movement could not prevail over social and economic disparity on a world scale. Such communion of goods, though working miracles at a local level, could not affect a global economy and, moreover, did not clarify the “*nature of work and how value is created and distributed within an industrial society*” (Gold 2004). For instance, in Brazil this action could not affect the main causes of poverty, namely low wages and unemployment. As many society organizations in Latin America, the Focolare strived to solve the problems caused by the economic system.

At the point, Lubich was convinced that the principles of the Focolare spirituality had to pervade also business and industry to work on the root causes of inequality on a structural level. In 1991, Lubich gave a speech to members of the Focolare Movement in Araceli, Brazil and proposed “*a communion of goods which is at a superior level, that is, to give rise to businesses and industries here around the Mariapolis, which would be run by our people, who would put all the profits in common for the poor, having kept what is necessary to keep the business running*” (Lubich 1991). In other words, this speech defined the basis for the future EoC. In Lubich’s thinking, these newly conceived enterprises would provide more and more money into communion, by starting businesses “*that would be entrusted to competent people capable of making them work efficiently and profitably*” (Lubich 1999).

According to Sorgi (1991), three main concepts constitute the EoC model. First, “*the formation of companies composed of many persons who put their capital in common*”. Second, “*spirit of fraternity*”, concerning “*justice towards one’s employees*” as a means for companies to become communities. Third, the distribution of profits, “*which would be freely put in common with a view to the poor, not only to help them survive, but to raise them up to the full human dignity which is theirs by right*”. In these concepts we can identify issues from Christian social doctrine which sees the employees as STK in the business – and accordingly attribute them the right to share in the profits, participate in decisions regarding the company and join as active shareholders. According to Sorgi, the influence of Marxist ideology had these elements forgotten, even by unions strongly established on Christian social doctrine. Though on the basis of a different historical

experience from that of the United States, the corporation's supremacy in the U.S. and global economies has often led to a "*pathological pursuit of profit and power*" (Bakan, 2004) just forgetting the public good. The EoC model is therefore proposing something new, as it devises a sharing of profits beyond the corporate entity, having thus profits "*shared not only within the company but also outside of it, between companies and, even more importantly, with those in need*" (Sorgi, 1991).

Lubich received two honorary doctorates in economics as a result of the EoC project. However, she was not thinking of economic theory when she created it (Lubich 1999). Usually, economic models are grounded on theory and are to be tested in the "real world", but the inspiration for the EoC project emerged from living spirituality and came to life in the "real world", and has since been the subject of over one hundred masters' theses and doctoral dissertations.

#### 4.4 The EoC Guidelines and the Redistribution of Profits

One of the founding principles of the EoC is to increase equality by making the communion of goods productive. In other words, at the dawn of the movement businesses were started to increase the resources made available for giving clothing, food, shelter and so forth to the members of the movement. However, with time the project extended to help all the needy. To do so, business entrepreneurs willing to participate in the EoC project chose to share part of their profit with the Focolare Movement.

As previously described, the EoC takes place out of *freedom* being often called “Economy of Communion in Freedom”. Business entrepreneurs freely choose to join the EoC and remain proprietors of their companies; moreover, they can leave the project at any time and no specific guidelines define how much profit is to be shared. This voluntary aspect of participation is necessary, from the viewpoint of the EoC, to make the project’s goal of authentic “communion” possible. Sharing the business’ profits derives from identification and free choice to take care and help people in need (Linard, 2002). Through self-determination, each businessperson chooses to join the project and share as much of its profit as his/her business, personal and family conditions will allow. However, to participate in the EoC profit redistribution constitutes a vital part of the enterprise’s mission and is not, according to the Focolare Movement, to be carried out only when convenient, that is, when the business produces much wealth.

At the beginning of the movement’s story, the profit was to be subdivided into “thirds”, literally. In 1998 an official document defined the rule on the subdivision of profits as follows: “*The businesses have to be managed in ways that will promote the increase of their profits, which the business people freely decide to assign with equal attention to the following: for the growth of the business; to help people in economic difficulty, starting with those who share the culture of giving; and for the diffusion of that culture*” (EoC website, 2008). The stress is on successful and productive business management, the freedom of participation, and on the equal importance of the three goals, considered equivalent in this respect.

First of all, capital reinvestment requires that a portion of the profit be reinvested in order to promote the business (Lubich, 1999). Needless to say, businesses which operate within the market clearly need to remain self-sustaining and competitive, thus need that

part of their profits be reinvested. This reinvestment supports business growth and consequently promotes an increase in employment opportunities (Bruni, 2006), which the EoC considers a fundamental instrument to fight inequality.

Second, profit redistribution is carried out in order to create new jobs and help people in need, beginning with those who “*share in the spirit that animates the Economy of Communion*” (EoC website, 2011). In other words, giving a portion of the profit to those who barely survive is aimed at leading them to a state of material self-sufficiency “*making it possible for them to live with a little more dignity until they can find a job, or are offered a job in these very businesses [EoC businesses]*” (Lubich 1999). In the Focolare’s perspective, the needs expressed by the poor are considered “gifts”, as the poor provide a chance to help someone “*out of radical poverty and achieve a level of economic interdependence*” (Lane, 2006). This understanding of the poor as an integral part of the project implies a reciprocity, in which the businesses donate their resources, and the poor donate their needs. The EoC’s plan to create a world without poverty is not grounded on “*a type of welfare, but a lifestyle of reciprocity, where everyone gives and everyone receives*” (Bruni, 2006).

It is important to stress how the EoC refuses the paternalism that traditionally comes with charity. On the contrary, the EoC’s goal of profit distribution supports the poor and, at the same time, restores their dignity changing them from “recipients of aid” to partners in the creation of communion through their contribution of needs without which the EoC would not exist, therefore a valuable and precious contribution.

According to Luigino Bruni (2006), many development policies resulted ineffective due to lack of focus on the response of recipients of aid, emphasizing that “*communion reciprocity is a way to fight poverty, because it fosters brotherhood, and only development based on fraternity is fully human and long-lasting*”. Brotherhood’s development is visible as recipients of EoC aid are always ready to help somebody in a worse condition. Actually, year by year many families, after receiving help from the EoC, “*make it known that they are able to do without future assistance so that others can benefit from it*” (Ferrucci, 2002). In fact, recipients of aid can give back to the project in different ways. In this respect, it is to be mentioned the case of a family, receiving EoC aid, which gathered couples and youth in a similar condition and coordinated a group of six couples to have regular meetings focused on their financial issues and how they could overcome them

together; moreover, they reinforced the values of fraternity and solidarity in their family in those hard times. Furthermore, a group of forty teenagers was formed with whom the EoC values such as the “culture of giving” were discussed. In these different manners, this family managed to give a valuable contribution to the EoC’s goals, fully participating in the project. In Benites’ words, *“if those who receive economic help do not give back, the EoC does not achieve its objective”* (Benites, 2006) of real reciprocity and communion. The path followed by this family in educating youth and couples on the EoC values points out the goal of the third portion of the profit subdivision, which is dedicated to the diffusion of the “culture of giving”.

This diffusion can be considered the EoC’s practical solution for overcoming poverty and inequality, much more than a mere distribution of aid. In Bruni’s words (2006), *“it is not enough to produce wealth and put it in common in order to overcome poverty. This is the importance of providing immediate assistance to those who are in need, of creating job opportunities, and that everyone be formed to a culture of giving, a culture of gratuity and sharing. When a needy person comes in contact with a spirituality, he/she begins to change their mentality and to live a culture of giving. This is the moment that they begin to get out of the vicious cycle of misery, and life can then flourish, because the encounter with a charism awakens the dignity of every person and his/her vocation to love”*. This third part of the profit subdivision is devoted to support the broad network of the EoC companies all over the world.

By subdividing profits, EoC companies spread the “culture of communion”. Actually, *communion* is a vital issue to the EoC, as the project highly values reciprocity. It is very different from a charitable project where wealthy business proprietors just donate some of their wealth to the “poor”, feeling and being considered “charitable citizens”. Furthermore, the EoC project does not end with the subdivision of profit, but is to take place within the businesses themselves, mostly through a different style of management.

A fundamental goal of the EoC is in fact *“the total transformation of the business into a place of communion: a community of persons”* (Gold, 2006), in which mutual help through “all aspects of reciprocity” (Bruni, 2006) is daily practice. Accordingly, the EoC businesses become an example of the “culture of giving”.

In order to address the issue of standards and quality in the businesses, some basic guidelines, centered on the spirituality of the Focolare Movement, have been defined. Such

guidelines are to support businesses participating in the EoC, seeking to build the internal environment in which “communion” can actually take place. In 1997 a group of experts, students, and business-people met in Rome to discuss the development and growth of the EoC and composed a draft of these guidelines which are not compulsory, but intended as an “advice checklist” that business proprietors can use to check how they measure up to EoC standards.

The Mission, Vision, Core Values and Business Operating Principles and Beliefs for EoC companies point out the good practices of the EoC business network throughout the world<sup>10</sup>. As the EoC’s Mission is to help establish and live a culture of giving and social equity through the work of companies inspired by the universal values of freedom, equality, brotherhood and communion, striving to give relief to poverty and support the growth towards self-sustainability by means of a fair redistribution and sharing of resources and needs. The full text of these EoC guidelines in the latest version is available at the end of this paper (Appendix 2).

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<sup>10</sup> The EoC guidelines here reported have been drawn up by the International EoC Commission in February 08, 2011 (Draft 7).

## 4.5 An approach Centered on People

One of the crucial principles of the EoC guidelines is the project's perspective of the human being as an entity which can attain fulfillment by developing relations with other human beings, rather than by acting individualistically (Zamagni, 2004). EoC companies call into question the common knowledge of profit as the only motivating factor in business, striving to shift the focus of their business activity on the human being, rather than on financial benefits. According to Luca Crivelli, an economics professor at the University of Lugano, Switzerland and a member of the International Commission of the Economy of Communion, the EoC is a path to "humanization" of the market economy (Crivelli, 2004). In Lubich's words, EoC companies "*propose as the very rationale for their existence, to make economic activity a place of encounter, a place of 'communion': communion between those who have goods and economic opportunities and those who do not; communion among all those who are involved in different ways in the activity itself*" (Lubich, 1999). The EoC encourages a "*multi-dimensional view of entrepreneurial activity, where efficiency has its place but is not the only factor that counts*" (Crivelli, 2004). In the everyday practices of EoC businesses, we can see an added value to the business models, consisting in giving, solidarity, reciprocity, gratuity, spirituality and a sense of communion which inspires and fosters a new, broader communication in business.

As previously noted, people are the main asset in economic and social activities: the capital, finance or technology are not as fundamental because only human creativity can generate innovations that allow development in difficult times. At present, we are realizing that firms can grow and be leaders in the global economy when human capital is at work and represents reality according to a different perspective. Actually, people's intelligence is to be considered the only key to innovation and consequent creation of value. Such concept is clearly expressed by the words of Carlo Cattaneo, a renowned Italian economist of the 19th century: "*There is no job or capital that does not begin with an act of intelligence. Before every job, before all capital . . . it's the intelligence that begins the work and stamps the character of wealth into it*". As the EoC's perspective sets people in the core of business, innovation drives companies to produce goods with value. Therefore, innovators obtain profit, which is shared with others. In this manner, the culture of giving and reciprocity supports and sustains the relationship with people.

## 4.6 The Category of “Love” in Economics

The EoC faces a challenge, that is to find a place for love within the economic domain. Needless to say, the EoC project can be fully understood only through the category of love, seen as a feeling of brotherhood, universal good will and a deep concern for people. This should not emphasize its sentimental or psychological issues. Conversely, love should be, in the EoC perspective, more than mere empathy or fellow-feeling -terms which economists such as Adam Smith tend to substitute to “love”- in order to find a full expression of one’s opening up to others (Linard, 2003).

We could argue that placing love at the center of economic life is a revolutionary belief, really against the current. In fact, mainstream economic science considers people’s motivations deeply rooted in self-interest, or in the words of Guicciardini, the famous Italian writer of the XV century, “mio particolare”, i.e. my own good (De Sanctis, 2006). *“The hypothesis that the individual is motivated by personal interests has become the dominating thought in economics today, and it has often been considered an adequate explanation both of human behavior and the efficient behavior of the market economies”* (Sen, 2001).

On this basis, necessarily market relations will be neutral, finding no place for love or for hate in the economic domain. Some economists out of sheer realism leave love outside of business, since they consider it useless matter, given the “fact” that people in business act out of self-interest and not out of love. A place for love is found under the form of philanthropy, in a secondary role; however, in everyday productive business dynamics, love is considered out of place, totally inappropriate (Linard, 2003).

*“But what about the alternative analogy that equates love, benevolence, and public spirit to a skill that is improved through practice and atrophies without it? like the ability to speak a foreign language or to play the piano, these moral resources are likely to become depleted and to atrophy if not used”* (Hirschman, 1984).

In the EoC’s perspective, as previously mentioned, love is seen as a deep concern for the other as a person and becomes a powerful motivational force of the same or even higher importance compared to self-interest within the market: in short, love matters in economic life. In other words, self-interest is here understood as happiness, whose nature is

– according to Aristotle’s Nicomachean Ethics - paradoxical and can only be achieved as a by-product of seeking for the happiness of others. In other words, happiness has a relational nature: it is possible to be rich alone, but we need reciprocity for being happy.

Economic thinking tends to mix up reciprocity with the concept of exchange of equivalents; actually, these two categories differ in that “*the exchange of equivalents is impersonal, instrumental and conditional*” (Bruni and Zamagni, 2004). On the other hand, “*Relations of reciprocity, instead, presuppose the knowledge of the identity of the other, need genuine (non-instrumental) concern for the others and cannot be fully conditional. This kind of reciprocity can be considered to be synonymous with communion. This kind of reciprocity can be considered to be synonymous with communion, intended as a way of understanding and living out social behavior*” (Bruni and Zamagni, 2004). The EoC’s principle of reciprocal love is visibly expressed by freely choosing to share profits; moreover, in everyday decisions such as employing workers who do not guarantee an adequate economic return, or behaving with confidence and trust toward suppliers or customers even in hard times, when it may be risky.

Giving or doing things for free is not what the EoC perspective intends by love-communion: actually, it is also necessary to express one’s role - as a buyer on behalf of others, as supervisor, as administrator of capital entrusted by another – in a personal manner. Out of love, even in market relations – usually considered instrumental, anonymous and self-interested – we can carry out actions in a personalized, other-oriented, gratuitous fashion. It can take the form of supporting a supplier in difficulty – of course, without putting one’s business (owners, creditors and employees included) at stake - or finding a new, less profitable solution, which would not require a personnel reduction (Linard, 2003).

The words of a Filipino business manager can clearly describe this process: “*Some time ago we discovered that one of our men working in the distribution section had difficulty in carrying out his job because he was having trouble with his eyesight. He didn’t want to tell us this out of fear of losing his job. We understood that he needed to work in order to support his family and we found a solution. We transferred him to a new warehouse where he is now working proficiently*”.

What is the most striking is that EoC companies living out this “culture of love” do it in the actuality, producing and selling goods and services in today’s globalized market economy: they do not operate in “the best of all possible economies”. A remarkable issue is that in the past people who chose to operate in economics through love – for example, charities, non-profit organizations, NGOs and foundations – worked outside of the market. The EoC’s perspective integrates the ideas of free-gift and communion inside the economic market: a multi-faceted market, not only a place for high-level performance, but for the practice of reciprocity, love and brotherhood as well.

In this respect, the renowned Italian economist Benedetto Gui, quotes Arrow’s famous sentence: “... *much of the reward from social interaction is intrinsic*” (Arrow, 1999). In other words, “*one of the outcomes of social interaction does not reside in what this can be instrumental to (advantageous transactions or the accumulation of human capital of any sort) but in what is enjoyed (or suffered, if the communicative/affective side of the interaction is unpleasant) during the interaction itself – a peculiar form of ‘consumption’*”. This class of outputs of encounters, otherwise unaccounted for, has been categorized as “relational consumption goods” (Gui and Sugden, 2005).

To take into explicit consideration the relational consumptions goods can affect dramatically the decision-making in firms, families and the state as well. Personalized interactions become peculiar productive processes in which human and non-human inputs combine in generating different kinds of output; leaving aside those of a more materialistic nature, we can focus on relational goods, immaterial assets which are relation-specific and inseparable from the relation itself. These assets include issues such as 'company', 'recognition', 'entertainment' (not to be forgotten, possible 'relational consumption bads'); and accumulation of 'relational capital goods', called also relation-specific capital (Gui and Stanca, 2010). These relational goods can actually make the future encounters between communicative-emotional subjects and entities more productive.

The challenge that the EoC invites all of us to is a multi-dimensional economy and economics, i.e. an economy rooted in life, where love and reciprocity find a place not only in family, affective and spiritual life, but also in the domain of work and business. An economic activity willing to offer its contribution to well-being, to help people and to “flourish”, in Sen’s words (Sen, 2001), through material goods, will prepare a fit place for the dimension of gift, love, and communion (Gui and Stanca, 2010).

The EoC's perspective reminds us that a culture of profit-maximization creates wealth but does not produce happiness. The problem of happiness can find a solution through a reinterpretation of the concept of economy and economics. As we spend most of our lives in economic organizations in a world where most of our time is dedicated to economic affairs, we are required to solve the problem at that level, in order to find a possible way to make people happy (Linard, 2003).

## Chapter V

### An Experimental Study about the EOC Project

*“We can attribute poverty two meanings. The first one is to consider it a virtue, a choice of life centered on sobriety and on the gift of oneself to others. The second meaning is its negative facet, misery. This is an unwanted state of necessity in which human dignity is abased. Economy of Communion is a way of responding to the world’s poverty through a new culture, the ‘culture of giving’, whose main purpose is to put the person at the core of social relations, and gratuity as a means of interaction”.*

*L. Bruni*

More than 7,000 people and families all over the world participate in the EOC project in a relationship of basic reciprocity. Their words are precious in that they make us realize how communion and sharing can change economy and human relationships to the better. The following quotes can remind it to us all.

*“Since the project to help people in need began, I always contributed with great joy. I never imagined that one day I would find myself among those in need of help. This year I cannot give my contribution; I can only communicate my needs with the certainty that in front of God both things have the same value: both are ‘giving’. I experienced that I am part of a big family in which sometimes we give and sometimes we receive” (Brazil).*

*“The financial aid that I received allowed me to conclude my studies and to get to know the lifestyle of an EOC business. Since then, many things have changed inside me. Before, I had a deep hatred for rich people. I thought that they didn’t care about the poor and that they only cared about themselves. Today, I understand that love put in practice in a business changes everything” (Philippines).*

## 5.1 An Overall View of our Sample

Our sample consists of 34 firms renowned for being interested in social issues and CSR, 19 from Europe (almost all from the Northern and Middle Italy) and 15 from extra European countries. In Table 5.1, 5.2 and 5.3 we have summarized the features of our sample. We have recruited the sample companies by sending via e-mail the questionnaire (Appendix 3) to 130 companies, found either through Internet search (in a database<sup>11</sup> specifically collecting companies interested in corporate responsibility) or through personal acquaintances of the writer. It must be said that only 26% of the companies that received our questionnaire chose to respond to our request.

We have designed all the figures and tables in the following sections (Figure 5.1 to 5.18 and Table 5.1 to 5.11), using the information gathered from the questionnaire.

*Table 5.1 Answering Sample Companies All over the World*

| Geographical area    | Number of answering companies | Number of questionnaires sent | Percentage of companies out of 34 answering | Percentage of answering companies out of questionnaires sent |
|----------------------|-------------------------------|-------------------------------|---|--|
| Italian              | 17                            | 22                            | 50%   | 77%  |
| European-non Italian | 2                             | 23                            | 6%  | 9%   |
| Extra-European       | 15                            | 86                            | 44%   | 17%  |

In Table 5.1 it is summarized how our sample included both European and extra-European countries and in Table 5.2 the Italian firms have been divided into two groups according to the area of provenience. In the sample, no firms from Southern Italy have been included, as the 2 Southern Italian companies we contacted did not return us the questionnaire. In fact, the response of Italian firms was in proportion (see Table 5.1) quite high, much lower from extra-European and almost inexistent from other European

<sup>11</sup> The database from which most of the sample companies have been collected is Business Network Economy of Communion, at the website <http://www.edc-info.org/>.

countries. Moreover, the response from Northern Italy was in proportion very high, and quite high from Middle Italy, as summarized in Table 5.2.

*Table 5.2 Answering Sample Companies in Northern and Middle Italy*

| Italian Area   | Number of answering companies | Number of questionnaires sent | Percentage of companies out of 17 answering | Percentage of answering companies out of questionnaires sent |
|----------------|-------------------------------|-------------------------------|---|--|
| Northern Italy | 12                            | 13                            | 71 %  | 92%  |
| Middle Italy   | 5                             | 7                             | 29%   | 71%  |
| Southern Italy | 0                             | 2                             | 0%  | 0%   |

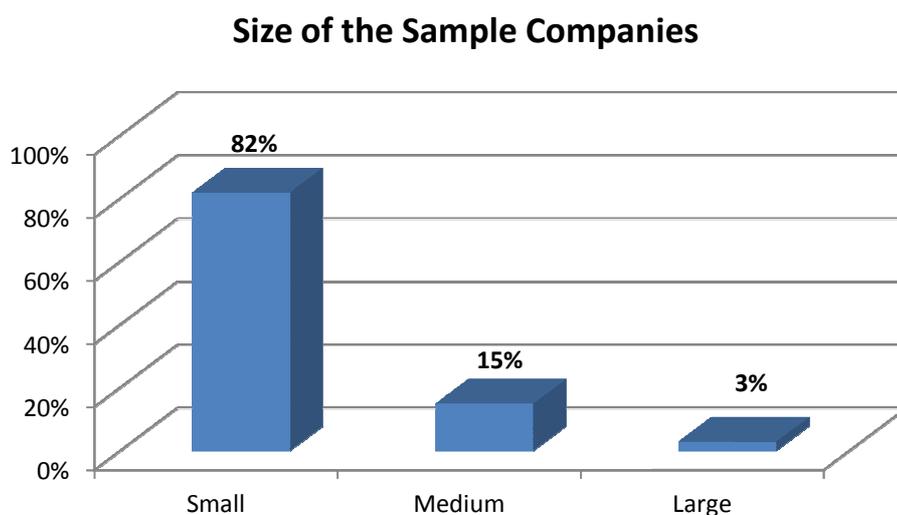
In Table 5.3 the size of companies<sup>12</sup> is summarized as follows: the majority of the firm (28) are of small size, representing the 82% of the total amount of companies analyzed. Then we have a little percentage of medium size businesses, the 15% and only one large company. As shown in Table 5.3, the response from either small and medium size companies was only 28 and 24% respectively.

*Table 5.3 Size of the Sample Companies*

| Size   | Number of answering companies | Number of questionnaires sent | Percentage of companies out of 34 answering | Percentage of answering companies out of questionnaires sent |
|--------|-------------------------------|-------------------------------|---|--|
| Small  | 28                            | 100                           | 82%   | 28%  |
| Medium | 5                             | 21                            | 15%   | 24%  |
| Large  | 1                             | 9                             | 3%  | 11%  |

<sup>12</sup> Companies have been categorized as small, medium or large on the bases of the number of employees according to the Italian classification, as follows: (1) small: less than 50 employees; (2) medium: less than 250; (3) large: more than 249 employees.

Figure 5.1 Size of the Sample Companies

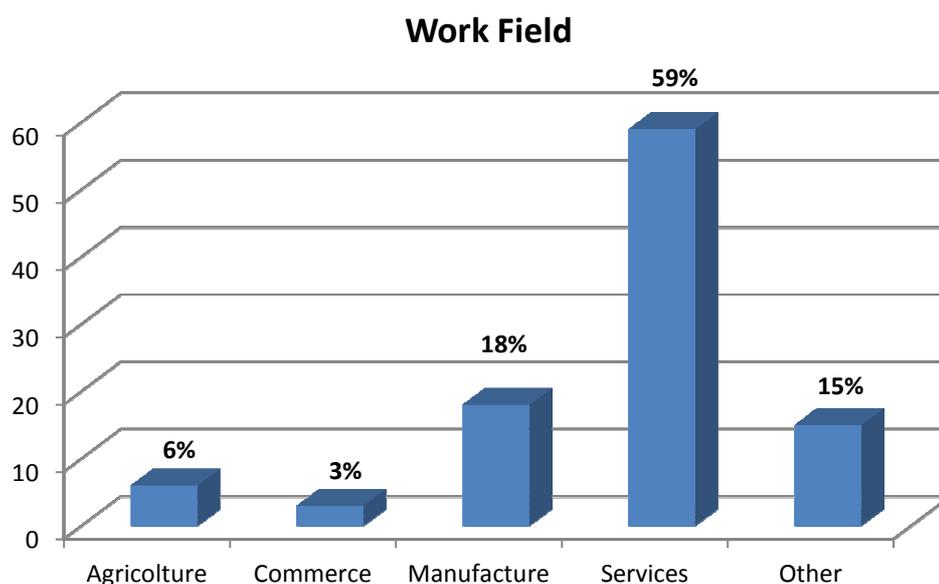


Our sample consisted of companies from different fields, namely agriculture, commerce, manufacture, services and other. In the “Other” group we can find businesses operating in the publishing field, metallurgy, galvanizing, trading, circulation marketing sales and distribution of international and local publications.

Table 5.4 Field of Work of the Sample Companies

| Work field  | Number of answering companies | Number of questionnaires sent | Percentage of companies out of 34 answering | Percentage of answering companies out of questionnaires sent |
|-------------|-------------------------------|-------------------------------|---|--|
| Agriculture | 2                             | 8                             | 6%  | 25%  |
| Commerce    | 1                             | 30                            | 3%  | 3%   |
| Manufacture | 6                             | 19                            | 18%   | 32%  |
| Services    | 20                            | 47                            | 59%   | 43%  |
| Other       | 5                             | 26                            | 15%   | 19%  |

Figure 5.2 Field of Work of the Sample Companies



As described in Table 5.4, most companies which responded to our request were from the Services work field representing the 59% of the total amount of the firms.

Table 5.5 Types of Sample Companies

| Type                 | Number of companies | Percentage of companies out of 34 answering |
|----------------------|---------------------|---|
| S.r.l. <sup>13</sup> | 17                  | 50%   |
| S.p.a. <sup>14</sup> | 9                   | 26%   |
| S.n.c. <sup>15</sup> | 2                   | 6%  |
| Sole ownership       | 6                   | 18%   |

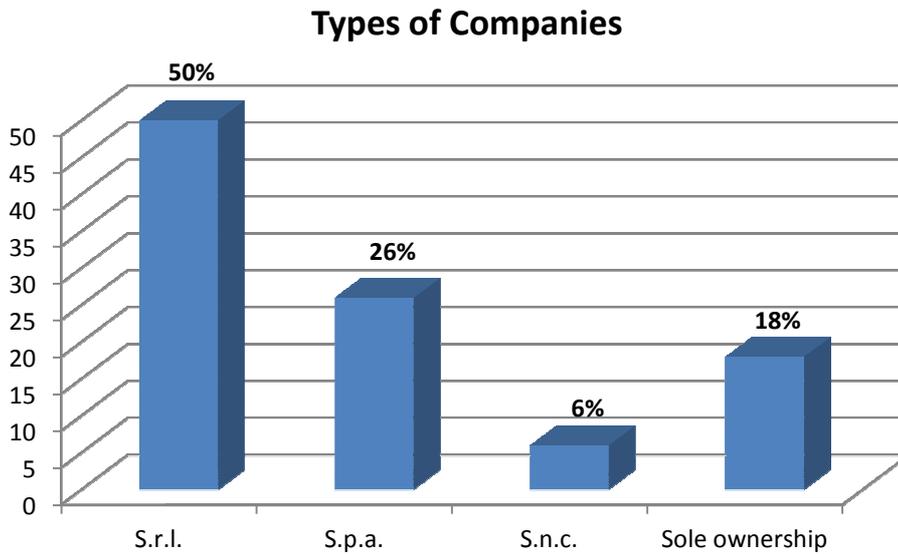
<sup>13</sup> S.r.l. is very similar to limited liability company (LLC) which is a flexible form of enterprise that blends elements of partnership and corporate structures. It is a legal form of company that provides limited liability to its owners.

<sup>14</sup> S.p.a. is very similar to joint-stock company (JSC) that is a type of corporation or partnership involving two or more individuals that own shares of stock in the company. Certificates of ownership ("shares") are issued by the company in return for each financial contribution, and the shareholders are free to transfer their ownership interest at any time by selling their shareholding to others.

<sup>15</sup> S.n.c. can be assimilated to Incorporated (Inc.) juridical form, which is a S type society.

In Table 5.5 the juridical form of the sample companies is summarized, L.L.C. (S.r.l.) being the most common (50%).

Figure 5.3 Type of Sample Companies



## 5.2 The Questionnaire

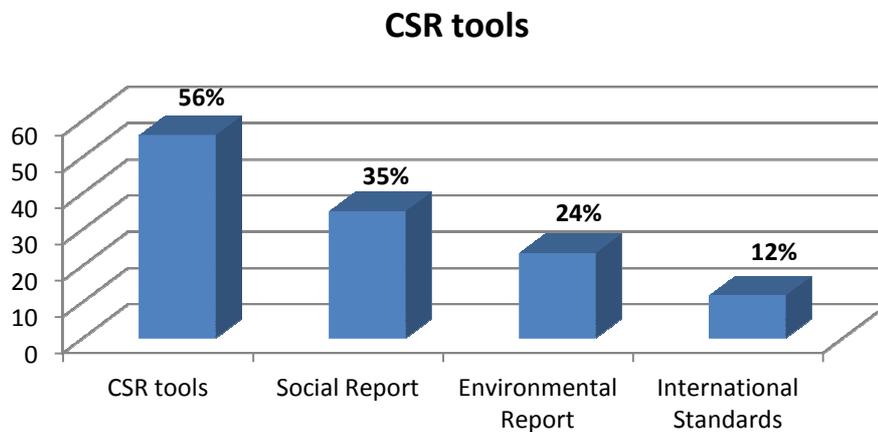
The questionnaire sent to the firms was formulated by the writer and consisted of two sections. The first section included an informative introduction on companies' features. In particular, the work field, the size and the European or extra-European country of the firm.

The second section of the questionnaire investigated the practices and tools of CSR and STK engagement. Some items were of a multiple choice type; the majority of items used a 5-point Likert scale. It was also present a short answer item, to gather information on the concept of "STK engagement" in the firms' eyes.

### 5.3 Questionnaire Analysis: First Section

In the first section of our questionnaire, the interviewees reported about CSR tools and practices, as summarized in Figure 5.4, Table 5.6, and Table 5.7 subdividing the companies according to their geographical area in Italian, from Northern or Middle Italy and extra European. As only two companies from Europe answered, leaving aside the Italian ones, we considered this slight number of subject not sufficient to carry out any specific evaluation. Consequently, European non-Italian companies have not been mentioned in all the following tables and figures.

Figure 5.4 CSR Tools and Practices



One of the questions included in the questionnaire asks whether the company is adopting practices/tools for CSR activities and/or adhering to international standards. Most firms responded affirmatively and the results are summarized as follows: 19 companies follow the guidelines for practices and tools<sup>16</sup> for CSR activities; 12 firms adopt Social Report and 8 firms Environmental Report. Regarding International Standards, only 1 company adopt SA8000 Standard; no one the AA1000, GBS, GRI and, GLOBAL COMPACT Standards. In Table 5.6, it is shown how Northern Italian companies implement more numerous tools, and more frequently than Middle Italian ones.

<sup>16</sup> The CSR tools, as recorded in the Item 5 of the questionnaire, include the following categories: (1) focus group; (2) customer satisfaction questionnaire; (3) supplier convention; (4) customer convention; (5) employee meeting; (6) employee social report; (7) climate analysis; (8) monitoring tools; (9) other.

Table 5.6 CSR Tools Implementing in the Italian Sample Companies

| CSR TOOLS               | NORTHERN ITALY |     | MIDDLE ITALY |    | ITALY |     |
|-------------------------|----------------|-----|--------------|----|-------|-----|
|                         | total          | %   | total        | %  | total | %   |
| CSR                     | 5              | 15% | 2            | 6% | 7     | 21% |
| Social Report           | 6              | 18% | 0            | 0% | 6     | 18% |
| Environmental Report    | 1              | 3%  | 0            | 0% | 1     | 3%  |
| International Standards | 2              | 6%  | 0            | 0% | 2     | 6%  |

Table 5.7 CSR Tools Implementing in the Extra-European Sample Companies

| CSR TOOLS               | EXTRA-EUROPE |     |
|-------------------------|--------------|-----|
|                         | total        | %   |
| CSR                     | 11           | 32% |
| Social Report           | 6            | 18% |
| Environmental Report    | 7            | 21% |
| International Standards | 2            | 6%  |

In the “Other” group we found 4 companies adhering to the Economy of Communion Guidelines; furthermore, one decided to distribute part of the profit to a Solidarity Fund. Another Brazilian company adheres to the ABNT (Associação Brasileira de Normas Técnicas), which is the Brazilian National Standards Organization, i.e. the normative body which is responsible for technical standards in Brazil, aimed at promoting technological development in the country<sup>17</sup>. Another firm reported to be adhering to ISO 9000, which is a family of standards related to quality management systems and designed to help organizations ensure they meet the needs of customers and other STK. Another

<sup>17</sup>Information gathered from <http://www.abnt.org.br/default.asp>

company conforms to Oeko-Tex® Standard 100, a globally uniform testing and certification system for textile raw materials, intermediate and end products at all stages of production<sup>18</sup>.

*Table 5.8 Categorization of Stakeholders*

| Stakeholders           | Number of companies | Percentage of companies |
|------------------------|---------------------|-------------------------|
| Shareholders           | 20                  | 59%                     |
| Donors                 | 6                   | 18%                     |
| Customers              | 29                  | 85%                     |
| Suppliers              | 16                  | 47%                     |
| Local Community        | 13                  | 38%                     |
| Competitors            | 12                  | 35%                     |
| Public Administration  | 6                   | 18%                     |
| Employees              | 22                  | 65%                     |
| External Collaborators | 15                  | 44%                     |
| Other                  | 5                   | 15%                     |

Subsequently, we carried out a statistical analysis, calculating the correlations between items and identifying relevant factors in STK engagement and CSR. The data were submitted to correlational analysis using Microsoft Excel. Quite high correlations between several items emerged and are summarized in Figure 5.7 to 5.18. The correlations among factors have been also represented in Figure 5.18.

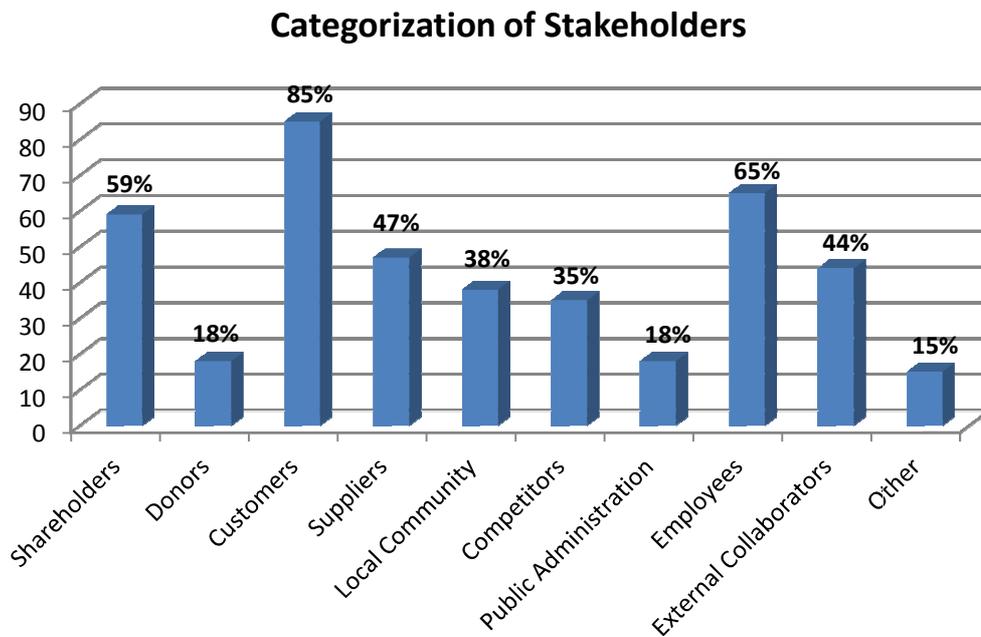
A possible preference of CSR tools in relation to firm size was hypothesized, but no interesting correlations emerged, though a slight preference for the use of International Standards was found for large companies, as well as a tendency to avoid it for small firms.

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<sup>18</sup> Information gathered from <http://www.oeko-tex.com>.

In Table 5.8, we have illustrated which STK are considered as such by the company's management (the total of percentages is higher than 100%, as managers mentioned more than one type of STK).

Figure 5.5 Categorization of Stakeholders



As it could be expected, most enterprises reported customers (89%) and employees (65%) among STK; less frequently, shareholders (59%), suppliers (47%) and external collaborators (44%) have been mentioned. This can be quite understandable, since several companies in the sample were either small size “sole proprietorship” firms or “services”, thus often did not have shareholders or external collaborators. Some had no suppliers either.

Only 5 firms specified “Other” types of STK, namely “everyone”, students, recipients of donation programs or of volunteer work. In the same section of the questionnaire, a firm's top manager answered: *“I believe they are everyone who is somehow connected with the company or benefits from the company's operation in some way”*.

A firm’s lawyer affirmed: *“I have shared with other lawyers about the EOC guidelines. My manner of working with everyone, judges, court, clerks, lawyers’ offices has changed with my living the spirituality of Unity”*.

The interviewees have also been requested to order their STK by importance, as summarized in Figure 5.9.

*Table 5.9 Stakeholders by Importance*

|              | Least important | Of little importance | Of medium importance | Important | The most important |
|--------------|-----------------|----------------------|----------------------|-----------|--------------------|
| SHAREHOLDERS | 35%             | 24%                  | 6%                   | 9%        | 26%                |
| EMPLOYEES    | 3%              | 9%                   | 15%                  | 41%       | 29%                |
| CUSTOMERS    | 6%              | 0%                   | 24%                  | 38%       | 35%                |
| SUPPLIERS    | 26%             | 29%                  | 35%                  | 9%        | 0%                 |
| SOCIETY      | 29%             | 38%                  | 21%                  | 3%        | 9%                 |

As shown in Table 5.9, the companies’ answers about the different types of STK were very scattered. For the majority of the businesses analyzed, the most important category of STK was found to be the customers; in fact, as we can see in Table 5.9, 12 companies, representing the 35% of the total sample, chose them as key STK (first level of importance) while 13 firms, corresponding to 38% of the sample assigned them to the second level of importance.

This first finding can be considered as quite predictable, because all companies need a very good relationship with their clients in order to respond to their needs and meet their expectations.

The second STK category by importance includes the employees of the company, another central group with which the company has to relate, actually mentioned at the first level of importance by 10 enterprises, representing the 29% of the total sample and by 14 firms (41%) at the second level of importance. Shareholders and suppliers share a third position by importance in the firms’ eyes with a 9%, as the company’s survival depends on

their investment of capital and supply of goods. Needless to say, some firms mentioned as the least important type of STK the shareholders just because small firms do not have any.

It is interesting to notice how society has been attributed at the first or second level of importance respectively by 9 and 3%, a very disappointing finding; consistently, the percentage of firms which attributed it to the least or little level of importance is respectively 29 and 38%.

The questionnaire included also a short answer item in which the interviewees were asked to briefly define their idea of “STK engagement”. Only 15 out of 34 organizations answered and we organized this information according to four categories, as they emerged from the textual material. Each category’s heading is a short sentence from the firms’ answers that we found expressive of the different facets of the “STK engagement” concept and is followed by a quote from the managers’ answers.

“Keep the customer satisfied”

*“STK engagement is vital for achieving the final goals of customer satisfaction and firm’s growth and development” (Italy).*

“Relationship building”

*“We try to create brotherhood relationships with our employees and their families” (Brazil).*

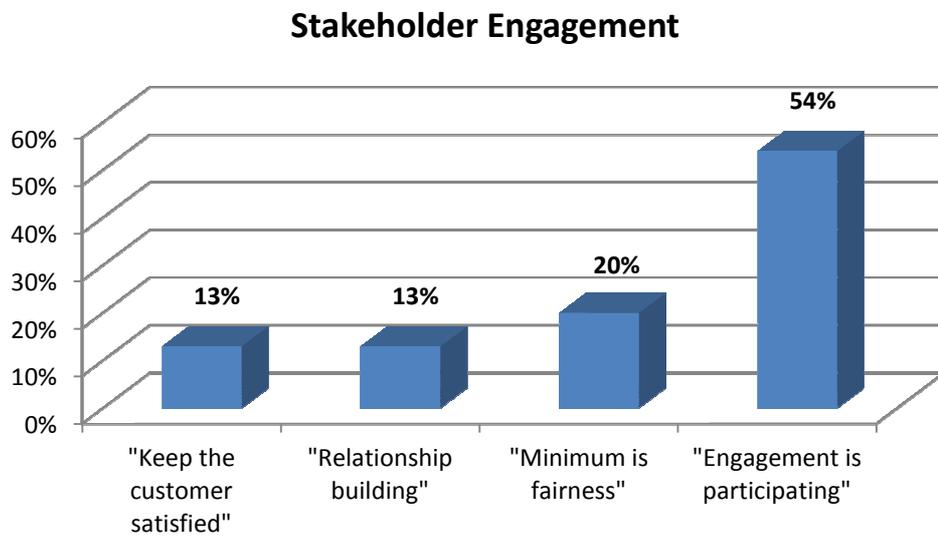
“Minimum is fairness”

*“Minimum is “fairness”, in most cases thinking, acting, deciding for more than just fairness, more optimizing for the common good” (Hungary).*

“Engagement is participating”

*“An engaged worker is a worker who is fully motivated and enthusiastic about his/her work and the impact it has in his/her organization and society at large” (USA).*

Figure 5.6 Categories of Stakeholder Engagement



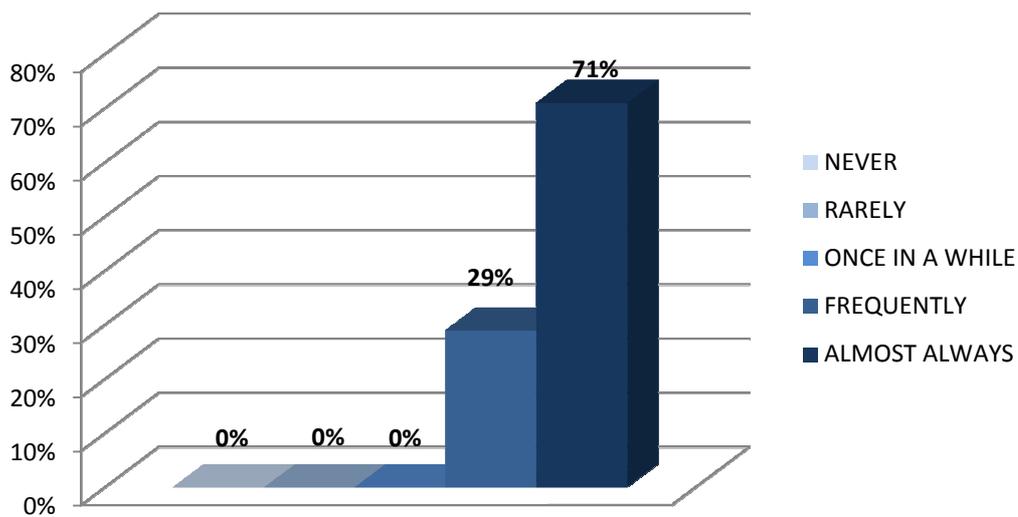
## 5.4 Questionnaire Analysis: Second Section

In the second section of the questionnaire a set of 11 items investigated the importance of STK and the use of STK engagement systems. The answers to these items have been outlined item by item, as follows.

### Item 1: RELATIONSHIP

*“Does your company believe that the relationship with all the STK that collaborate in the business is important?”*

*Figure 5.7 The Importance of the Relationship with Stakeholders in the Business*

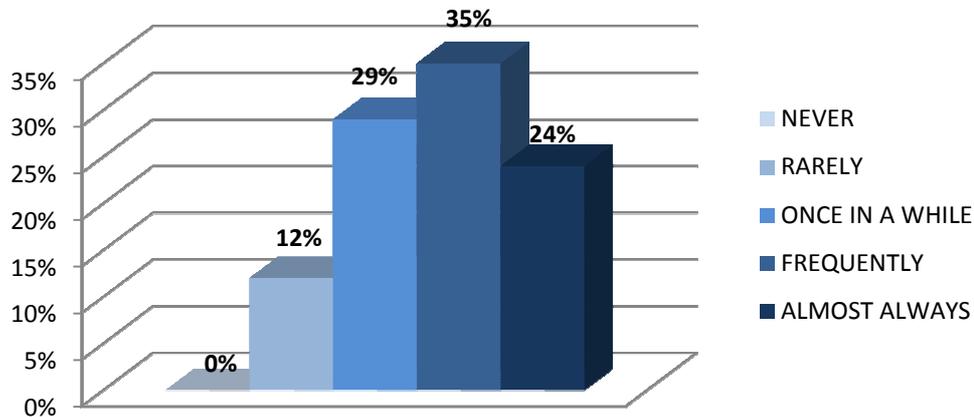


According to the firms' answers to Item 1, the relationship with all STK is considered important by the management of most sample companies, always (71%) or, at least, frequently (29%).

## Item 2: INVOLVEMENT

*“Is your company aware of the STK involvement system in the business processes?”*

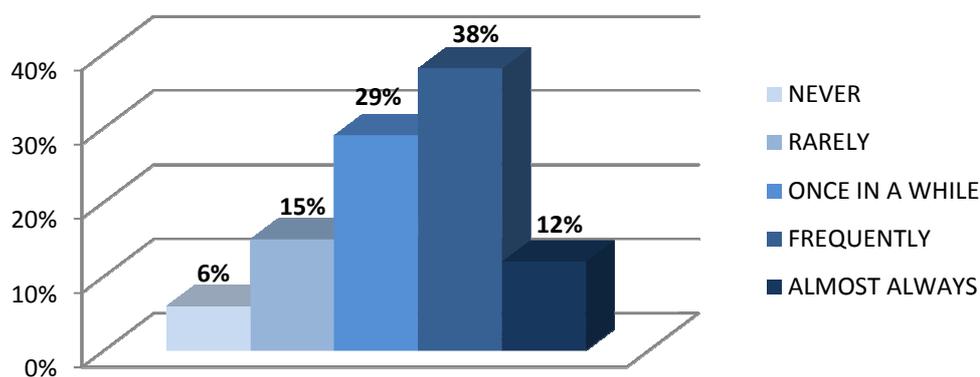
Figure 5.8 Stakeholder Involvement Systems



## Item 3: FORMAL EVALUATION

*“Does your company implement formal evaluation systems for the relationship with all the STK that collaborate in the business (questionnaire, meetings and so forth?)”*

Figure 5.9 Formal Evaluation Systems

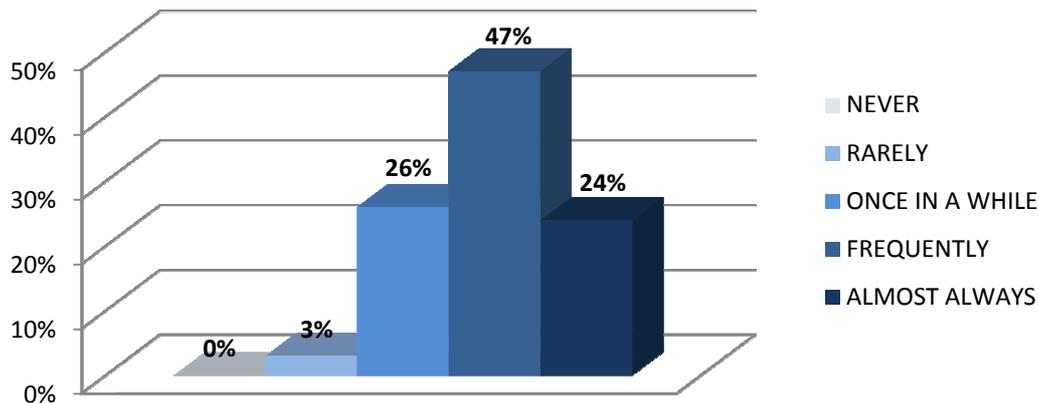


According to the firms' answers to Item 2 and 3, the companies are aware of the STK involvement systems and most firms implement them as well.

## Item 4: DECISIONS

*“In your company, are you looking to involve not only shareholders and investors, but employees, suppliers and customers in strategic and operational decisions?”*

Figure 5.10 Involvement of Stakeholders



One out of four companies involves all STK almost always, about one out of two does it frequently. Only one company out of the 34 sample allegedly did not involve as STK employees, suppliers and customers and also one out of four did it only rarely.

## Item 5: TOOLS

*“Which one of the following tools are you using?”*

Item 5 required the interviewee to choose one or more among several options (included “Other”) about which tools the firm used in order to involve STK. The options are the following: focus group; customer satisfaction questionnaire; supplier convention; customer convention; employee meeting; employee social report; climate analysis and monitoring tools.

Table 5.10 CSR Tools – Italy

| Item 5                              | NORTHERN ITALY |             | MIDDLE ITALY |             |
|-------------------------------------|----------------|-------------|--------------|-------------|
|                                     | total          | % answering | total        | % answering |
| focus group                         | 4              | 12%         | 2            | 6%          |
| customer satisfaction questionnaire | 2              | 6%          | 2            | 6%          |
| supplier convention                 | 2              | 6%          | 1            | 3%          |
| customer convention                 | 2              | 6%          | 3            | 9%          |
| employee meeting                    | 8              | 24%         | 5            | 15%         |
| employee social report              | 1              | 3%          | 1            | 3%          |
| climate analysis                    | 2              | 6%          | 1            | 3%          |
| monitoring tools                    | 3              | 9%          | 3            | 9%          |
| other                               | 2              | 6%          | 0            | 0%          |

Figure 5.11 a CSR Tools Implementing in the Northern Italian Sample Companies

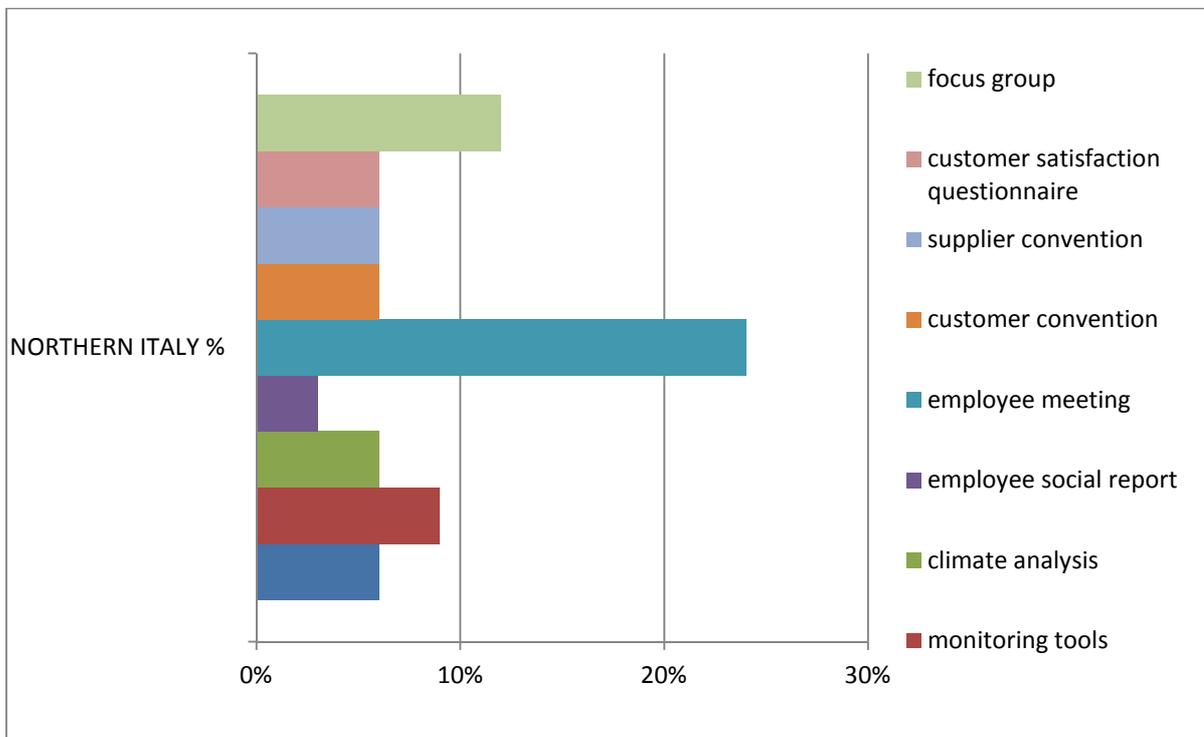


Figure 5.11 b CSR Tools Implementing in the Middle Italian Sample Companies

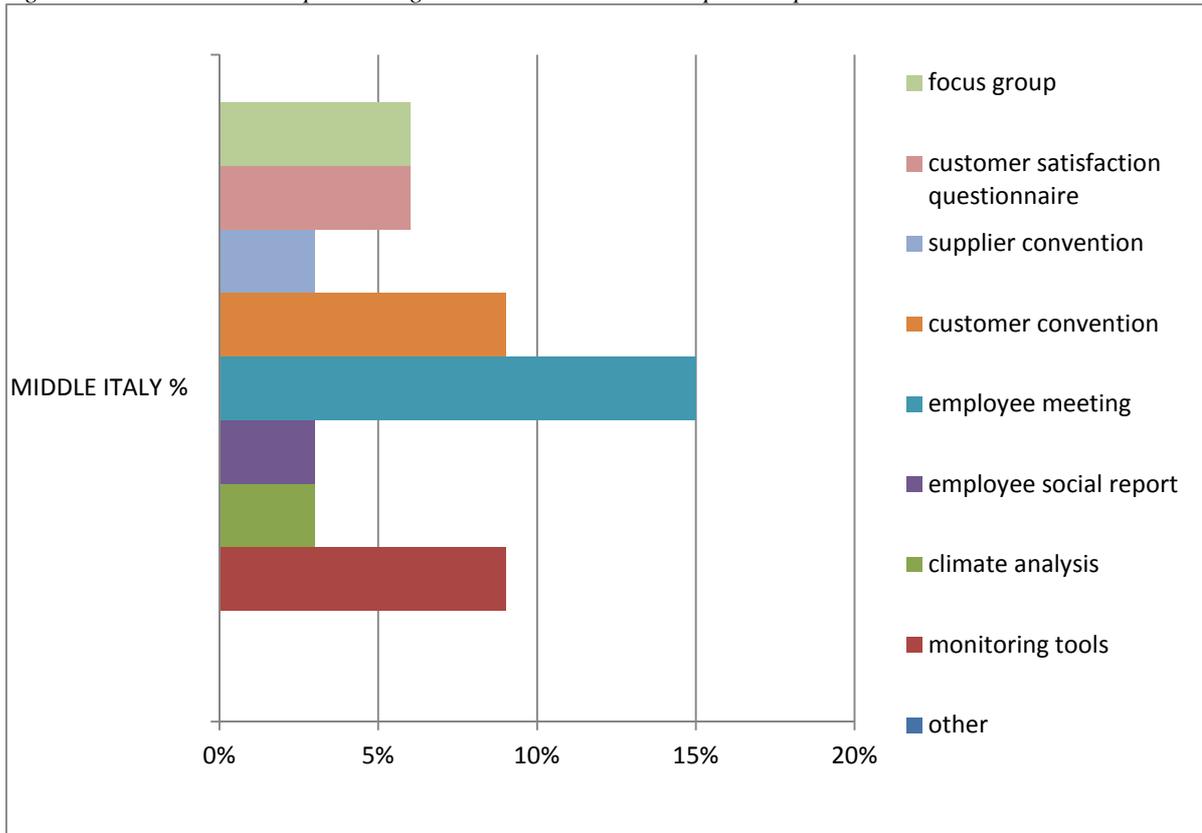


Figure 5.11 c CSR Tools Implementing in the Italian Sample Companies

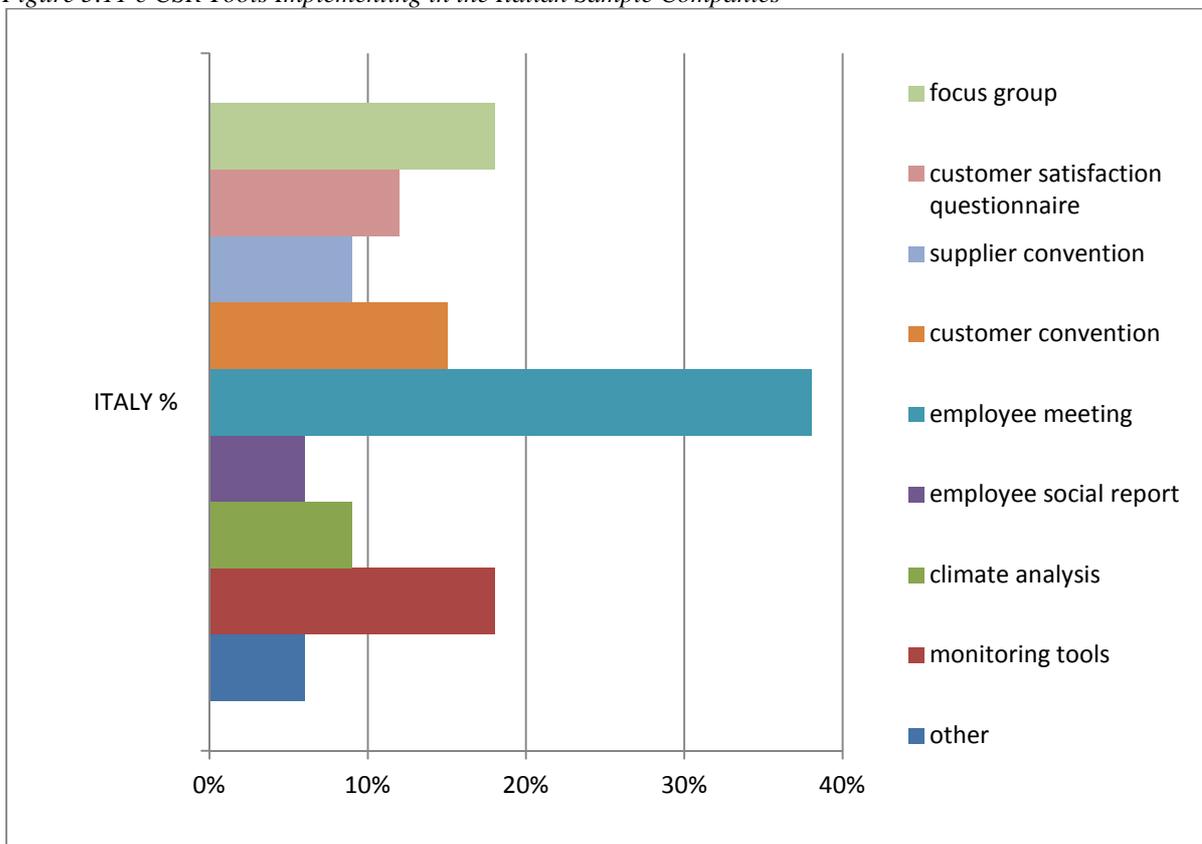
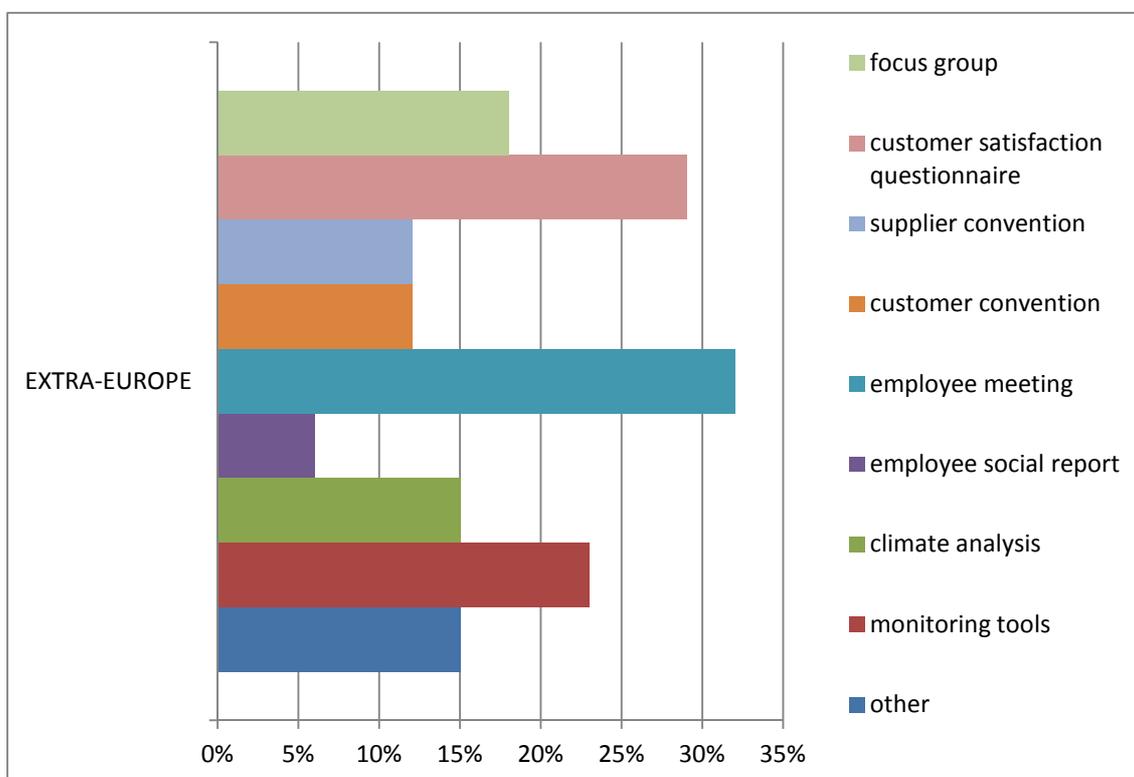


Table 5.11 CSR Tools – Extra-Europe

| CSR tools                           | EXTRA-EUROPE |     |
|-------------------------------------|--------------|-----|
|                                     | total        | %   |
| focus group                         | 6            | 18% |
| customer satisfaction questionnaire | 11           | 32% |
| supplier convention                 | 4            | 12% |
| customer convention                 | 4            | 12% |
| employee meeting                    | 13           | 38% |
| employee social report              | 3            | 9%  |
| climate analysis                    | 6            | 18% |
| monitoring tools                    | 8            | 23% |
| other                               | 5            | 15% |

Figure 5.12 CSR Tools Implementing in the Extra-European Sample Companies



In the “Other” category the company’s managers mentioned various activities as tools for STK engagement. Such activities could be roughly attributed to two areas: “leisure” (2 to 4) and “professional” (5 and 6). Dialogue can be a profitable activity both in the professional and leisure time.

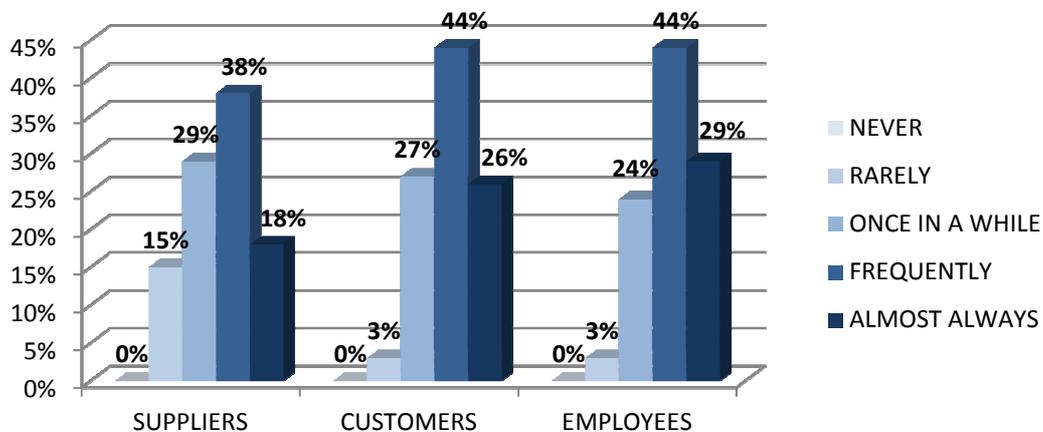
In the “Other” category, the managers mentioned the following tools for STK engagement:

- (1) dialogue;
- (2) developing relationships based on fraternity;
- (3) sharing “fun” activities, like attending sport games, or going to the theatre;
- (4) birthday and wedding parties to generate a “family” feeling;
- (5) monitoring meeting;
- (6) peer review;
- (7) surveys.

### Items 6, 7, 8: PRACTICE EFFECTIVENESS

*“Have you seen improvements in the relation with suppliers, customers and/or employees after the application of these practices?”*

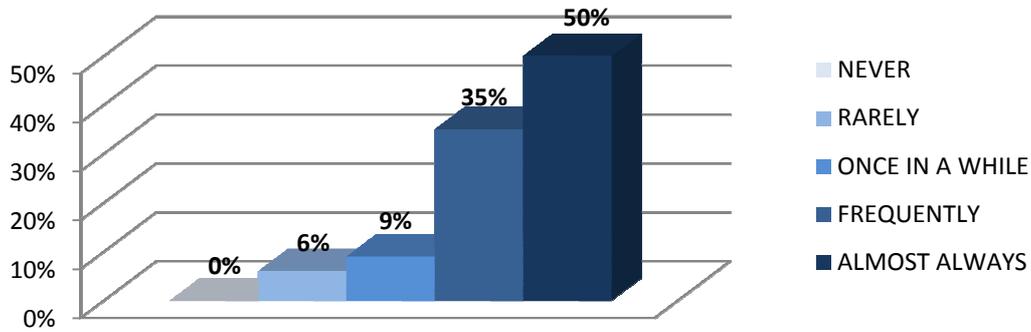
Figure 5.13 Effectiveness of Practices on Stakeholders Relationships



## Item 9: LONG TERM PERSPECTIVES

*“Will you continue to implement, if you already do, these tools?”*

Figure 5.14 Long-Term Perspectives in Implementing CSR tools



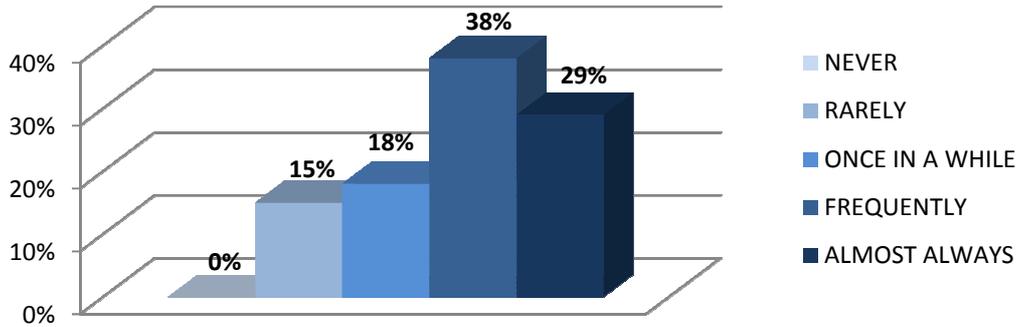
According to the firms’ answers to Item 6, 7 and 8, a vast majority of the sample companies acknowledged improvements in the relations with suppliers, customers and employees, about one out of two for customers and employees. This finding can be easily related to the high number of firms which devised to continue implementing STK engagement tools on a steady basis (50%) or, at least, frequently (35%), according to the managers’ answers to Item 9.

According to the firms’ answers to Item 10, the management used company’s resources to promote all STK’s interests on a steady basis (29%) or, at least, frequently (38%), as shown in Figure 5.15. Needless to say, this finding can be easily related to the really high number of firms which found it worth to invest on promoting STK interests on a steady basis (41%) or, at least, frequently (38%); clearly, managers who invested in promotion of STK activities, even sporadically, found it rewarding, as in Figure 5.16.

## Item 10: EXTENDING PROMOTION

*“Have you ever used company resources to promote not only the shareholders’ interest but also other STK’?”*

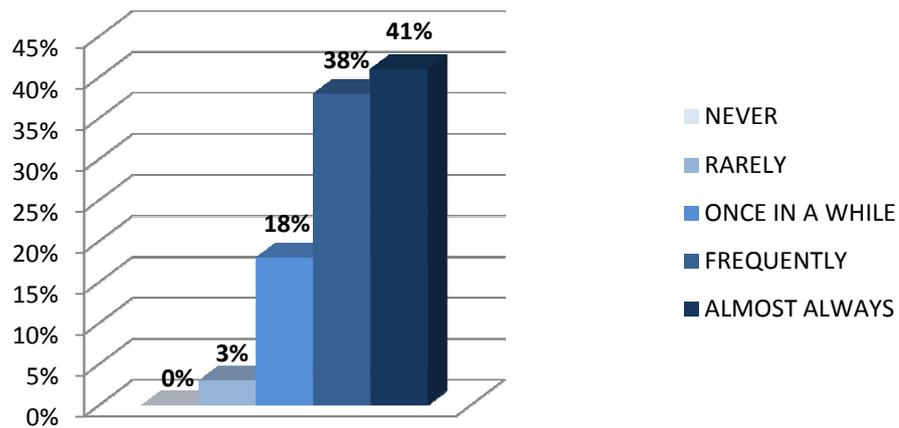
*Figure 5.15 Use of Company’s Resources to Promote Stakeholders Interests*



## Item 11: COSTS AND BENEFITS

*“In your opinion, is it worth carrying the costs associated with the support of the various STK for their effective involvement in the long-term company and society benefit?”*

*Figure 5.16 Supporting Stakeholders Involvement: Is the Benefit Worth the Cost?*



## 5.5 Correlation Analysis and Key Issues

A correlational analysis of the answers to the items was eventually carried out; in the following section, the items which exhibited high (>0.70)<sup>19</sup> or middle correlation values have been listed. We reported the correlation among items in an item by item fashion, also registering the specific correlation coefficient.

In order to allow an easier consultation and understanding of the correlation among the items, we have also reported the text of each item involved. Correlations have been registered once in the list, that is, a correlation between Item 2 and 7 has been reported just as 2 to 7 and not vice versa (correlation between Item 7 and 2), as we thought it useless and repetitive.

We decided to consider “high” the correlations whose correlation coefficient was higher than 0.70 and “medium” if between 0.50 and 0.69. Lower correlation coefficients have not been taken into consideration and have not been registered.

Item 1  $\leftrightarrow$  Item 9 (0.52) and Item 11(0.53)

Item 1 (*Does your company believe that the relationship with all the STK that collaborate in the business is important?*) exhibits a medium correlation coefficient with Item 9 (*Will you continue to implement, if you already do, these tools?*) (0.52) and Item 11 (*In your opinion is it worth carrying the costs associated with the support of the various STK for their effective involvement in the long-term company and society benefit?*)(0.53).

Item 2  $\leftrightarrow$  Item 6 (0.73), Item 7 (0.59), Item 9 (0.57) and Item 10 (0.71)

Item 2 (*Is your company aware of the STK involvement system in the business processes?*) exhibits a high correlation coefficient with Item 6 (*Have you seen improvements in the relation with suppliers after the application of these practices?*) (0.73), Item 7 (*Have you seen improvements in the relation with customers after the*

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<sup>19</sup> The following formula was used to calculate the correlation coefficient:

$$\text{Correl}(X, Y) = \frac{\sum (x - \bar{x})(y - \bar{y})}{\sqrt{\sum (x - \bar{x})^2 \sum (y - \bar{y})^2}}$$

*application of these practices?* (0.59), Item 9 (*Will you continue to implement, if you already do, these tools?* (0.57) and Item 10 (*Have you ever used company resources to promote not only the shareholders' interest but also other STK'?*) (0.71).

Item 3  $\leftarrow \rightarrow$  Item 8 (0.52)

Item 3 exhibited a medium correlation coefficient with Item 8 (*Have you seen improvements in the relation with employees after the application of these practices?*) (0.52).

Item 4  $\leftarrow \rightarrow$  Item 7 (0.56), Item 8 (0.61) and Item 9 (0.57)

Item 4 exhibited a medium correlation coefficient with Item 7 (*Have you seen improvements in the relation with customers after the application of these practices?*) (0.56), Item 8 (*Have you seen improvements in the relation with employees after the application of these practices?*) (0.61) and Item 9 (*Will you continue to implement, if you already do, these tools?*) (0.52).

Item 6  $\leftarrow \rightarrow$  Item 7 (0.71), Item 8 (0.51) and Item 10 (0.67)

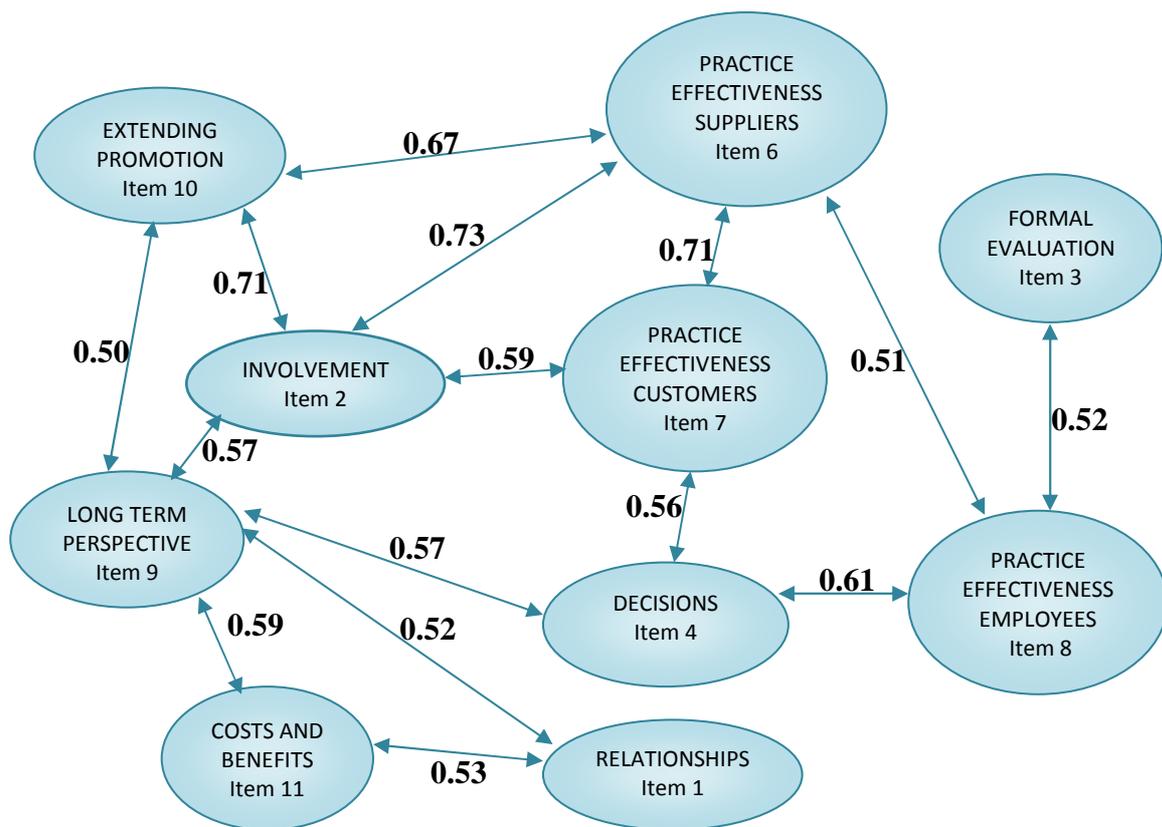
Item 6 exhibited a high correlation coefficient with Item 7 (*Have you seen improvements in the relation with customers after the application of these practices?*), medium with Item 8 (*Have you seen improvements in the relation with employees after the application of these practices?*) (0.51) and Item 10 (*Have you ever used company resources to promote not only the shareholders' interest but also other STK'?*) (0.67).

Item 9  $\leftarrow \rightarrow$  Item 10 (0.50) and Item 11 (0.59)

Item 9 exhibited a medium correlation coefficient with Item 10 (*Have you ever used company resources to promote not only the shareholders' interest but also other STK'?*) (0.50) and Item 11 (*In your opinion is it worth carrying the costs associated with the support of the various STK for their effective involvement in the long-term company and society benefit?*) (0.59).

The key issues from the items have been represented in Figure 5.17 and the correlation coefficients have been reported as well, providing an overall outline of the interactions among the key factors.

Figure 5.17 Correlations among Answers to Items

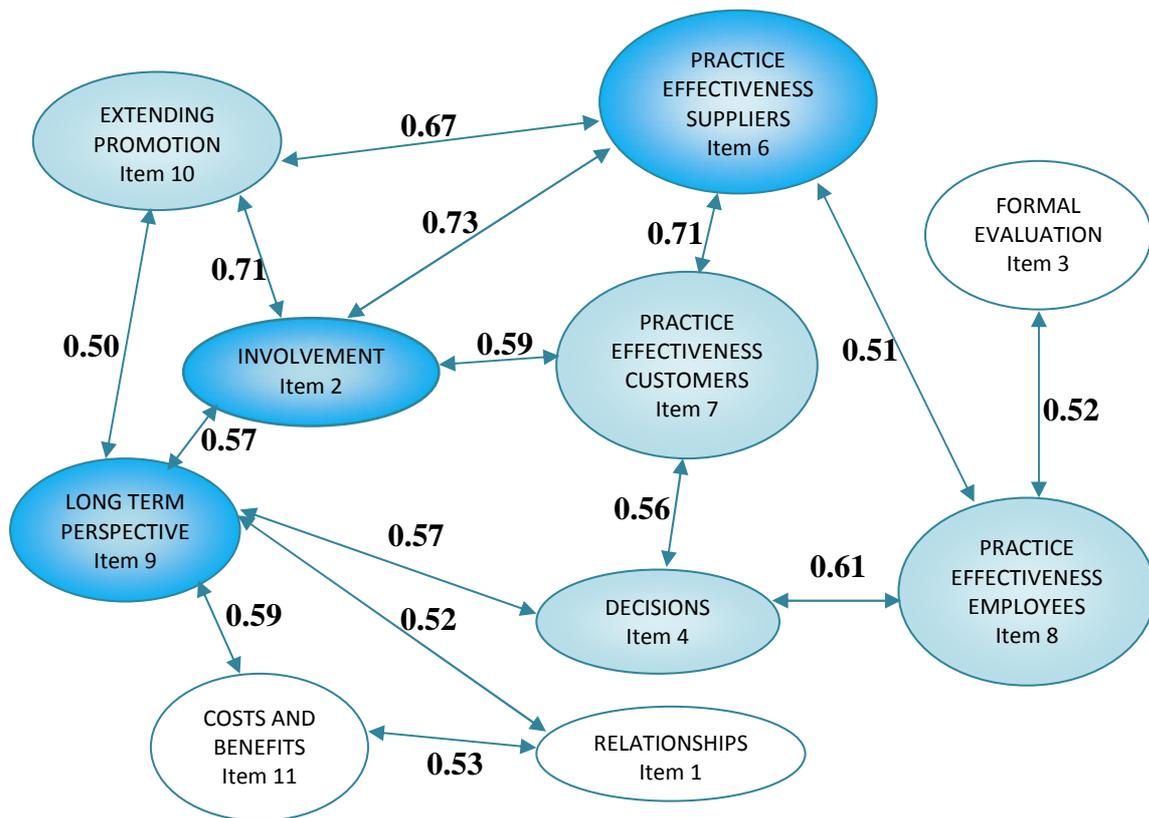


Source: personal elaboration

Some of the key issues exhibited quite a high/medium correlation coefficient with three or more of the other factors. Then, we considered them as “centers of attention” to which further study will be possibly addressed, as they emerged more frequently from the managers’ answers. In other words, this finding suggested us that their importance is well

present to the companies' management and can be worth being investigated in depth in a further study.

Figure 5.18 Identification of “centers of attention”



Source: personal elaboration (the darker shade indicates a higher relevance of the issue)

In Figure 5.18, the issues which exhibited a higher number of correlations and/or a higher coefficient of correlation have been highlighted with a darker shade of color, whereas those who correlated with fewer issues and/or at a lower correlation coefficient have been colored with a lighter shade of blue or left white, according to the diminishing “importance” of correlations.

From Figure 5.18, we can see that the three issues which exhibit both many “correlation arrows” and high correlation coefficients are Involvement (Item 2), Long

Term Perspective (Item 9) and Practice Effectiveness Suppliers (Item 6). On this basis, we can suggest that managers are quite well informed about STK involvement systems (Item 2) and feel deeply the issue of STK engagement in the long run (Item 11), planning to continue implementing STK engagement tools. Besides, the most improvements which the managers acknowledged after tools implementing took place in the relationship with suppliers (Item 6) and, with just a little lower figures, with customers (Item 7).

It is interesting to notice how the managers who affirmed to believe in the importance of STK engagement, plan to continue implementing STK engagement tools and also consider worth carrying the costs of STK involvement (Item 1 correlating with Item 9 and Item 11), as they believe such activities rewarding. This last finding, though correlation coefficient are in the “medium” level, opens up a favorable perspective on STK engagement.

We would suggest that it carries hope for a future broadening and deepening of the net of relationships between firms and STK. Our wish is that a “virtuous circle” will develop as well, where more and more companies will enter into this new relational and collaborative scenario.

## CONCLUSIONS

### *The Attraction of Modern Times*

*"This is the great attraction of modern times; to penetrate to the highest contemplation while mingling with everyone, one person alongside others. I would say even more: to lose oneself in the crowd in order to fill it with the divine, like a piece of bread dipped in wine. I would say even more: made sharers of God's plans for humanity, to embroider patterns of light on the crowd, and at the same time to share with our neighbor shame, hunger, troubles, brief joys. Because the attraction of our times, as of all times, is the highest conceivable expression of the human and the divine, Jesus and Mary: the Word of God, a carpenter's son; the Seat of Wisdom, a mother at home."*

*C. Lubich*

As relationships between firms and a broader range of STK develop and become usual practice for most companies, their communication might evolve into fruitful dialogue. Greater dialogue between firms and STK will hopefully lead to develop also reciprocal understanding, respect, and longer-term commitment "for the common good". Greater transparency will ingenerate public trust for business as well.

However, as the public comes to expect more and more transparency from business, organizations that cannot offer it will probably be the target of public criticism. "*Research on corporate reputation supports the logical correlation between corporate reputation and financial performance. Companies whose long-term objective is sustainability should not ignore this link. It is not a huge leap to propose that comprehensive transparency will become a critical competitive factor for business organizations of the future*" (Logsdon and Lewellyn, 2000). Moreover, it is important to be remember that the nature of EoC

itself requires an implementing of CSR standards and commitment to their STK on a voluntary basis, and this will affect all its processes.

To summarize our study's findings, a few word about the sample and the search in a critical eye. In fact, we recruited our sample in a non-random manner, and obviously this affected the results. It should be considered the fact that, being the study's focus was on EoC , the recruitment was carried out either from a specific EoC companies database or by word of mouth, and always aimed at finding enterprises which were already informed, interested and/or implementing tools and activities for CSR and STK engagement. The most relevant STK at the firms' eyes are customers, employees and shareholders, leaving society a role of little importance, according to our sample.

The CSR practices implemented by Italian companies were the employee meeting and, with a lesser figure, the focus group. Northern Italian companies, however, exhibited a higher rate of implementing and also a higher figure than Middle Italian ones for both employee meeting and focus group. Extra-European companies were found to implement more numerous practices and with a higher figure in comparison with Italian firms. The favorite practices that they singled out were found to be the employee meeting and the customer satisfaction questionnaire in almost one company out of 2 and out of 3 respectively, and the monitoring tools in one out of 5 firms. In fact, there were evident differences between the practices in Italy and extra-European countries, suggesting a context-effect.

Summarizing all the findings of this study, first we observed that the companies which chose to participate by answering our request, were small/medium size and from Italy, especially from the Northern area. Further, during the sampling phase we realized that the lack of large Italian companies in our sample was actually depending on the lack of Italian firms involved in Economy of Communion activities as well. Second, we found out that companies which implement CSR tools, prefer the Social Report in Italy, in extra-European countries both the Social Report and the Environmental Report , in a 1 to 5 ratio. The International Standards are scarcely implemented in the whole sample.

The correlational study provided us with an overview of the relations between factors emerged as relevant from the questionnaire data. According to our finding, the managers considered as "centers of attention" the fact of being aware of STK engagement systems which correlates with improvement of the relations with especially suppliers,

employees and customers and with the planning of continue implementing such practices. A further factor involved was spending company's funds to implement STK activities.

Eventually, we are to conclude with a personal remark. Our belief about the implementing of CSR tools is that firms which embellish themselves with labels and certified standards and activities may not necessarily be the firms which treat fairly their employees and workers. Quite often, it may happen that firms which do not exhibit any special label or standard carry out less evident activities, hold employee meetings and similar, practicing CSR and STK engagement in a more factual, practical manner of implementing the EoC model.

This practical, down-to-earth manner is in our eyes endowed with a special brilliance, conveyed by John Mundell's words: *"There are many, many business owners in the world, and many socially-responsible companies that do 'good works' with 'good hearts'. But that alone, for us, is not enough....This lifestyle is 'the secret' key that we offer other business owners for experiencing joy, happiness, fulfillment and a sense of purpose in life - not despite owning and running a business, but because of it!"*

## APPENDIX ONE

### 1. AA1000 AccountAbility Principle Standard (*AA1000 APS*)

They demand that an organization actively engages with its STK, fully identifies and understands the sustainability issues that will have an impact on its performance, including economic, environmental, social and longer term financial performance, and then uses this understanding to develop responsible business strategies and performance objectives.

The principle of STK accountability, that is opposed to shareholder's, is central to the framework for social auditing. In contrast to financial accounting, which assumes a one-dimensional business value - wealth creation - the AA1000 framework expands the relevant values to include performance targets relevant to a broad array of STK, multidimensional assessment of performance, and extensive communication of results. By focusing on STK engagement throughout the processes of accountability, the framework is intended to link social and ethical issues to business strategy (Logsdon and Lewellyn, 2000).

Accountability obliges an organization to involve STK in identifying, understanding and responding to sustainability issues and concerns, and to report, explain and be answerable to STK for decisions, actions and performance. It includes the way in which an organization governs, sets strategy and manages performance.

The value of these principles lies in their comprehensive coverage and the flexibility of their application. They demand that an organization actively engages with its STK, fully identifies and understands the sustainability issues that will have an impact on its performance, including economic, environmental, social and longer term financial performance.

There are three AA1000 AccountAbility Principles, one of which is a foundation principle. The Foundation Principle is the principle of Inclusivity that is necessary for the achievement of second principle: Materiality and the third one: Responsiveness. The principle of Inclusivity regards all the organizations that intend inclusivity as the participation of STK in developing and achieving an accountable and strategic response

to sustainability. *This principle “concern the reflection at all stages of the process of the aspirations and needs of all STK groups”.*

Together the three principles support the realization of accountability. Inclusivity is the starting point for determining materiality. The materiality process determines the most relevant and significant issues for an organization and its STK. A material issue is an issue that will influence the decisions, actions and performance of an organization or its STK. *The materiality determination process results in a comprehensive and balanced understanding and prioritization of its material sustainability issues* (AccountAbility, 2011).

Responsiveness is the decisions, actions and performance related to those material issues. Responsiveness is an organization’s response to STK issues that affect its sustainability performance and is realized through decisions, actions, performance and communication with STK. A responsive organization will respond to its material issues and to its STK in a comprehensive and balanced manner.

These three processes has to be integrated in the daily business organizational activities following the “Embedding” process. Everything has to be integrated in the decision-making process, in order to integrate the company’s Social Responsibility.

*AccountAbility 1000 Principles*

|   |  |   |
|---|--|---|
| Hierarchy of Characteristics:                                 |  |   |
| ACCOUNTABILITY:<br>Transparency - Responsiveness - Compliance |  |   |
| INCLUSIVITY:  |  |   |
| All stakeholders  |  |   |
| Scope and nature<br>of process                                | Meaningfulness of<br>information                                 | Management of process                     |
| Completeness<br>Materiality<br>Regularity/timeliness          | Quality assurance<br>Accessibility<br>Information quality        | Embeddedness<br>Continuous<br>improvement |
| AA1000 Process Standards                                      |  |   |
| Planning  |  |   |
|   | P1-Establish commitment and governance procedures                |   |
|   | P2- Identify STK   |   |
|   | P3-Define/review values  |   |
| Accounting  |  |   |
|   | P4-Identify issues   |   |
|   | P5-Determine process scope                                       |   |
|   | P6-Identify indicators   |   |
|   | P7-Collect information   |   |
|   | P8-Analyze information, set targets and develop improvement plan |   |
| Auditing and Reporting  |  |   |
|   | P9-Prepare report(s)   |   |
|   | P10-Audit report(s)  |   |
|   | P11-Communicate report(s) and obtain feedback                    |   |
| Embedding   |  |   |
|   | P12-Establish and embed systems                                  |   |

*Source: AccountAbility (2011).*

1 phase PLANNING: in this phase the company has to set up all the rules and procedures in order to implement the process and identify all most relevant STK.

2 phase ACCOUNTING: identify all the issues that can emerge during the process; identify the indicators to monitor the performance; collect information; evaluate performance and establish a plan to improve the performance.

3 phase: AUDITING & REPORTING: arrange a report, control it and spread it through the organization in order to obtain a feed-back from the STK. The report has to contain key elements: performance information; STK comments; financial, economic and environmental information.

In order to apply these principles, AA1000 includes a set of 12 process standards that cover the stages that an organization should follow on an on-going basis to account for its performance. These processes fit into four main categories: (1) planning, (2) accounting, (3) auditing and reporting and (4) embedding. In addition, each stage of the process is influenced by the organizations's engagement with its STK (AccountAbility, 2011).

## 2. AA1000 Assurance Standard (AA1000 AS) 2008

AA1000AS (2008) assurance provides a comprehensive way of holding an organization to account for its management, performance and reporting on sustainability issues by evaluating the adherence of an organization to the AA1000 AccountAbility Principles and the quality of the disclosed information on sustainability performance. Sustainability assurance in accordance with the AA1000AS (2008) evaluates and provides conclusions on: the nature and extent of adherence to the AA1000 AccountAbility Principles, and, where applicable, the quality of publicly disclosed information on sustainability performance. *Credibility is a prerequisite for effective sustainability reporting. Credibility can be considerably enhanced through independent external assurance, using accepted professional standards* (AccountAbility, 2011).

# GLOBAL REPORTING INITIATIVE

## GRI STRUCTURE

### Part 1 – Reporting Principles and Guidance

This section provides Reporting Principles and Reporting Guidance regarding report content, ensuring the quality of reported information, and setting the Report Boundary. Reporting Guidance describes actions that can be taken, or options that the reporting organization can consider when making decisions on what to report on, and generally helps interpret or govern the use of the GRI Reporting Framework. Reporting Principles describe the outcomes a report should achieve and guide decisions throughout the reporting process, such as selecting which topics and Indicators to report on and how to report on them. The Reporting Principles for Defining Content are: *Materiality*, *Stakeholder Inclusiveness*, *Sustainability Context* and *Completeness*. The Reporting Principles for Defining Quality are: *Balance*, *Comparability*, *Accuracy*, *Timeliness*, *Clarity* and *Reliability*.

### Part 2 - Standard Disclosures

This section specifies the base content that should appear in a sustainability report, subject to the guidance on determining content in Part 1 of the Guidelines.

There are three different types of disclosures contained in this section:

- (1) Strategy and Profile - Disclosures that set the overall context for understanding organizational performance such as its strategy, profile, and governance. Namely: “1.1 Statement from the most senior decision-maker of the organization (e.g., CEO, chair, or equivalent senior position) about the relevance of sustainability to the organization and its strategy” and “1.2 Description of key impacts, risks, and opportunities” (GRI guidelines).
- (2) Management Approach - Disclosures that cover how an organization addresses a given set of topics in order to provide context for understanding performance in a specific area. Namely: “2.1 Name of the organization, 2.2 Primary brands, products, and/or services, 2.3 Operational structure of the organization, 2.4 Location of organization’s Headquarters, 2.5 Numbers of countries where the

*organization operates, 2.6 Nature of ownership and legal form, 2.7 Markets served, 2.8 Scale of the reporting organization 2.9 Significant changes during the reporting period regarding size, structure or ownership, 2.10 Awards received in the reporting period” (GRI guidelines).*

- (3) Performance Indicators - Indicators that elicit comparable information on the economic, environmental, and social performance of the organization.

## STAKEHOLDER ENGAGEMENT

The following Disclosure Items refer to general STK engagement conducted by the organization over the course of the reporting period. These Disclosures are not limited to STK engagement implemented for the purposes of preparing a sustainability report. *“4.14 List of stakeholder groups engaged by the organization: Civil society, Customers, Employees, other workers, and their trade Unions, Local communities, Shareholders and providers of capital and Suppliers.” (GRI guidelines).*

Basis for identification and selection of STK with whom to engage; approaches to STK engagement, including frequency of engagement by type and by STK group (surveys, focus groups, community panels, corporate advisory panels, written communication, management/union structures, and other vehicles). Key topics and concerns that have been raised through STK engagement.

### (1) Performance Indicators

The reporting criteria found in each level reflects an increasing application or coverage of the GRI Reporting Framework.

There are two types of performance indicators. The first category includes the core indicators. These are of general application and are central for the majority of organizations, these indicators must be always declared and for all groups of STK. The second type of performance indicators are the additional ones. They are important only for some companies, depending on the activity sector in which they work and they do not have a general application. Each company can choose the level of engagement to

operate with and show the correlate performance. As we said before, there are three levels namely C, B and A from the minimum involvement to the maximum. In the “C level” the company has to respect only ten core indicators; in the “B level” the company has to pursue twenty core indicators and in the “A level” the company has to follow all the performance indicators, both core and additional ones.

#### (2) Economic Indicators

The economic dimension of sustainability concerns the organization’s impacts on the economic conditions of its STK and on economic systems at local, national, and global levels. The Economic Indicators illustrate the flow of capital among different STK and main economic impacts of the organization throughout society. Economic indicators concern Economic Performance, Market Presence and Indirect Economic Impacts.

#### (3) Environmental Indicators

The environmental dimension of sustainability concerns an organization’s impacts on living and non-living natural systems, including ecosystems, land, air, and water. Environmental Indicators cover performance related to inputs (e.g., material, energy, water) and outputs (e.g., emissions, effluents, waste). Environmental indicators have to do with Materials, Energy, Water, Biodiversity, Emissions, Effluents, and Waste, Products and Services, Compliance, Transport and Overall.

#### (4) Social Performance Indicators

The social dimension of sustainability concerns the impacts an organization has on the social systems within which it operates. The GRI Social Performance Indicators identify key Performance Aspects surrounding labor practices, human rights, society, and product responsibility. Particularly for the labor practices we can highlight six aspects: Employment, Labor/Management Relations, Occupational Health and Safety, Training and Education, Diversity and Equal Opportunity and Equal Remuneration for Women and Men.

## (5) Product Responsibility Indicators

Product Responsibility Indicators address the aspects of a reporting organization's products and services that directly affect customers, namely, health and safety, information and labeling, marketing, and privacy. The principal Product Responsibility indicators are: Customer Health and Safety, Product and Service Labeling, Marketing Communications, Customer Privacy and Compliance.

Since not all GRI indicators will be equally relevant to the activities of all corporations, GRI reports are expected to reflect this variation in the level of detail and completeness at which information is reported on a given indicator. The "threshold at which an issue or Indicator becomes sufficiently important that it should be reported" should, according to the G3, be determined with a view to different STK groups and ideally be established in consultations with these groups (Dingwerth and Eichinger, 2010).

In the *Sustainability Reporting Guidelines* the GRI defines transparency as: "*The complete disclosure of information on the topics and indicators required to reflect impacts and enable STK to make decisions and the processes, procedures, and assumptions used to prepare those disclosures*" (Global Reporting Initiative 2006, 6). Transparency is thus focused on the desire of STK to make informed decisions. Moreover it is based on the notion that STK would make different choices if they had less complete information. Since transparency is linked to personal autonomy, it becomes a normatively loaded term; it requires those organizations that have relevant economic, environmental, social or other impacts to "completely disclose" all information that STK need to make a decision to buy or not to buy, to invest or not to invest, or to collectively organize against a company or refrain from doing so (Dingwerth and Eichinger, 2010).

*"...transparency systems such as the GRI are most likely to fulfill their empowerment promise when the disclosed information is valuable, accessible, comprehensible and comparable. Our primary focus is on comparability since this criterion is implicitly present in at least two of the other three criteria. Thus, information is more valuable and more comprehensible when it is comparable. Moreover, the GRI itself bases its own*

*claim to added value almost exclusively on its promotion of standardized and therefore comparable corporate social responsibility (CSR) reports” (Dingwerth and Eichinger, 2010).*

In the next Table it can be seen the comparison between AA1000 and GRI standards. The Table highlights the recommended minimum contents of assurance statements indicated by each piece of guidance.

*Recommended Minimum Contents of AA1000 and GRI*

| Content of report   | AA1000 | GRI |
|---|--------|-----|
| Title   |        | ✓   |
| Addressee   | ✓      | ✓   |
| Name and location of assurator  |        | ✓   |
| Scope and objective of the engagement   | ✓      | ✓   |
| Respective responsibilities of reporter and assurator   | ✓      | ✓   |
| Competencies of assurator   | ✓      |     |
| Independence of assurator from reporting organization   | ✓      | ✓   |
| Criteria used to assess evidence and reach conclusions  | ✓      | ✓   |
| Assurance standards used  | ✓      | ✓   |
| Extent of STK participation in the assurance process  |        | ✓   |
| Impartiality of assurator towards STK   | ✓      |     |
| Conclusion/opinion:<br>- Materiality (from a STK perspective)<br>- Completeness<br>- Responsiveness to STK<br>- Performance<br>- Reporting on reservations/qualifications | ✓      | ✓   |
| Additional commentary   | ✓      | ✓   |
| Progress in reporting and assurance since last report   | ✓      |     |
| Suggestions for improvements in reporting and processes   | ✓      |     |
| The report date   |        | ✓   |

*Source: O’Dwyer and Owen (2007)*

O'Dwyer and Owen (2005) highlighted a tendency for accountant assurers to focus on data accuracy along with a reluctance to express opinions using the term 'true and fair' prevalent in financial statement auditing. Our analysis suggests that as standards such as AA1000 are adopted this restricted approach is becoming less common. The reluctance to express a 'true and fair' opinion among accountants (and, indeed, consultants) does, however, persist in our sample. Royal NIVRA (2005) supports this continuing absence as its exposure draft argues that 'true and fair' is a term that should be reserved exclusively for financial statement audits: The use of the term 'true and fair view' to describe the objective of the audit and/or the formulation of the conclusions in the assurance report is not advised because this term is reserved for the reporting of an opinion of the auditor on financial statements. The term has a generally accepted meaning but only in this context (IFAC, 2005).

Much of the negativity around the value of global codes of conduct can be traced to omissions in STK engagement and discontinuities in the way in which the values espoused in a code speak to organizational practices. The fact that oversight has been, and will remain, difficult to establish in a comprehensive manner adds to the contention of critics of codes that these documents are useless in improving business practices across the globe. Codes must return to their roots, i.e. the practice of ethics that unpacks the interrelatedness between business and society and that emphasizes the congruence between words and actions in all facets of business practice. The notion of triple bottom-line reporting represents an ideal conceptual and procedural framework for animating the crucial relationships and processes on which codes of conduct rely for their vitality. The challenge that confronts MNCs at this point in time is to take the notion of triple bottom-line reporting seriously, not merely as another compliance exercise that has to be dealt with as quickly and as cost-effectively as possible, but as an opportunity to rethink the role of business in society and the interrelatedness of all its activities (Painter-Morland M., 2006).

## GENERAL GUIDELINES FOR OPERATING AN ECONOMY OF COMMUNION BUSINESS

The Economy of Communion (EoC) is an international economic and social movement made up of citizens, workers, scholars, students, organizations, and people in need, that work at different levels and with diverse tools in order to transform day-by-day, in synergy with many other expressions of the civil society, the whole market economy into a more humane environment where living, working, and loving, is a place of communion in freedom. The backbone of these efforts is the EoC companies which commit themselves to following management principles and beliefs that enable them to bring the universal values of liberty, equality, fraternity and communion to bear on their day-to-day decisions while working within market structures. Cornerstones of their business operations include fostering communion with employees by paying particular attention to their health, well-being and development, as well as to establishing, sustaining and enhancing ethical relationships with each employee, vendor, customer and local community member encountered as well as with the government and with labor unions. The following *Mission, Vision, Core Values* and *Business Operating Principles and Beliefs* for EoC companies highlight positive practices supported and lived by the EoC business network throughout the world.

### MISSION

To promote and live a culture of giving and social justice through business enterprises animated with the universal values of liberty, equality, fraternity and communion, so as to alleviate poverty and encourage self-sustainability through an equitable redistribution and sharing of resources and needs.

### VISION

To build a more just and humane market economy and society in which “No one is in need.”

In order to accomplish this vision, our organizations are ones in which:

- each person recognizes the shared responsibility of building a workplace community of mutual respect.
- listening with openness is a key component, and involving and empowering others are actions used to draw from each person’s strengths and talents so as to build a workplace community from our diversity.
- the talents, skills and shared resources of our people create something that is greater than the sum of our parts.

As people-centered organizations, we work together to meet the needs of our customers and stakeholders, while giving back to society and to our local communities always aware of the well-being of others and the common good.

## **CORE VALUES**

### ***Resource Sharing***

EoC businesses believe in the voluntary sharing of business profits and the consideration of meeting societal needs to create an equitable redistribution of global resources in an atmosphere of solidarity and reciprocity. The EoC global network actively shares in the lives of those in poverty, beginning with those who are in close contact and have a relationship with us. This facilitates timely financial support to address the immediate lack of food, shelter, clothing, medical care and employment. The aim of the resource sharing is to assist people to reach self-sustainability. This sharing is personal and relational, and a matter for ongoing dialogue and re-evaluation. At the same time, the emphasis of an EoC firm is also the “creation of new wealth”, before the distribution of the wealth. The dream of the EoC entrepreneur is to become a “creator” of new paychecks, not merely a cutter of “slices” of already created and given checks. We are, in fact, convinced that today the most important tool for eliminating exclusion and deprivation in the world is not the redistribution but the new creation of wealth directly involving the disadvantaged people in the creation process. Without this, any financial assistance can end up being mere assistentialism and paternalism, the opposite of the spirit and culture of communion.

### ***Relationships***

The EoC believes in building cohesive and healthy organizations with sound relationships based on mutual respect, care and open communication among executives, managers and employees, and with customers, suppliers, competitors, government regulators, the people in need and the community around us. The basis for our efforts - the reciprocity principle – is carried out with actions where all are protagonists and are co-responsible. We promote the spreading of a ‘culture of giving’ and the sense of ‘community’ by placing the human person at the center of our enterprises, living out this person-focused philosophy, and by holding workshops and training programs for others to learn about this business model.

### ***Work Environment***

The EoC believes in fostering participative environments within the workplace by promoting teamwork and encouraging innovation, creativity, harmony, beauty and responsibility. We dedicate time and resources to implementing policies that model and reward this behavior.

## ***Communication***

The EoC believes that communication should be a gift of self. We view open communication as a foundation of the trust that we build with each other, and a result of the integrity with which we perform our work. The fruit of that trust is communication without fear of reprisal. We work to clearly communicate fundamental values and create business environments that are open, honest and hospitable. When feedback is provided and is expressed openly and with responsibility, it becomes a tool for improving the quality of our management structure, decision-making and mission. This environment encourages and supports the best contribution of each person and the human flourishing of each one and of all.

## ***Ethics and Values***

The EoC believes in adopting and fostering the highest ethical standards, even in situations where such a behavior is difficult and even heroic. We recognize each person's inherent dignity and the need to comply with all legitimate and just laws and regulations while protecting our environment, and contributing to the Common Good by paying taxes.

# BUSINESS OPERATING PRINCIPLES AND BELIEFS

## MANAGEMENT AND INTERNAL OPERATIONS

Business owners that take part in the EoC embrace a *lifestyle of communion* as the fundamental value of their organization. This choice pervades how EoC companies manage their people and operations; this lifestyle influences the way the businesses organize production and service area delivery, and infuses them with a special sensitivity toward efficiency, participatory decision-making, and a spirit of teamwork. The businesses clearly present key goals and objectives as well as define all major functions and positions within the organization so as to communicate roles and responsibilities. All aspects of the business are evaluated in a transparent manner paying attention to the quality of relationships among everyone involved, with actions suggested at all levels for the improvement and benefit of the entire business.

The person is placed at the center of the EoC enterprise. The business owners make a constant effort to value the talents of each worker, favoring their creativity, their assumption of responsibility, the growth of their professional competence, their ability to get along with everyone and their participation in defining and accomplishing the business' goals. Considering each person's situation as their own and with all possible effort, explicit forms of help are provided to those finding themselves in personal and professional difficulty.

The goals of our investment decisions and business plans are made based on balancing short-term economic and financial constraints with long-term sustainability and growth. An EoC enterprise is managed in a way that promotes the attainment and sharing of profits aimed at fulfilling three equally important objectives: the first, to grow and sustain the business; the second, to help people in need move beyond their current situation, beginning with those in close relationship with the EoC; and the third, for the spreading of the culture of communion beyond the EoC network.

In managing the business and nurturing internal relationships with and among employees, we EoC owners hold to a specific set of fundamental beliefs:

- We have a high regard and passion for our work. We see work as an expression of our humanity and a vocation, and an important part of who we are as human beings and a significant contributor for living a fulfilling life.
- We find fulfillment in giving of ourselves to our colleagues, our clients, customers, those in need, and all who come in contact with the company, including our competitors.
- We enjoy the challenge of coming together as a group of people to achieve a common goal. We are not afraid to reveal our shortcomings or inadequacies so that our success is a sign of our true interdependence with one another, and so that we can improve as people and as a company.

- We share both our abilities and our needs in a spirit of openness and cooperation so that the goals of our work are achieved with everyone's contributions, going beyond our individual limitations. We are convinced that we truly work when we work "for", "together" and "thanks" to the others.
- We value team success over individual achievement, recognizing authentic success comes only when individual and team success go hand-in-hand, but knowing that everyone's livelihood and well-being are dependent on our ability to come together for a common purpose.
- We find the time to get to know each other personally so that we can understand each one's unique backgrounds, talents and gifts. This involves taking the time to listen to each person's individual experiences and life stories, our family situations and our personal dreams and desires.
- We treat everyone with equal dignity and respect.
- We acknowledge that work-related activities sometimes cause hardship and difficulties, but realize these can be opportunities for personal growth and reward. We assign value also to suffering and even to failures (individually and as a team), convinced that every authentic growth cannot avoid facing and overcoming crisis and difficulties. But we also have experienced that any negative impact is diminished when everyone shares the burdens of the situation.

## EXTERNAL RELATIONSHIPS

EoC people value and nurture their relationships with each other, with their customers, suppliers, partners, and all with whom they work. They find ways to enjoy working together, and to celebrate each other's successes as well as to support each other in times of difficulty. Lending special attention to the explicit and implicit needs of their customers, EoC businesses commit to offer high quality products and services at equitable prices. All those who work in the business strive to build and reinforce honest and open relationships with customers, suppliers and the community in which they operate. EoC companies hold to the following principles to maintain excellent external relationships:

- We are passionate about exceeding our client's expectations by using, whenever feasible, start-of-the-art technologies to deliver products and services of high quality in a timely and responsive manner.
- We act as a positive and unifying force for local community development by building strong relationships with those near our places of work.
- We believe that all relationships, regardless of whether they directly impact the bottom line of the company, are worthy of our time and attention because each person and each relationship with each person have inherent human value.

- We are aware of the larger world beyond our local community, and look for ways to positively contribute to its development and sustainability.
- We view our competitors as equals and necessary for the growth and improvement of the market, of society, and of ourselves, and appreciate their contribution to improving our quality of products and services. As such, we refrain from speaking negatively about their products or services.
- We enjoy close relationships with other EoC businesses, sharing ideas and opportunities that help us live out the EoC values and lifestyle in a more complete way. However, we are aware that with these close, warm relationships, comes a certain degree of vulnerability in which we can hurt one another. Our 20 years of EoC experiences, and those of many others, tell us that the happiness and fulfillment of communion always overcomes, at least in the long-run, the short-term wounds coming from these fraternal and sororal relationships.
- We share our experiences of successes and failures with others, thereby contributing to the authentic ongoing development of relationships among businesses and with the world community.

## CORPORATE VALUES AND CULTURE

In the EoC, the way in which business practices are conducted each moment of every day is more important than the level of financial success that is achieved. Each person in each EoC business is encouraged to adhere to universal values of truthfulness, respect, fairness, forgiveness, equality and freedom. Therefore, the following guiding principles direct our daily activities:

- We live the *Golden Rule* in our work environment: Do unto others as you would have them do unto you.
- We respect and adhere to all applicable business laws and forms of governance wherever we operate. We strive to maintain positive relationships with all tax and fiscal authorities, union officials and institutional agencies.
- We work so that every business transaction and activity is completed in an ethical and just manner.
- We strive for full transparency in our contractual dealings, offering fair pricing for products and services. We commit to fulfilling all contractual obligations to the best of our abilities.
- We are truthful in all of our interpersonal interactions, and believe that honesty in the marketing and sales of our products and services leads to respect and confidence in the dependability of what we provide.

- We are respectful of everyone regardless of race, religion, age, gender, sexual orientation, professional experience, cultural background, or social status. We understand ‘different’ as an opportunity to see more than we can see by ourselves.

## QUALITY OF LIFE AND THE ENVIRONMENT

One of the main goals of an EoC business is to become a true community. For such an important goal to be reached, each enterprise organizes periodical meetings to reinforce the quality of interpersonal relationships and to contribute to resolving difficult situations. These efforts can generate positive effects on all the people working in the business, stimulate innovation and increase the maturity and productivity of the business.

The health and well-being of each member of an EoC enterprise is a primary operational goal. Extraordinary circumstances faced by an individual are lived with intensity as if they are our own – often creative means arise to effectively support the person live with and through these circumstances. To support efforts to establish this type of atmosphere within the company, we follow these guidelines:

- We promote healthy lifestyles and provide safe work environments keeping the well-being of our employees in mind. Applying this decision includes:
  - Providing necessary ventilation, tolerable levels of noise and adequate lighting;
  - Conducting environmental monitoring (air quality/sound) when a manufacturing setting warrants it;
  - Providing safety training and manufacturing/work process evaluations to promote zero loss-time work injuries;
  - Allowing for periodic breaks during the work schedule so that quality of work can be maintained without added stress;
  - Encouraging after-hours exercise by providing when possible access or discounts to nearby facilities; and
  - Providing educational information about nutritional foods and healthy diets as part of company wellness programs.
- We provide socially-just compensation and benefit programs (*e.g.*, health insurance and retirement plans, etc.) that allow for a living wage and a meaningful, affordable quality of life for our employees and their families.
- We encourage a work-life balance, making every effort to fairly allocate and minimize individual and group overtime with existing workloads, while allowing for adequate vacation, personal and sick time off, and maternity and parental leave.

- We manufacture products and provide services that make positive contributions to individual and community health and development, and that are sustainable for the environment. As such, when possible, we:
  - Monitor and minimize our use of natural resources (water, energy, materials) and our generation of wastes associated with our operations;
  - Promote buying locally-produced goods and services;
  - Consider and use renewable resources; and
  - Engage in the re-use and recycling of materials.
- We are convinced that health is also a “relational good”, and therefore people working in an environment where the management and all members invest in and sometimes ‘heal’ the relationships in the organizations, improve also in their general health.

## **HARMONY IN THE WORK ENVIRONMENT**

An organizational management structure is adopted by each EoC enterprise to promote working in groups as well as to enhance personal growth and initiative. The goal is to create a work environment characterized by a friendly and relaxed relational atmosphere based on respect, trust and mutual esteem. As part of this effort:

- We act to maintain clean, orderly and pleasant working areas to create a sense of harmony for all employees, customers and suppliers.
- We develop work environments that are pleasant, help minimize unnecessary stress, encourage community-building, and foster creative thinking and innovation.
- We encourage employees to make their personal work space suitable for their optimum performance.
- We ask each employee to dress in a way that is most appropriate for their type of work, representing the type and style of company in a professional and pleasant manner.
- Our work products and services are provided to meet high standards of visual quality, ease-of-communication and operation.
- We consider the beauty and harmony of our work environment as ‘assets’ of our firms, and are not less important than financial and technical assets, because they support our communal relationships and improve the quality of life of our people and our organizations.

## PROFESSIONAL DEVELOPMENT AND TRAINING

EoC enterprises continue to grow and establish an atmosphere of mutual support, trust and respect where everyone will be free to share talents, ideas, and competence to the advantage of the professional growth of colleagues and for the progress of the business. As such, the owners adopt personnel selection and professional development planning criteria to facilitate the creation of such an atmosphere.

To allow everyone to reach both personal and business-based goals, EoC enterprises offer opportunities for continuing education and updates. In support of the belief of the importance of ongoing personal development:

- We encourage new employee orientations that discuss our company's culture and values, and allow for smooth transitions to our unique work settings.
- We encourage one-on-one mentoring and provide frequent on-the-job skills evaluations and updating for personal and professional growth.
- We encourage learning through innovation and risk-taking as part of the creative process.
- We facilitate, when possible, a formative education to the *culture of giving* for company employees and people interested in the EoC project.

## COMMUNICATION

The importance of relationship capital is held paramount in an EoC business. Because of this, we consider it a fundamental asset of the enterprise, and work towards developing measurement and observational methods to describe and quantify its social, economic and human value. Good communications with all those within the company and also with those who come in contact with the company is recognized as one of the primary means of supporting these relationships.

EoC entrepreneurs work to create an open and sincere communication climate which encourages the exchange of ideas among all levels of business responsibility. As part of this, the EoC businesses follow these practices:

- We clearly explain our core values and reinforce them by rewarding behaviors that model those values.
- We encourage frequent person-to-person talks to share the meaning of our work and provide on-the-job training.
- We hold frequent personal and large-group meetings to communicate company news and information.

- We provide 360-degree feedback during performance reviews for constructive personal development and improved performance.

In addition to its daily business communication practices, EoC enterprises also use effective methods of communication at the local and international level to stay closely connected to each other and facilitate the development and deepening of productive economic relationships. These are also essential for maintaining and re-encouraging relationships of mutual support and solidarity necessary to live the EoC lifestyle. Communicating both the needs of those we are in contact with at the local level, as well as the resources available within the global network, provides the primary means of activating a dynamic re-allocation process that builds unity within the network and alleviates the various forms of poverty that are encountered.

## CONCLUDING REMARKS AND AN INVITATION

EoC people in these last 20 years have come to experience that the most fundamental choice they have made is to personally adopt a lifestyle of communion as their own. This choice is a lifestyle choice. It provides consistency between beliefs and actions across all life settings: family, work, community, society, global. To be truly successful in living out the principles of the EoC, this fundamental choice must be made each day and in each moment of the day.

But what does this lifestyle practically mean for those who live the EoC lifestyle? As Chiara Lubich, the founder of the Focolare Movement and the EoC has said, it often begins with something very concrete:

*“Let’s give always, let’s give a smile, understanding and forgiveness; let’s listen; let’s give our intelligence, our will and availability; let’s give our experiences and capabilities. Giving: let this be the word that gives us no respite.”*

Pope John Paul II also said that this lifestyle of communion “... means an ability to think of our brothers and sisters... as ‘those who are a part of me’. This makes us able to share their joys and sufferings, to sense their desires and attend to their needs....to see what is positive in others, to welcome it... as a ‘gift for me’....” This same belief – seeing everyone as part of one human family – is held not only by those practicing within religious faith traditions, but also by other non-believing people of goodwill.

Many people today – scientists, scholars, poets, artists, politicians – are calling for a new and robust economic model that retains all the positive values of the existing market, but, at the same time, addresses the new financial and social realities because new also are the big challenges of today. We believe that the EoC represents one such possibility.

And so, after reading the *Mission, Vision, Core Values and Business Operating Principles and Beliefs*, we invite you to consider joining us in this new global social, economic and business reality that is the Economy of Communion. Based on our own lives, we are confident that you will begin to experience a deeper sense of personal growth, self-discovery and fulfillment from this new way of working and of living, and the freedom to create the type of company and world that brings true joy – the joy that can only come from giving.

# APPENDIX THREE

## QUESTIONNAIRE

**Instructions:** choose only one of the following options presented for each question and mark the one that is closer to the current situation of your company, trying to be as objective and truthful as possible.

**Information about the company – The work field of your company is:**

- agricultural
  - commerce
  - manufacturing
  - services
  - other (specify):
- 
- 

**Size of your company:**

- small business: less than 50 workers
- medium business: from 50 to 249 workers
- big business: from 250 workers

**Registered office in:** \_\_\_\_\_

**Corporate structure:** \_\_\_\_\_

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**Your company:**

- Is adopting practices and tools for CSR\*?  yes  no
  - Has never draw up a Social Report?  yes  no
  - Has never draw up an Environmental Report?  yes  no
  - Is currently using or adopting International Standards?  yes  no
  - If yes, which one among these?  
 SA8000  AA1000  GBS  GLOBAL COMPACT  GRI
  - other (specify):
- 
- 

**Clarification:**

The term “stakeholders” (from now on STK) refers to the set of entities or individuals whose actions affect the realization of processes or projects in which they are involved.

What in your opinion are the stakeholders of your company?

- shareholders  donors  customers  suppliers  local community  competitors
  - Public Administration  employees  external collaborators
  - other (specify) \_\_\_\_\_
- 
- 

Order the following STK from the most relevant to the least for your company with numbers from 1 to 5:

A. shareholders \_\_\_; B. employees \_\_\_; C. customers \_\_\_; D. suppliers \_\_\_; E. society \_\_\_

If you were to give a definition of involvement (or engagement) you would say:

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| Items  | Never<br>1 | Rarely<br>2 | Once<br>in a<br>while<br>3 | Frequently<br>4 | Almost<br>always<br>5 |
|--|------------|-------------|----------------------------|-----------------|-----------------------|
| 1. Does your company believe that the relationship with all the STK that collaborate in the business is important?   |            |             |                            |                 |                       |
| 2. Is your company aware of the STK involvement system in the business processes?  |            |             |                            |                 |                       |
| 3. Does your company implement formal evaluation systems for the relationship with all the STK that collaborate in the business (questionnaires, meetings, etc.)?  |            |             |                            |                 |                       |
| 4. In your company are you looking to involve not only shareholders and investors, but employees, suppliers and customers in strategic and operational decisions?  |            |             |                            |                 |                       |
| 5. Which one of the following tools are you using:<br><input type="checkbox"/> focus group<br><input type="checkbox"/> customer satisfaction questionnaire<br><input type="checkbox"/> suppliers convention<br><input type="checkbox"/> customers convention<br><input type="checkbox"/> employees meeting<br><input type="checkbox"/> employees social report<br><input type="checkbox"/> climate analysis<br><input type="checkbox"/> monitoring tools<br><input type="checkbox"/> other _____ |            |             |                            |                 |                       |
| 6. Have you seen improvements in the relation with <b>suppliers</b> after the application of these practices?  |            |             |                            |                 |                       |
| 7. Have you seen improvements in the relation with <b>customers</b> after the application of these practices?  |            |             |                            |                 |                       |
| 8. Have you seen improvements in the relation with <b>employees</b> after the application of these practices?  |            |             |                            |                 |                       |
| 9. Will you continue to implement, if you already do, these tools?   |            |             |                            |                 |                       |
| 10. Have you ever used company resources to promote not only the shareholders' interest but also other STKs'?  |            |             |                            |                 |                       |
| 11. In your opinion is it worth carrying the costs associated with the support of the various STK for their effective involvement in the long-term company and society benefit?  |            |             |                            |                 |                       |

*This questionnaire, completely anonymous, is intended only for a personnel use of those who process information in order to distill a statistic for educational purposes.*

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