

Ruggie's Principles in business model strategy: why and how. Impact and operational implication for the Italian MNCs.

Research proposal

During the last decade the international economic framework has considerably changed, especially because of the global crisis. This matter has induced a reshaping of social and environmental needs, well embodied by their stakeholder. In order to tackle these issues, the literature has kept up to date by giving more attention to the concepts of Sustainable Development, Corporate Sustainability and Corporate and Social Responsibility, while MNCs have implemented sustainable practices and initiatives. There is a growing need for a multidisciplinary approach to overcome the traditional divisions between the social sciences and to consider, at the same time, the many explanatory variables – which should also include social capital – which are involved in the process of development, taking into account the economic, social and political-institutional aspects, in order to provide an explanation for the different economic results characterizing the individual national economies, in the context of a process of economic globalization which is not matched by convergence in the processes of industrialization, but rather by a greater differentiation between countries. Hence, it is essential to adopt an overall view, which should be multidimensional, taking into account all the factors which have an impact on the process of development.

The aim of this work is to explain the concept of Corporate Social Responsibility by highlighting, through a review of the literature and practical examples with regard to the implementation by companies of the Ruggie's Framework in their business process, structure and strategies, its significance for economic development and for safeguarding of human rights. This research is based upon the assumption that the social, political-institutional and economic variables are interdependent and influence each other directly more than in the past. The goal of the research is developing knowledge and capacity necessary to accelerate the transformation of business to sustainable enterprise. That includes learning how to change the way individuals think and act; change the structures, strategies, processes and products of organizations; and change the systems that corporations are part of – markets, regulations and culture, through the observation and analysis

of the public data-base about corporations and strategic change towards sustainability. The process of the analysis is based on a systematic analytical framework that draws from public sources, and supplements them with surveys, interviews and focus group data. These data are part of a bigger multi-stakeholder project called “GOLDEN” for Sustainability, “*Global Organizational Learning and Development Network*”. The network combines the disciplines and knowledge on a global scale that are critical to speeding development of sustainable strategies towards the enterprise for the future. The research method chosen is a way to identify the evolution of sustainability-driven strategic initiatives, the company performance across social, environmental and economic dimensions, and to investigate the effectiveness of change interventions and to identify enabling and hindering factors. In collaboration with business and its stakeholders, it identifies strategic sustainability questions and challenges they are facing, and designs interventions to evaluate their relative effectiveness.

1. Global scenario: the long path towards strategic CSR

Nowadays, more than ever, the role of Multinational Corporations is essential in a global context, and the literature pays special attention to their worldwide role with regard to societies in order to have a positive impact on the environmental, social and economic sustainability of emerging economies. Therefore, many studies are concerned with delineating a global development, which could include social equity, shared economic prosperity, environmental integrity and respect and promotion of fundamental human rights. The role of MNCs is so critical for issues of sustainability not only because they are fundamental pillars of the private sector, but also because they can satisfy many human needs through the provision of goods and services. However the demands of such a vision go far beyond the objectives that organizations are currently configured to achieve (Sharma & Starik , 2002). The current business model needs to change, by meeting new needs and by increasing the role of MNCs in addressing global development issues. Since other stakeholders are also involved and the economic process is not only run by MNCs, interaction between the actors is therefore required to foster sustainability efforts. The aim of enhancing sustainability efforts among MNCs is based on empirical change among key decision-makers, organizational changes in daily operations, and broad-based action with broad impacts within the company as a whole. The UN Millennium Declaration (September 2000) very clearly covered the various aspects of individual rights, socio-economic conditions and environmental concerns which should be addressed by the world community. Unfortunately, only a minority of the Millennium

Development Goals are at an advanced stage, while some have even regressed (UN, 2012). Therefore, the total commitment of all the relevant players, particularly companies, is needed: *‘given that large multinational companies have become important economic and political actors influencing both international relations and economic and social development, they play a very significant role in addressing global societal challenges. Therefore, a better understanding is needed of how multinational companies integrate within both the traditional international and domestic environments to create shared value (value for the company itself and its investors as well as for other stakeholders and society at large)’*.

These concepts received widespread approval, as for example on the part of the European EPC Competence Centre (EECC), which also emphasized the growing importance of the private sector because of its primary role in arriving at an optimal equilibrium in emerging countries’ socio-economic development, with due regard for environmental concerns (EECC communication on CSR, 2011). However, too great a dependence on MNCs can aggravate the trend towards inequality in various areas (incomes, working conditions and political power), as well having a negative impact on the cultural identity of a given country or community and its environment, while encouraging corruption (UNDP, 2011). At the present time, research studies are stressing the high level of interdependence among the main players in the global socio-economic system (policy-makers, business managers, civil society leaders, citizens, consumers, employees and investors), as well as the great importance of a sustainable business model (Zollo, 2013).

A sustainable enterprise has some essential features:

- Shared values encompassing the joint production of economic value and of social well-being for all the providers of resources necessary for the firm’s long term success (Freeman, 1984; Freeman, et al., 2010).
- A model of corporate governance which assigns equal rights to different classes of stakeholders in a “team production” logic (Blair & Stout, 1999) and where stakeholders include the local communities hosting enterprise activities.
- A shared value logic in the computation and distribution of value (Porter & Kramer, 2011) with fully integrated management control systems (Eccles & Krzus, 2010).
- A deliberate learning and transformational change strategy aimed at facilitating the evolution of a business model that integrates principles of economic, social and environmental sustainability (Westley, et al., 2011).

Although a light is shined on “why” should firms invest in sustainability-driven change, pragmatic evidence and solution on “how” can MNCs implement

evolutionary change for sustainability is still required. Even though the literature has considered the reasons “why” companies adopt sustainability-driven change, “how” this can be realized in practice has been neglected. Overall, it could be said that the lever of business sustainability, in the long term, is changing corporate policies. The main problem for this approach is reconciling different interests, while creating value. In this regard, the UN report on “Integrated Policy-Making for Sustainable Development” suggests ways in which this could be achieved, focusing on development, environmental concerns, and socio-economic aspects:

- there should be a normative policymaking approach that considers critical [environmental, social, and economic] implications and interactions associated with policy issues and their potential solutions;
- solutions should be integrated within a policy cycle in order to ensure that policy issues are appropriately defined, potential solutions compared, the solution that increases synergies and reduces trade-offs adopted, and the adopted solution implemented, monitored, and evaluated;
- policy development should be aligned with the political, institutional, and analytic realities of the policy environment.
- Synergies among different issues exist and a policy intervention can be designed to achieve multiple benefits;
- Successful implementation of a policy relies on support from a range of stakeholders who may have diverse values and interests that need to be harmonized.

In particular, considering the respect of human rights from businesses, this research is based upon the “Protect, Respect and Remedy” Framework endorsed in 2011 by Professor John Ruggie, UN Special Representative. While acknowledging that international law does not force companies to respect human rights, he feels that they should not only meet national legal requirements, but should also satisfy society’s expectations. He goes on to say that respecting human rights would be of benefit to the companies themselves and that *“the most effective way of extending the direct reach of international human rights law to include transnational corporations is to ... persuade the corporate sector to acknowledge, that the ‘responsibility to respect’ human rights is in the first instance an explicit and direct moral obligation”*. Ruggie suggests the need for an appropriate monitoring process in order to quantify and compare efforts in this regard.

2. Italian companies: example of sustainable changing in business strategic activities.

The Italian government system, in the last years, organized and promoted, directly or through centres abroad with which they are associated and special agencies set up specifically, the participation of small and medium businesses in major international trade fairs. In cooperation with the National Institute for Foreign Trade, they organize events to promote the inclusion of Italian businesses in foreign markets and facilitate business relationships between entrepreneurs, for example through trade missions abroad for Italian businessmen and by welcoming delegations of foreign businessmen visiting Italy. It cannot, therefore, in the performance of that task, avoid dealing with the issue of CSR, which is gaining increasing importance in terms of economic and social impact especially if one extrapolates from an analysis of the operation of a local system to a global scale. In particular, the characteristics of the territory of Italy, lead the companies to focus on innovation and critical consumption so that businesses will take an interest in CSR. The need for development and competitiveness of Italian firms, both in domestic and foreign markets, necessitates a continuous search for innovation, which may involve only the products, or can be combined in varying proportions, with a more advanced and complex model of innovation: process innovation. This requires structural changes and a global rethinking of business processes and the logic of business management. The goal is to achieve a radical improvement in business performance, with positive effects in all the different aspects, including optimization of costs, service quality, efficiency, meeting deadlines. Therefore, process innovation involves the company's technological organization, the management of human resources and procedures that govern the various phases of the manufacturing process, all areas related to, and aiming at, increasing the efficiency in producing a product or providing a service. In order to bring the company a real competitive advantage, allowing it to explore new business opportunities and open new markets, process innovation must be continuous and methodical, and not manifest itself as sporadic and isolated incidents. In considering the value chain, sketched out by E. Porter according to which the structure of an organization consists of a set of core and support processes, one can see how innovation has only recently been placed within this model, being seen as a process of continuous improvement, supporting the primary processes. In the face of the rapid changes that companies face, both as regards their internal composition and the external environment in which they operate, the innovation process, in fact, requires regular and systemic analysis of the state of the company "system" and the consequent development of new strategies for change and intervention in business processes. Undoubtedly, however, much remains to be done to ensure that CR

can be part of the corporate culture of the firms and be naturally integrated with long-term strategic choices. In order to promote patterns of behavior influenced by CR, according to the peculiarities of the context described above, aims at a long-term strategic approach based on managing relationships with all the stakeholders in terms of sustainability, innovation and continuous improvement. All this is presented to companies as an important factor which translates, for them, in an overall increase in competitiveness generated by:

- improving the business climate and increased motivation of employees;
- Increased ability to attract qualified personnel;
- brand differentiation and growth of the overall reputation of the company;
- better management of natural resources;
- reducing the overall risk profile;
- strengthening relationships with financial institutions and the community.

Some Italian companies have already adopted instruments that conform with CSR, but, nevertheless, they still represent a small number compared to the vast number present in the territory. The community itself also carries out social and educational functions: development of technical and business knowledge; the diffusion of the entrepreneurial culture; solidarity among entrepreneurs, workers and even their families; a spirit of real subsidiarity, widespread and without barriers. Last but not least consultation, which should be systematic and extended to all the stakeholders. The consultation has been and is valuable in increasing the competitiveness of the productive system and the territory.

Italian companies have always tried to understand and respect the countries in which they were extending their business operations. The historical presence of Italian firms in Latin America or their ability to integrate in the countries of the Commonwealth of Independent States (CIS) exemplify Italian entrepreneurial culture's respect for the host culture and its attempt to coordinate the implementation of its activities with a strong social cohesion in the communities in which it is operating – a good example is FIAT, in Latin America or Indesit, Unicredit in CSI Countries.

Recent and relevant examples are:

Enel: *“Enel Green Power partnership with Barefoot Collegethe. The communities which take part in the project agree to make available a communal area to set up a laboratory/workshop for the women. The individual heads of household must pay a share for the service provided by the women in installing, maintaining and repairing the domestic photovoltaic plant. The amount to pay is very low and, in any case, less than the families would pay to procure lighting systems (candles, kerosene, oil, etc.), but guarantees the sustainability of the service over time and at the same time income for the women. The model has been brought to Latin America for the first time thanks to Enel Green Power: the countries initially identified for the project are Guatemala, Chile,*

Peru, Colombia, and El Salvador. In these countries in 2012, 16 women were trained and will bring photovoltaic systems to a total of 1,000 homes; solar kits have already been sent to Chile and Peru, where the start of installation is envisaged for the first half of 2013. In addition, the program will be extended during 2013 also to Central America (Mexico and Panama) and Brazil.” (Enel_sustainability report, 2012)

Eni Spa, *“In the Republic of the Congo, Eni is engaged in contributing to the national development programmes, within the reference framework of the United Nation's MDG. Since Eni has begun onshore activities in Congo, a series of programmes in key growth markets have been initiated with the objective of developing local potential and improving the quality of life for local populations. In November 2011, Project Intégré - District de Hinda (PIH) was launched, whose overall objective is to contribute to the improvement of living conditions and sustainable development for the local communities in the industrial zone in around M'Boundi - Zingali, Kouakouala, Loufika - where Eni runs its operations, reducing the percentage of the population who live below the poverty threshold. The strategic objective is to contribute to improving the entrepreneurial ability in the field of operations and to consolidate the company's presence in its areas of activity. The plan is to reach these objectives through investments in projects in favour of the local communities and initiatives for public health.”* (http://enifor2011.eni.com/communication-on-progress/il-contributo-agli-obiettivi-delle-nazioni-unite/l-impegno-per-lo-sviluppo-locale/eni-in-congo.aspx?sc_lang=en)

Telecom Italia spa, *“The Zambia Project is an initiative promoted by the not-for-profit Nexus Mundi Foundation (NMF) in which Telecom Italia is involved as a technological partner. The aim is to encourage agricultural, entrepreneurial and healthcare development in a number of Zambian towns by providing connectivity. The initiative involves the installation of Community Media Centres (CMCs), which combine Internet access, computer and media and office equipment and allow content sharing, in the most important locations for the communities of Lusaka, Chikuni and Kasisi: hospitals, schools, churches, radio stations, care homes, cultural centres. Each CMC is connected to the others by wi-fi and to the Internet by satellite, although a broadband cable connection is expected to be installed soon. Specific attention was focused on the Chikuni Mission Hospital, a real healthcare outpost in the middle of the savannah, which required urgent action to be taken. In addition to the above services, a telephone system was installed with a switchboard and GSM terminals, with all the related services and a small private network for emergency services, making a fundamental technological contribution to the health (and survival) of thousands of patients.”* (<http://www.telecomitalia.com/tit/en/sustainability/our-approach/case-studies/zambia-project.html>)

At the same time, Italy is one of the main investor countries: in fact it is the eighth most important direct foreign investor. In general, the data concerning direct foreign investments show a growing strategic interest in non-EU countries on the part of Italian companies: in particular in Asia, Latin America and Africa. In fact, Italian investments abroad in 2012 were 23.2 billions of euros. The corresponding figure for the first quarter of 2013 was 676 million euros. In particular, on the basis of their geographical destination in 2011, Italian investments abroad (as a percentage of the total) were: EU27 (61%), Asia (20.5%), Africa (7.3%) and the Americas (5.6%). While, with regard to the sectors, the corresponding figures in 2011 were 47.5% for service industries, 28.5% for manufacturing, 12.8% for building. The stock of investments abroad in 2012 is about 424 billions of euros. As regards the various sectors in 2010, there was the strong prevalence

of services (71.6%). The EU countries and areas see their weight slowly declining over the years, while still remaining dominant. The stock grows particularly in the non-EU area (from 22% in 2008 to 27% in 2011), above all in Asia (from 4.6% to 6.7%). (*Data from Banca d'Italia and Eurostat, 2012*)

An example of the presence of Italian companies abroad is the building industry. South America continues to be the biggest market for Italian building firms, with 32% of all current building orders, while the rest are well diversified: North Africa (12%), Sub-Saharan Africa (13%), and approximately 11% for each of the following: the European Union, non-EU Europe and the Middle East. Central America (5%), Asia (4%), North America (2%) and Oceania (1%) are important areas in which Italian companies are diversifying their investments (*Source: ANCE – 2012*). As regards the geographical distribution of the building sites, North Africa (23% of the total), the European Union (15%) and Sub-Saharan Africa (13%) are the zones in which there are the most orders (*Source: ANCE – 2012*).

As regards new acquisitions, South America alone represents 48% of the total: last year there were significant extensions of pre-existing contracts for important infrastructure projects. Despite the fact that the epicentre of the current phase of the crisis is in the Euro Zone, 18% of the new acquisitions are in the European Union, while 15% are in non-EU Europe. In Africa, historically a very important market for Italian companies, there has been a predictable fall in new acquisitions because of political instability and wars in several countries of this continent (*Source: ANCE – 2012*). There have been important changes in the classification of the main countries in which there have been new acquisitions, as 8 out of 10 of the markets are new. Compared to last year, the “old” markets of Venezuela and Algeria are joined, with considerable expenditure, by Argentina, Rumania, Russia, Peru, Poland, Switzerland, France and Columbia. The contracts signed in 2011 in these 10 countries account for about 75% of the total 12.5 billions spent on new acquisitions.

It is therefore clear that, on the one hand, Italian companies’ strategic-entrepreneurial tendency aims at developing even more its business in the above-mentioned areas. This datum, together with the awareness of an entrepreneurial and cultural approach directed at the social development of local communities, without which business development in itself would be inconceivable, constitutes the basis of our research which sees Italian companies as agents of change in the host communities.

There is an ever-greater conviction that a business is a valuable asset, not only for the shareholders, but also for other stakeholders and, more generally, for the whole of society. Consequently, company directors and managers are increasingly developing the

ability to account for how they coped with the fundamental responsibility of safeguarding this valuable asset. Many means are adopted, for that purpose, by interested entrepreneurs. These include guidelines, codes of ethics, social accounting or financial reporting. This development is a reflection of what citizens and stakeholders expect with ever greater conviction: a transformation in the corporate role in the new evolving society.

Historically, a good example of this Italian traditional point of view is SA 8000. About the SA8000, in terms of geographical area and individual Countries, Italy is characterized by the highest percentage of approvals recorded last years. Instead on a global scale, at the sectorial level, the data recorded in the last years are represented by the following chart. In a European context, the gap between the “good conduct” of Italian companies and that of companies in other Countries is even more evident. From the records of the percentage of certifications carried out. The very high number of certifications depends on the peculiarities of the market in which the companies concerned operate, the relevant sector and the characteristics of that specific type of business (*Countries on a world scale, March 2008, SAI*). The experiences listed above are just some examples to show how, despite the lack of regulation of social responsibility, and despite the voluntary adoption of certain parameters, in recent years there has been a wide dissemination of practices that can be traced back to this issue. In addition to the necessity of creating a standard, which could be adapted to the various practical situations, there is a significant problem in getting certain patterns to fit the situations of small and medium-sized firms. Given the structure of Italy’s economic-production landscape, it is a significant problem. Probably, attention has always been more focused on large companies, because they tend to be more subject to criticism and to the attention of environmental organizations, trade unions, research institutes concerned with social and environmental responsibility, organizations representing consumers and society, public institutions. However, as new requirements have emerged in the socio-economic scenario for smaller companies, there is a need for tools which they can use and also for a simplification of a company’s internal processes in order to consolidate socially responsible behaviour. It is, in fact, difficult that a small to medium-sized company can produce an organizational, economic and management effort, like the one that is required of the big companies when they are called upon, for example, to adopt complex environmental management systems for their production processes or, on an ongoing basis, to prepare financial reports and specific information about the social and environmental impacts of their activities, or provide for a systematic consultation of their stakeholders, aiming at maintaining a dialogue with them or, even, to include professionals in the workforce devoted solely or primarily to the integrated management

of the socially responsible commitment. In many cases, in other words, there is an unbridgeable disparity between the possible requests that can be put to small and medium-sized businesses, by simply using those aimed at large enterprises, and their ability to give concrete, credible answers. This cannot, however, be a justification for not developing social responsibility in small and medium-sized companies. On the contrary, It should serve as a stimulus to rethinking methods and criteria and to setting achievable goals based on the means actually applicable, the whole procedure being viewed in a “reduced” and more “local” perspective, so as to allow every company of whatever size and economic sector to demonstrate its vocation for social and environmental responsibility. The work is certainly long and challenging but can be very rewarding in terms of product benefits, the dissemination of concepts and the development of behaviours that serve as future reference.

3. Objective

While the business and human rights agenda has evolved significantly in recent years, a human rights perspective had not yet been explicitly addressed. This is why the UN System launched a process to develop a set of Principles, the Guiding Principles reflect and build on the three-pillar structure of the *Protect, Respect and Remedy Framework* that was introduced by the Special Representative Professor John Ruggie to the United Nations in 2008, that offering concrete guidance on what business can do to respect and support human rights. The Principles are the first comprehensive set of principles to guide companies on the full range of actions they can take in the workplace, marketplace and community to respect and support human rights and to integrated the human rights perspective in the business process and strategy.

The objective of the research is to analyze the operational implications for the Italian firms that want to adopt the Principles, the impact on their value chain and on the sustainability of their business. There is a diffuse awareness the aim to enhance real respect for human rights, efforts among firms is based on empirical change among key decision-makers, organizational change in daily operations. A full comprehension of what are the real implications for the firms, in terms of costs and benefit, to adopt the Principles could avoid the risk that Principles commitments remain rhetorical, while operational programmes and policies fail to incorporate these commitments in their design and implementation.

The development of a comprehensive framework is addressed to **analyze the impacts of companies in order to figure out “how” they contribute to socio-economic**

development and well-being, with a particular focus on the areas related to the “Protect, Respect and Remedy” Framework and Millennium Declaration. For this reason, new methodologies and tools to measure the economic, social, environmental and human rights impacts are required, not only to evaluate the commercial activities but also to get their influence on the governance system at different levels, including combating corruption and promoting business ethics. Moreover it is compute how international competitiveness and responsible business practices can be mutually strengthened. The GOLDEN observatory in this sense plays a strategic role: first it provides real-world data that represent cross-national variations between MNCs settings and business practices, considering cultural, political and historical variables. Second it is well addressed to focus on the differences between sectors (Energy, ICT, Food). The sketching of development process in this contest could then help fostering, challenging, configuring and re-configuring responsibility business practices. Hence, **the integrations between public policy and corporate strategy choices will be valuable for identifying the potential public policy role to enhance the Millennium Declaration Goals and the Ruggies’ Principles to reinforce MNCs international competitiveness. In the sustainable field too.**

4. Outputs

1. A theoretical paper on the impacts and operational implications for firms to adopt Principles.
2. An analysis of different sectors, namely Food, ICT and Energy, that aims at considering the present state of the application of Ruggie’s principles in MNCs, by classifying their issues and initiatives within a theoretical framework that allows to compare the sectors.
3. An empirical study based on a comparative case analysis of the Italian MNCs.

5. Methodology

As for the analysis of different sectors, starting from the analysis of the Guiding Principles on business and human rights, the research found interesting to consider what has currently been done in this regard by companies, in order to evaluate whether and how Ruggie’s principles are being followed or can provide an effective framework. In order to develop final observations, the research started by analysing the GOLDEN database on sustainability issues and initiatives put in place by companies in different sectors and different geographic areas. The research analysis of the GOLDEN observatory uses a scheme that is derived from the GRI principles.

The clinical part includes additional collection of public archival documents, and more importantly, the collection of private archival documents. The aim is to collect information related to the company and to the industry (company unrelated) to assess in a first instance the current status regarding sustainability of the company/industry and the evolution over time. This analysis serves as a basis for the next steps. Importantly, by analyzing archival documents a basic description and assessment of strategic issues related to sustainability and sustainability initiatives that the company has already launched to tackle these issues, will be carried out. Importantly, information obtained from public archival sources allows for a basic understanding of the company and its activities related to sustainability. It is therefore needed before the first field visit. Information obtained from private company documents during the field visit (at a later stage of the process) will broaden and deepen the knowledge taken from archival data collection.

The archival data collection will complement the company profile that consists of several data bases like general company information, performance outcomes and, importantly, also information on strategic (sustainability) issues and related initiatives.

On the other hand, for the empirical study the research is designed on the use of case studies (Eisenhardt 1989, 1991; Yin 1994; Fattore 2005). The methodology of analysing case studies is certainly at the theoretical level a holistic research strategy directed at understanding the internal dynamics of a single specific context (Eisenhardt 1989). Notwithstanding the diversity of its applications (explicit, descriptive, explorative, meta-evaluative Yin 1994), the fundamental aspects of the approach can be summarised in (Fattore 2005):

- Clear definition of the empirical object under analysis
- Multiple information sources and investigation tools
- Temporary contact between the researcher and the participant which enables the use of specific techniques such as direct observation and in depth interviews (Grandori 1996; Yin 1994)
- A natural investigation approach: in case studies - but not so in experiments – the researcher does not intervene with the object under investigation to build artificial contexts which allow the control of the effect of some of the variables in order to highlight others
- Context based exploration of a reality under a systemic lens to enable the relationships between the investigation unit and the reference framework to emerge.