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**CSR strategies and their legal scenario:**  
instruments, limits and opportunities for Multinational Companies

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## **Introduction**

The protagonists of this thesis are the Multinational Companies that are going to be analysed under the perspective of what are the actions taken in matter of Corporate Social Responsibility and Sustainability. After a recognition of the first chapter that has the aim to find what are the multinational companies and what they are obliged to do by the hard-law in the second chapter the scope will be shifted to the main actions that MNEs may choose and the instruments that MNEs may adopt in order to elaborate and deploy in order to structure their Corporate Social Responsibility and take the path towards a greater sustainability. The last chapter of this work has the intent to show two examples of this and to compare two different models of CSR to analyse difference and evaluate the strategies.

The motivation for this work raised from the importance that the respect of the social and human rights has while a company is acting in the economic scenario: as it will be seen in the first chapter there are eight Fundamental Conventions by the ILO on this topic but they have not been ratified in all the countries: so there can be products on the market that may have been produced with major violations of basic rights. In the scenario new instruments at the disposal of companies are approaching: crowdsourcing, smart-working and a larger use of information technologies, automation and digitalization; from these innovations problems are arising. The new challenges are involving the relationship between employer and employee, the safety and privacy, the learning process by the workforce and finally also the collective representation of the workers seems to be more and more fragmented as time goes by. The larger organization of the production that has been built by the internationalization and the digitalization with an assembly line fragmented in time and space may allocate new dangers to the employees while institutions and organizations need to find a path to prevent a human slavery to processes and robots (Weiss, 2016). But the regulation over multinational companies may be difficult: while the Nations have a geographically limited authority the world of business is often regional or global and few international entities have the power to regulate across borders (an example of authority with this power can be the European Union). A number of International Organization instead are finding problems in being effective in their purposes: the United Nations or the

International Labour Organization have at their disposal instruments that are coordinating and influencing the decisions taken by national governments or multinational companies but they are not generally capable of producing hard law obligations. This gets in contrast with an increasing attention to the sustainability and responsibility issues that are expressed by the stakeholders of the big corporations: in this case there may be companies avoiding every confrontation or others starting a social dialogue in order to agree about the borders of the framework in which they can economically act. All of these stakeholders may be generally identified like consumers but they may also be organized or institutionalised like the shareholders, NGOs or Trade Unions and they may have power enough to force companies to adopt the basic protection in favour of their workforce, the local communities and the surrounding environment. Being green and responsible may also be exploited from a strategic point of view by the firms: there are segments of the market that are more sensible to the sustainability in the production of what they buy and being active in terms of sustainability may help companies to differentiate their product or service. From the necessity of taking actions to set borders, limits and to self-regulate the business the focus needs to be shifted to what concretely companies can do, in this sense the second chapter analyse the main instruments of the CSR: codes of conduct, social reporting and certifications. Companies may use this devices in order to find their own equilibrium in the importance to give to each dimension of the triple-bottom-line: a perspective on the business growing in popularity and rising up the need of having a framework of rules from external or internal sources that can limit the impact of the economic actions on the people and the planet while allowing the shareholders to receive proper profits from their businesses. Companies may decide to voluntary request an external entity to certificate that the processes or the products of the enterprise are done accordingly some social and environmental standards, this is called social labelling: usually it is a free choice to adopt it from a company and in this way may differentiate the brand or it can help to decrease the information asymmetry that costumers may face in the final market. Suppliers may also be forced by buyers to adopt some certifications or they can also be obliged to conform to procedures and protocols established by the multinational company that are supposed to inspect and control that the workplace is following the rules required in matter of human and labour rights and environmental standards: this can be categorized under the label of codes of conduct. These codes are self-regulating



instruments that clarify what are the internal rules a corporation is following to deliver its products or services and that can be also enforced in its supply chain (aspect that will be important in the case studies section). This way to introduce elements of sustainability may help to differentiate the businesses among each other since they are not unified and levelled by an external entity and this gives also different shades in the perception by the market. Another relevant issue that will be analysed in the second chapter in this topic is the enforceability of a code: even if it is voluntary there must be a provision set by the corporation if not by the law in order to let it have sense to exist, to ensure the commitment of the people involved. The concluding paragraph in the second chapter will focus on the models of social reporting. The device that companies can use in this sense allow them to give to their stakeholders a summary of which ones have been the most important actions undertaken by the corporation in matter of corporate social responsibility and they are also giving the possibility to numerically and economically evaluate the impact over society of the company and the effectiveness in the CSR expenditure. Finally the third chapter present an analysis and comparison between Benetton Group and Brunello Cucinelli: the reason for this choice is double. Firstly there is the need to have a guess of what is happening in the real world, going forward from articles, directives, laws and guidelines, testing what was previously seen and analysing the strategies that corporations put into place in order to be responsible while being economically profitable. Secondly it is interesting to compare two companies that can be also models in their segment: the brands are at the opposite of the market segmentation (if it is still possible to speak about the same market for the huge price and quality differences) and they are also deploying their CSR instruments and tactics in a different way. While mister Cucinelli based his business on the importance of the respect for culture, people and the environment and surrounding its product with a communication based on this factors and the Italian heritage and craftsmanship while being able to expand worldwide the markets; the dialogue with the stakeholders is inside the credo of the company, with an institutionalised procedures of meetings with workers and since the owner decide to list the share in order to have advices and to open the company to the market. On a different mind-set is possible to enlist the company of Ponzano Veneto that after being developing from nineties a low-cost sourcing and production structure has always been innovative in matters of CSR for its communication. Benetton group has also created a list of different programs through

which the company is becoming more innovative than Brunello Cucinelli in the management of the human resources in their home market while they are helping local communities in the Far East and other developing countries to economically and socially develop. Both companies will be also discussed from the environment protection perspective and on this point Benetton group seems performing better, probably as a reaction against the criticisms that have been made towards the pollution and excessive waste caused by the fast fashion industry in which Benetton can be categorized, at least for its past years.

The methodology applied has been different in each chapter. The first one having a large spectrum has inside different sources: articles from journals have been used together with the articles from codes and laws and guidelines, directives, conventions deriving from international entities. The second section has its sources in journals' articles and researches, analysing time by time theories and instruments that companies may use to cope with the requests of the stakeholders. Other materials used in this phase have been the protocols for certifications, some examples of codes of conduct of fashion brands and the provisions drafted by the standards setting institutions in matter of social reporting. The last paragraphs of this thesis had their main source in the non-financial reports of Brunello Cucinelli and Benetton Group and secondly the Codes of Conduct of the two companies while in a smaller magnitude also articles of newspapers and institutional communications have been used. The difference of the final chapter compared to the previous one is motivated by the need to discuss practice aspects and the strategic deployment of the theories already seen; for this reason journal articles have been used in a smaller number. For the economic discussion on the two corporation the data are coming from the financial report and the balance sheets of the two firms.

# **Chapter I**

## **The Multinational Corporation and its scenario**

### **1.1 Chapter Introduction**

The first chapter of this thesis has the aim of building a framework: the first step is defining the Multinational corporation and to give an initial recognition of the main issues related to this category of firms: the difficulties to regulate them from the public power perspective and the pressure for lowering social and environmental standards often exerted by the MNEs over the governments in developing countries. The following part discusses about who is the owner of the enterprise: starting from the first formulations on the topic that distinguished between a strict shareholders' interest as the only purpose and on the other side a larger societal belonging of the firm, more recent theories are following this recognition, taking into consideration more blurred views. The following sections are discussing the legal environment of the firm: by reviewing the main international organizations that are directly or not setting the rules for the MNEs' actions, coordinating Member States and setting common standards, on the other side national governments that are issuing hard law instruments to limit the MNE's power, but facing the problem of a jurisdiction that is limited compared to the geographical span of a multinational enterprise. The concluding section of this chapter has the focus on the social upgrading, the aim is to control what are the consequences of the presence of multinationals, both if they are directly involved into producing there by owning plants or if they are present as buyers and strategic allies of local producers. In this final part of the chapter it will be possible to see in practice the issues discussed in the other sections of the chapter. As Weiss (2018) states the borders in the legislations are blurring, is now more difficult for the States to regulate labour contracts, firms are relying on supplier using irregular workers for flexibility reasons and, on the other side, the industry 4.0 has exerted more pressure over developing countries to lower their standards in order to make workers being cheaper than machineries. These effects are confirmed also by the fact that the common answer to the 2008 crisis from national and financial institutions has seemed to be lowering the labour standards while forgetting to enforce stricter laws on the financial activities (Varoufakis, Groutsis, 2010). In this chapter the framework and the main lacks in MNEs regulation are highlighted with the

aim to find what are the main points a self-regulation initiative should take into consideration in order to discuss them in the following chapters of this thesis.

## **1.2 Defining the MNEs and the reason why they have to be regulated**

Since the topics will be analysed from two main perspectives, managerial and juridical, it is possible to discuss here the first main hiatus: while from an economic point of view we can focus on different entities being economically correlated, according to a juridical point of view this aspect can be different. Groups can be composed by different independent entities, each one of these will have to comply with different legislation and, as it will be said later, some group will try to take advantage of gaps between each national legislation. The definition given by the ILO in the MNE Declaration (2015) is the following: “Multinational enterprises include enterprises – whether fully or partially state owned or privately owned – which own or control production, distribution, services or other facilities outside the country in which they are based. They may be large or small; and can have their headquarters in any part of the world”. The UN defines a multinational corporation as “enterprises which own or control production or service facilities outside the country in which they are based. Such enterprises are not always incorporated or private; they can also be cooperatives or state-owned entities” (1974) or more recently as “economic entity operating in more than one country or a cluster of economic entities operating in two or more countries - whatever their legal form, whether in their home country or country of activity, and whether taken individually or collectively” (UN, 2003). Legally it is possible to focus their description on few characteristics: they own, use and control assets across national borders and secondly the subsidiaries are bound to a centre of decision making power (Karavias, 2015)

By looking at statistics by the Eurostat it is easy to infer how massive is the impact of MNE on the European economy, in the European Union more than 47.000 multinational enterprises are present, and in more than 40.000 cases the decisional centre of the Corporation is located in a European Country. An interesting point that helps to explain the choice of using a large definition is that most of the MNEs are small and medium size enterprises, with 73% having less than 250 employees and 94% less than 2500 employees, so in this amount also the so-called pocket multinationals are taken into account; MNEs in Europe employed 43 millions of people during the 2016, 6.7% of which in Italy (Eurostat, 2018). Going deeper another point could be understanding the

size of MNEs compared with Nations: the answer could be surprising since in the top 100 countries and corporations by revenues it is possible to find 69 corporations and 31 States, with Walmart as the first enterprise raking at the 10<sup>th</sup> position, between Canada and Spain with its 482 billion\$ of revenues (Green 2016).

The reason why it is so important to look at some statistics is that now it is easier to understand why corporations have acquired such a great power and why Nations and International Organizations are striving to impose their regulative power over private economic actions. Since for every country it is important to attract MNEs since they bring with them jobs, innovations, relationships, development opportunities and other economic advantages during the last decades States progressively tried to attract FDIs by the simple way of undercutting the regulatory framework, so making their legislation on labour low on the rights and environment a basis for their competitive advantage in attracting foreign funds. In an article by Olney (2013) there is the empirical verification of the so called race-to-the-bottom. This concept is based on two main hypotheses: the change of location by MNEs in the case of stricter employees' protection and the tendency to lower juridical standards in the case that other nations are doing the same. The first hypothesis is confirmed, stronger in the case of vertical FDI: when a subsidiaries is dealing with raw materials it is easier to find another area that is plenty of the inputs needed compare to finding a new market in the case that the subsidiary main objective is to get in touch with strategic segment of the market or find some competencies for the company. The second point of the concept is verified as well since FDI flows are being directed to countries with low standards and at the same time other countries are undercutting their national labour rights in order to compete (Olney, 2013). Another way to name these two components of this vicious cycle is: normative dumping and social dumping. The former word is used in the case of States that are deregulating in order to attract foreign capitals, the latter instead is used in the case of MNEs moving from a country to another to exploit legislative gaps.

As it has been said before countries can try to grow by deregulating labour related issues: in an article by Azemar and Desbordes (2010) on the ways to attract FDI inflows in a developing nation it is possible to see that setting weaker firing constraints can help to increase flows of capital in the same measure of a labour cost subsidy of 20% of the total cost or a tax undercutting bigger than 50%. But an important effect of this is that

giving less protection against being fired will be translated into smaller average wages and less contractual power given to the employees since it will be easier to replace them. Some improvement on workers' conditions there may happen with an increasing numbers of firm competing in the labour market (but this is under the implicit assumption that the number of unemployed people in the area will be limited compared to the number of new jobs offered). FDI inflows and investments made by MNEs' can generate a deep dependence of a developing economy on the foreign capitals, these flows are preventing local SMEs from growing, and, as the ILO pointed out there's the need for the Country to invest into human capital, since the technologies imported by foreign firms will not be enough to cover the national development and to generate a sustainable growth, obviously incentives for investors need to be coupled with rules to set preconditions for an upgrading in value terms. For all of these reasons the ILO suggested a regional and national coordination over FDI, otherwise instead being an opportunity for developing nations they will be that for the developed countries' MNEs (Ernst, 2015).

FDI flows are not moved only by deregulation at workers and social rights level but environmental policy is a matter to be taken into account: as Shabaz et Al. (2015) in their paper tested the two hypothesis on this: FDI flows as helpers in the fight against the environmental pollution and FDI inflows as environmental danger. What they found out is that pollution decreases for higher income countries, after an initial phase of greater emissions but for less developed counties the situation is the opposite one: their less severe regulations are a magnet for the more polluting industries that by locating in those countries are able to avoid investments into environmental friendly technologies and energy-consumption optimization. Going further Kearsley and Riddle (2010) state that pollution is not going to decrease after that certain levels of development and income will be reached by the developing nation, in fact the study discovered the tendency of emissions and environmental pollution to increase slower if the country has started to develop and it reached a certain threshold but it will not start to decrease, instead the best hypothesis is to see them not growing more than a certain level. Once again countries that want to move upward towards the richer countries group need to be aware if they choose to deregulate in order to be competitive, instead it is far more important to set from the beginning borders on what damages a country can suffer to reach a more pleasant economic situation in the medium-long period.

An example of this kind of competition to lower standards can be seen in the Export Processing Zones (EPZs) that are areas, usually located in developing countries, where MNEs can take advantage from a different and less strict legislation, compared to the one applied in their western nation. For this reason the WTO tried to limit the discretionary State's power in determining the exemption given to firms in EPZs since, from WTO point of view, these areas were public subsidies to private firms so a possible vehicle of unfair competition; a different opinion has been given in the case of least developed countries that have the ability to create them, in order to accelerate their growth (Waters, 2013). A quite similar example may come from the Special Economic Zones, here with the same aim of acquiring FDIs by lowering standards, hoping to get nearer to developed nations faster and easier some countries experienced difficulties and frictions between the SEZ and the rest of the country or they went through unexpected negative sides. In India one of these special areas brought as consequences the exploitation of workers: MNEs paid them under the minimum wage and did not pay any extra-hours, this by hiring them through specialised agencies, the workers had a shorter notice period as well and women facing lower standards and going under layoffs easier than males. What emerges from this Indian SEZ (in the region of Gujrat) is that companies, if they are given freedom for it, tend to take advantage from leakages in the juridical systems and special laws can create a second class citizenship for people working in those conditions (Parwez, 2018). There can be environmental consequences as well, in the SEZ of Shenzhen (China), according to the study by Chen et Al. (2011) on the effects of the economic activities over the water pollution it has been possible to understand other downsides of SEZ. The pollution grew steadily from nineties to 2008: this was a consequence of the urbanization of the area from one side and from the greater economic activity on the other, this forced the Chinese government to revise its environmental policies in a stricter way. The reduction after 2006 could be related to a smaller economic growth, to the effect of new regulations or simply to the use of less polluting materials. The authors point out that other SEZs originated following the example of Shenzhen must be aware of the polluting effect of this rapid development and to start to set into place constraints to possible environmental damages since the beginning (Chen et Al., 2011).

Changing the focus from labour law to tax-related issues there is the famous case of tax havens: Nations that become the book place for a number of MNEs even if there's no

operation or production in those countries but only for reasons related to a cost efficient fiscal regime. As Palan (2002) finds out States are losing their battles to establish boundaries while economies are integrating and legal entities are moving in different areas with their self-serving aim to maximize their own profits. Tax havens are focusing on the lack of legal unity of multinational enterprises, this point will be clearer later, and these Nations are being part of the infrastructure of the modern globalization (Palan 2002). As Blanco and Rogers (2012) found there can be competition among these kind of fiscal regimes as well: there are findings of tax havens competing among themselves, if close one to another, in order to propose the best fiscal regime to attract FDIs, on the other side firms tend to choose situations with conglomeration economies, so preferring States with others MNEs present or a Tax haven near to another one with a great number of MNEs. The two authors highlighted that a part from these problems there is also the issue of the distribution of wealth and the equality: fiscal regimes attracting FDIs are helping to concentrate income and economic wealth, enlarging global inequalities. Tax havens are present inside the European Union as well and a famous case study in this sense is the Republic of Ireland, host of various American MNEs for their European subsidiaries.

Focusing on the MNEs side of the matter their improved power over the Nations brings with it a great influence over the public authority. As Rott (2015) is saying there is a strong need to prevent MNEs to start lobbying in foreign countries in order to get more open legislations and favouring their interests over nations' ones. By the American law foreign companies are not directly able to sustain parties and candidates but they are now doing this by acquiring an American based subsidiary, so by circumventing the law MNEs are able to influence politicians in one of the most powerful nations around the world, the author sustains that there is the need to use the veil-piercing doctrine in this case of situations, and this concept will be examined later. The same concept has been analysed by Ruggie (2018), he calls it the "instrumental power" that is the ability to influence political parties and politicians in order to give direction to national decision making process inside institutions. The result of this is the annihilation of the power of the citizen's vote, compared to economic elites and other lobbies: "is the nearly total failure of "median voter" and other Majoritarian Electoral Democracy theories. When the preferences of economic elites and the stands of organized interest groups are controlled for, the preferences of the average American appear to have only a minuscule,



near-zero, statistically non-significant impact upon public policy” (Gilens, Page, 2014). At the same time these groups are not being means to interpret majorities’ wishes but: “the net alignments of the most influential, business-oriented groups are negatively related to the average citizen’s wishes. So existing interest groups do not serve effectively as transmission belts for the wishes of the populace as a whole” (Gilens, Page, 2014). The second type of power exerted by firms can be defined as “structural power”: they can affect outcomes even without using their instrumental power. The structural power can be seen when companies are suing States in international arbitration (that are ending pro-MNEs with large percentage and there’s low interest towards human rights and more to investment agreements), they can set internal transfer price in order to pay lower taxes and to shift incomes through borders, companies can transfer their fiscal quarters inside tax havens and in a free-trade world it is becoming more and more difficult to keep traces of goods and intermediate products moving inside the same corporation but across national borders (Ruggie 2018). The third kind of MNEs’ power that Ruggie highlight is the “discursive power”, that is to “influence outcomes through promoting ideas, setting social norms and expectations, and even shaping identities”, basically a cultural influence, using marketing, associations and media to spread through the people the ideas they prefer in order to influence elections through their votes, an example by Ruggie is the favour faced by Reagan’s policies and the version towards Keynesian models and later the difficulties faced by Clinton and Blair to set rules and constraints over enterprises’ actions (2018).

### **1.3 The concept of stakeholders: an evolution from Smith to current theories**

Every firm has a series of stakeholders that can be defined as everyone that has some interest in the company and on whom usually the organization depends to be able to survive and to reach its objectives, including owners, customers, employees, suppliers, government, NGOs, banks, lenders and any other category with whom the enterprise comes in touch with its operations, at large it is possible to say the society (since there are narrower and wider definitions of stakeholders). There are contractual stakeholder with whom the relationship is ruled by contracts, laws and obligations and community stakeholder, not taken into account in a coerced way, including local community, lobbies and society (Johnson, Whittington and Scholes, 2014). A particular group of stakeholders are the shareholders of the corporation, for years scholars appointed them

as the only group of people the firm was supposed to care about. This is a way too restrictive and self-interested manner to address business actions, so in the contemporary environment firms at different levels and with different degrees of involvement are caring about their stakeholders, from a merely “pure obligations” to a more pro-active and strategic way.

Speaking about Stakeholder theory and management Freeman and Reed (1983) say that managers are confident into accepting stakeholders in a narrow sense (customers, employees, suppliers, shareholders) but most are not so willing to accept them in the wider sense (trade associations, public interest group, competitors, governmental agencies and narrow-sense group) but at corporate level the influences of forces and pressures are mainly coming from the second group. After this segmentation and definition at theoretical level there are various propositions with similar meaning: the corporation needs to involve stakeholders in its decision making process (Freeman, Reed 1983). There are other ways to segment and categorize stakeholders: they can be distinguished for their power, legitimacy and urgency: “a party to a relationship has power, to the extent it has or can gain access to coercive, utilitarian, or normative means, to impose its will in the relationship” (Mitchell, Agle, Wood, 1997), legitimacy is about the common feeling that the claim is desirable and appropriate in a framework of social constructed norms, the urgency is quite obviously about timing and pressure exerted by the stakeholder (Mitchell, Agle, Wood, 1997). In this view stakeholders with all three adjectives have great salience, the others, with just one characteristic, are usually being only dormant, and “the combination of two attributes leads the stakeholder to an active versus a passive stance, with a corresponding increase in firm responsiveness to the stakeholder's interests” (Mitchell, Agle, Wood, 1997). Then as process there can be the Stakeholder Strategy Process, which assesses how stakeholders can help or constraints the firm in reaching its objectives, starting from a behavioural analysis to understand their objectives and the needed strategic shifts or the Stakeholder Audit Process that is to analyse each group and assess the current enterprise strategy in its effectiveness on the impact with them (Freeman, Reed 1983).

One of the first discussions on the topic is coming from the economist Adam Smith, in its classical view the market is the ruler and there is no space left for public intervention, at least in most of the cases. Looking to less famous works by Smith (“Theory of Moral

Sentiments” and “Lectures in Jurisprudence”) it is possible to read one of the first theoretical justifications of the stakeholders’ importance. Smith is not focusing on the benevolence (purely discretionary and not required in his view) but on the fairness of the “game”, basically if an undesirable and unpredicted event happens to a supplier it is a moral duty from the firm to help him out. This is inside the larger principle of commutative justice: that is to use fairness in all the agreements and exchange among groups or individual, this goes beyond contractual base and obligations. A second point made by Smith is the distinction between perfect and imperfect rights, the first granted by law or by contract, while the second ones are those rights that should be upheld but that cannot be coerced by law. Smith sees justice as the collection of perfect rights and beneficence as the collection of imperfect rights, there will be trade-offs among one and the other, since to satisfy every imperfect right some of the perfect ones would be unattended. The final framework developed from Smith is that: “companies should seek to conduct benevolent activities only after justice and fairness have been secured for all of the company’s primary stakeholders [...] businesses should evaluate competing stakeholder claims with priority to those perfect rights that are usually housed in shareholder property rights, but with the contingency that these become subservient to other claims when harm has been inflicted upon other stakeholders” (Brown, Forster, 2013).

After this premises by Adam Smith the path followed by the capitalism has been quite different from a stakeholder focus: looking at the United States, where large modern corporations are rising during the end of the 19<sup>th</sup> century and the beginning of the 20<sup>th</sup> century, the most popular perspective among judges and scholars is the one that privileges shareholders’ interests over the community, at least for the aim of the corporation. A famous sentence to quote here is the *Dodge v. Ford* of 1919, in which two minority shareholders issued Henry Ford since he was not paying all the dividends to shareholders but he was using part of them to build better and cheaper cars and to raise the wages of people working for Ford. The Supreme Court of Michigan stated that “A business corporation is organized and carried on primarily for the profit of the stockholders. [...]. The discretion of the directors is to be exercised in the choice of means to attain that end, and does not extend to [...] other purposes”, making clear what was intended and enforced by the law at the beginning to the 20<sup>th</sup> century as the aim of a corporation (Stout, 2008).

During the rise of the 1929 crisis that reaped American shares of employment and gradually created more and more poverty the question on which is the objective of the enterprise was starting to change its answer: at the beginning of the Thirties a famous debate took place between Berle and Dodd about who was the owner of the corporation. Firstly Berle writes that managers since employed by the stockholders were supposed to act in the behalf of them and on their exclusive interest; his work "Corporate powers as powers in trust" written in the 1931 starts with "all powers granted to a corporation or to the management of a corporation, or to any group within the corporation, whether derived from statute or charter or both, are necessarily and at all times exercisable only for the ratable benefit of all the shareholders as their interest appears" (Berle, 1931). This view of the corporation depicts the managers as trustees of the group of shareholders and it leaves no room for other purposes, Berle, in the paper of 1931, finds out five power of the corporations management and he describes them as strictly serving the ownership: the power to issue stock but without hurting existing shares, the power to declare or to withhold dividends in the interest of the corporations but also of the stockholders, the power to acquire stock in other corporations if it done not to favour managers or other individuals, the power to amend corporation charter, doing it with equal advantages or disadvantages among all the group inside the corporation and finally the power to transfer the enterprise to another by merger, sales of assets or other but in order to benefit all the shareholder classes. Berle ends his paper with some concluding remarks, among these the most important for the topic of this thesis is the first one: "Whenever a corporate power is exercised, its existence must be ascertained and the technical correctness of its use must be checked; but its use must also be judged in relation to the existing facts with a view toward discovering whether under all the circumstances the result fairly protects the interests of the shareholder" (Berle, 1931). Dodd the following year directly addresses the point of Berle: "maximum stockholder profit was not the sole object of managerial activities has led some students of corporate problems, particularly Mr A. A. Berle, to advocate an increased emphasis on the doctrine that managerial powers are held in trust for stockholders as sole beneficiaries of the corporate enterprise" (Dodd, 1932). In Dodd's view the business is private but it has a public utility, stronger in some cases and weaker in others, so it is not all about allowing stockholders to earn as much as possible from their enterprise. There are industries with strong public utility where it is partly mandatory to discuss in the board about not

directly economic issues such as employees' safety, limits to mark-up, standards and similar but as Dodd points out inside the society a need for a larger responsibility is rising the public opinion is forcing the corporations to take into account customers, employees and society as whole in their actions, even if this responsibility is not enforced by the law. Dodd affirms that the industry leadership should be linked to duties towards those who are now called stakeholders, but he is sceptical that it will be legally coerced in few years (Dodd, 1932). The answer by Berle in the same year is nothing but a simple confirmation of his theories: there's no legal instrument to force inside corporations' mechanisms the interest of the society (Berle, 1932), then, some years later, Dodd replies that managers are moving from being trustees of stockholders to being trustees of an institutions and that he's starting to see some minimum legal requirement for customers and employees, but with it will still take years to have strong stakeholder influence over enterprises enforced by the law (Dodd, 1935). Later Berle accepts that Dodd's view has become widespread in the society and inside American legislation (minimum wage, collective bargaining, antitrust policies) but he remains doubtful about the correctness of Dodd's thesis (Macintosh, 1999).

Among the last and influent promoters of Berle's thesis there is Milton Friedman, who deeply influenced the policies of Thatcher and Reagan with his works (Cornwell 2006), according to him since employees are managing corporations they must follow the objectives of their employers, these objectives are usually profits and dividends but that can be charitable in some cases; since managers are men as well they can have different purposes and they can be responsible to someone or something else but in this way they become principals and no more agents. In this view by being responsible towards society they are breaking the contract they have with the corporation's stockholders, if it is not explicitly agreed with them. According to Friedman spending money for social responsibility and not for the interest of shareholders, customers and employees it is like to tax them and use this tax for others (Friedman, 1970). Summarizing using Friedman's words: "there is one and only one social responsibility of business to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud." (Friedman, 1970). After Friedman the importance of stakeholders has been broadly reinforced, Freeman has been one of the most popular authors in this sense: during the eighties he states that in a more dynamic environment

firm must take into account a wider and deeper list of stakeholder, going beyond the only group that has been taken into consideration during large part of the 20<sup>th</sup> century, the shareholders. Each stakeholder group can affect and be affected by the enterprise's goals and firms cannot think about going alone in that complex social fabric that starts to evolve since eighties. As key point Freeman underline that going against all the stakeholders will probably lead to court judgement, against governments or other groups, bringing costs to the firm and damaging its reputation (Freeman 1980). Another explanation given by Freeman for the rise of the popularity of stakeholder management sees this as a result of the movements during sixties and seventies for environment, peace, women's and civil rights that served to rethink the role of business inside the society (Freeman, Reed, 1983). More recent developments of stakeholder and shareholder theories are: stakeholder agency theory and stewardship theory. The first one is affirming that since each stakeholder is contributing to the corporation's life by giving some necessary means of sustain there are contracts and claims to be satisfied in order not to lose those relationships. Managers here are balancing conflicting demands and claims coming from outside with corporation's interests and they have to decide among an array of trade-offs, which particular stakeholders satisfy most and the extent to which they may exercise some self-interest to the managers' own objectives and careers. There are fiduciary duties to shareholders and non-fiduciary towards stakeholders, due to explicit or implicit contracts. The second theory is affirming that managers are stewards of shareholders, not promoting their own interests but pursuing the maximization of the corporation's value, this by generating profits and protecting and developing corporate assets. It is different from stakeholder theory since it is focused only on shareholders, any action that seems to be favouring stakeholders' interests is undertaken in order to maximize the economic value of the firm, so it is done in an instrumental and calculative way. This second theory is assuming the lack of opportunism by managers that are working only in the mixed interest of the firm value and the shareholders' return, so they would not exploit their greater quantity of information and decisional power to maximize their own utility function (Rausch, 2011).

A risk connected to the shareholder view is the excessive short termism connected to managerial decisions. The pressure at system level exerted by stockholders to enhance dividends and share value, up to augment the risk-seeking attitude by managers and putting the economy into an unstable position (Keay, 2011). Quite obviously this

shareholder pressure for short term has been driven both by more frequent reporting, so managers find it difficult to plan long term investments worthy but requiring periods of lower income generated, the use of measures of performance such as stock value, R.O.I. and similar focused on the value given by the market or on accounting values (yearly or quarterly measured) (Keay, 2011). Recent development can be seen in the PWC report on the FTSE 350: 87% of the companies recognize their stakeholders, more than 63% engage with them and the 30% actively links stakeholders with material actions by the firm (Pwc, 2018).

As sign of public value recognition of the stakeholders' importance for the survival of the enterprise and for a more ethic business world it is possible to take as example the UN Principles on Corporate Governance, particularly in Chapter IV. The OECD states: "The corporate governance framework should recognise the rights of stakeholders established by law or through mutual agreements and encourage active co-operation between corporations and stakeholders in creating wealth, jobs, and the sustainability of financially sound enterprises" (2015). Then the paper continues by suggesting that the rights of the stakeholders established by law or by contracts are supposed to be respected, if some rights are violated the corporation must provide a redress for that and that they should permit the development of the systems for employees' participation in the corporate governance (OECD, 2015). Similarly the second point of the Guidelines for Multinational Enterprises by OECD (2008) affirms that enterprises should take into account the views of stakeholders and "Contribute to economic, social and environmental progress with a view to achieving sustainable development", sustaining the role of the MNEs as deeply involved in the social framework of the communities where they are operating, then in the Commentary on the Industrial relations the OECD appeals twice for a larger debate and disclosure from firms to the local communities, with particular importance on environmental issues (OECD, 2008).

#### **1.4 Consumers and movements as particular categories of stakeholders**

While engaging in the economic activities enterprises are facing a multitude of stakeholders, as it has be seen before, but a key role is played by consumers and their organizations and movements; the impact a business can have is going to contrast or align with the reaction by the customers buying the outputs or the local communities; more than that often the most active or interested people are gathering consensus for

their cause in more or less organized movements that can be distant from politics and decisional power but still strong in their effects on the public opinion. At individual level it is possible to explain the importance of the moral attributes of the goods purchased by using a modified version of the Planned Behaviour Theory. The original formulation describes the behaviour of a person as the result of his or her intentions that are shaped by attitude, subjective norms and the perceived behavioural constraints (Ajzen, 2012). The formulation of this theory adapted for the use that it is needed in this case sees the addition of what the individual feels to be obliged to do or not to do in order to satisfy moral and ethics obligations to the other members of the community and then its own concerns about his personal moral views; respectively called ethical obligation and self-identity (Ozcaglar-Toulouse, Shiu, Shaw, 2006). This can help to explain the growth of the concept of fair trade both in labelled products and in ad-hoc groceries and shops; people engaged with ethical consumption are often prejudging the MNEs on a negative stereotype, preferring to them smaller producer and choosing not to buy in big mall even if they adapted their advertising to this growing market-niche (Ozcaglar-Toulouse, Shiu, Shaw, 2006). The size of the market is large, for the only United Kingdom it reached 87 billion £ in the 2017, with a steady pace of growth during the last ten years (it was 40 billion £ in the 2008) (Hancock, 2017) and it has to be regarded as well on the side of the purchase avoidances: the boycott campaigns. People can engage in the political consumerism that is the manifestation of the ethical behaviour into the buying decisions, it can be regarded as boycott and buycott. The latter is not that evident in the public opinion and it is what has been described before as ethical consumption, usually people trust a brand or some of them and they prefer buying from them. The boycotting consists of avoiding to buy and making demonstrations against a brand, trying to get the attention and the public opinion on the same side. This is happening to attract the attention of their peers since they are being ill-influenced by the common sense and the institutions, these voices can be detrimental to companies, being a people-driven negative advertising campaign (Neilson, 2010).

After having seen the issue at the individual level it could be useful to change the focus to what are the drivers and the ways used by collectives and movements when they decide to act in order to shape the firm's behaviour. Briscoe and Gupta (2016) define four categories of social groups that can form movements in order to influence a corporation, from the workers as internal, to shareholders and students at intermediate



level and finally as outsiders the Social Movement Organization participants. The outsiders are considered the most risky category from the point of view of the enterprise since the resource dependency is low: people not directly involved into the firm will be perceived as more authentic in their needs, they won't have any fear in inflicting serious damages, which can result both in losing reputational capital, disrupting of resources or routines, and they will be less feared about retaliation by the damaged. On the other side the managers of the enterprise will have to decide on taking or not into consideration the will of the group balancing the possible losses with their probability, they may as well decide to leverage on different stakeholders and segments for the future of the activities. The greatest lack that outsiders have is the knowledge of the internal cultures, routines, values and others that may result in inefficient actions, by not knowing the proper manners to induce the desired decisions (Briscoe and Gupta, 2016). The reaction by the enterprise can be on different levels: at the organizational level managers will have to solve conflict and protests by movements (like boycotts) while on a broader field level the public opinion is mobilized for campaigns and mental framing actions. At organizational level they can adopt a reputation management solution that can be expressed in two ways: reactive social initiatives to restore the previous situation and to defend the public image or to focus the attention on other campaigns and initiatives already undertaken but gone forgotten after the activists' attacks; or instead of reputation management they can borrow legitimacy by cooperating with other well respected organizations, like NGOs active in specific situations, in order to re-acquire the social permits to act. At field level the firm face a much larger public, confronting it as an institution in the broader stakeholder framework, people here can force the adoption of social causes simply by diffusing the importance of them in the public opinion, the society can influence the consumer behaviour that will result in an ethical consumption or avoidance of some products, the public can shape the employees' perception of a brand and so changing the workforce preference and making more difficult to find the right person or forcing a firm to raise its wages in order to retain the employees and finally some pressure can be exerted on the policy makers in order to raise up an issue in the political debate with the threat for the enterprise of a compulsory adoption of a standard instead of a voluntary base initiative (Georgallis, 2017).

Since the main focus here regards the MNEs it is useful to highlight that in the current scenario the interaction is a way more complex: driven by easy and immediate communication and interaction transnational activist movements can arise, in order to obtain stricter regulations or to advocate for humanitarian, environmental or other purposes or to act together against some corporate behaviours, with this there's the possibility that a decision in a region can result into protests and public demonstrations against the firm in other regions. At international level different movements may start to cooperate for "conflictive symbiosis", if a counterpart in another country or region is needed to fight the same institution or firm, after that some time is spent into finding a common strategy and message to spread, smoothing conflicting views and building on the shared points, then the convergence of the stranger movements will finally help into being more effective (Del Felice, 2012). Like Garcia points out the international activism is directed by endogenous and exogenous actors: the formers are "rooted cosmopolitans", deeply domestically active at community level, the latter are the "transnational activists" with a large knowledge of their nation's issues and the ability to raise them up and to attract the international attention. Usually the transnational networks arise for an unsolved issue raised by local activists, generally the main tactics are: information politics, that is persuading in order to make people act, symbolic politics, by relating common actions with human right violations in foreign countries, leverage politics, that is to influence powerful actors to take the desired decisions and finally accountability politics in which the powerful actors are held accountable for the wished outcome (Garcia, 2013). A corporation in this framework can decide to try to get the legitimacy of a "powerful actor" while joining into some of its campaigns, on the other side corporations will have to care about movements lobbying with other organizations in a way that may harm the industry; at the same time it will be crucial to evaluate possible new policies by a list of several different legal authorities under the attack from activists' lobbying campaigns.

### **1.5 The main International laws regulating the MNEs**

For the sake of simplicity and in the perspective of the following chapters of this thesis this paragraph is strongly focused on international organizations dealing, mostly or not, with labour and human rights, other institutions dealing with regulations on the MNEs

but addressing finance, taxation, accounting, environment and others will be demanded at other works, more specific in those senses.

The most famous international organization dealing with work-related legislation is the International Labour Organization, constituted in 1919 as an outcome of the Peace Conference of Paris, in the 1946 it becomes the first specialised organization of the United Nations. The preamble of the ILO Constitution starts by confirming that “universal and lasting peace can be established only if it is based upon social justice”, then in the following articles the assembly states the organs, entries, withdrawals, voting procedure, conferences and other aspects, basically all the principles of functioning of the Organization. The structure is composed by the International Labour Conference, the legislative organ, responsible for the elaboration of Conventions and Recommendations and the promotion of principles and labour rights (composed by two members from the government, a representative of employees and one of employers for each Member State). The second structure is the Governing Body that has the executive power, dealing with activities and preparing programme plan and balance sheet. Thirdly there are the International Labour Office, the permanent secretariat, and the General Director, who is the secretary of the ILO, an independent personality guaranteeing the ILO’s actions and the relationships with the member States (Brino, 2018). In the Declaration of Philadelphia of 1949 the ILO explains its aims and purposes, the first article states that labour is not a commodity, confirms the freedom of expression and association as necessary for the development, it declares poverty a danger to prosperity and then it appeals to the universality of the organization and to the tripartite and free discussion inside. The second article main concerns are the human rights to protect: “all human beings, irrespective of race, creed or sex, have the right to pursue both their material well-being and their spiritual development in conditions of freedom and dignity, of economic security and equal opportunity” and in the light of these rights the ILO should act and the national policies should be kept accountable for the respect of them. The third article is about the objective of the ILO’s action: among them providing full employment and raise living standards, ensuring working satisfaction and spreading the minimum wage.

A key aspect in the organization is the tripartite structure, by this ILO is able to involve in its decisional process members from governments, employees’ and employers’

organization so giving importance to every party in the economic arena and making its decisions more universal and shared. Tripartism is an institutional form for policy making, in which the government mediates between employees and employers, on a view inspired by cooperation and compromise and a reformist conception of labour politics (Bernards, 2017). This can be seen as a problem as well: the tripartism has been fixed since the birth of the organization while the world outside the ILO has been developing in a more complex way, so there is no presence of the civil society, of NGOs or cooperative associations, more than that some rights have been difficult to affirm since the balance of power was favouring employers' associations (for instance about the right to strike and freedom of association) (La Hovary, 2015; Baccaro, Mele, 2012). Other difficulties have been met in the cases of strong influence of governments over employees' unions and even more in case of dictatorships with not freedom of association; often the tripartism has been seen as a means to induce freedom in the members States legislations (La Hovary, 2015). Tripartism is not only causing delays but it has also been crucial in the development of the modern industrial relations; in western Europe and some other countries after the second world war the tripartism in the economic arena for labour rights and standards helped out to improve the employees' lifestyle to the modern standards but a downward pressure started since eighties during the recession. The increasing labour costs were no more sustainable without a solid growth: so the institutional framework started to creak facing different external forces (Simpson, 1994). The ILO claims the power of tripartism by defining it as "peak-level social dialogue involving governments and nationwide organizations of employers and workers can contribute to the formulation and adoption of social, economic and labour policies and can be applied to any decision-making that affects the workplace or the interests of employers and workers" (2018).

In the 1998 the ILO drafted the Declaration of Fundamental Social Rights, in this chart the main point is that the Conference links the membership to the ILO to the acceptance and respect of the fundamental social rights and the ratification of the main Conventions regarding them. The Conventions defending fundamental rights are those which are concerning: freedom of association and right to collective bargaining (Conv. n.87/1948. Conv. n.98/1949), elimination of all forms of forced or compulsory labour (Conv. n. 9/1930. Conv. n.105/1957), abolition of child labour (Conv. n.138/1973, Conv. n.182/1999), elimination of discrimination in the respect of employment and

occupation (Conv. n.100/1951. Conv. n.111/1958). If a member State has not ratified yet one of the Conventions related to the Declaration it is obliged to write every year a report about progresses and difficulties encountered in in the process and this, according to the ILO, is the occasion for workers' and employers' associations to raise up their voice and make their views publicly (ILO, 2018). This can be read as a strong commitment from ILO to this Declaration, recalling both its universal nature and its technical support purpose to member States.

The ILO in his battle against forced and compulsory labour is encountering a large problem in the developing and least developed States: the organization's focus is on forced labour (regarding 25 million people around the world) and forced marriage (15 million) together called "modern slavery" (ILO, 2017b). The main sectors of exploitation of forced labour are domestic work (24%), construction (18%), manufacturing (15%): about manufacturing, as the ILO points out, it is not all about small garments and footwear production, other types like medical-use gloves, telecommunications and technology are escaped from public attention. The type of abuse are: "excessive working hours and production targets, payment of high recruitment fees, illegal retention of passports, and in some cases illegal imprisonment and beatings of workers" and "male victims were more likely to be subjected to threats against family, withheld wages, confinement, denial of food and sleep, and threats of legal action. In contrast, female victims of forced labour suffered higher rates of sexual violence" (ILO, 2017b). Trafficking of human beings is not only linked to Asia or Africa: Europe is involved as well and it is often linked to migrants from lower income to richer countries, where they get exploited with higher profits than in developing countries (Hernandez, Rudolph, 2015). The second point that will be discussed here concerns children at work: the two Conventions on this topic aimed to set a minimum age to work and to abolish the worst form of child-labour. According to ILO's data at world level almost 10% of children (152 million) are working and 73 million are involved in hazardous work, with risks for safety, health and moral development, the trend since 2000 is a reduction in number: starting from 134 million involved in hazardous jobs at the beginning of this century some improvements took place (ILO, 2017c). This phenomenon is localized mostly (90% of the cases) in Africa, Asia and the Pacific; the agriculture is the first sector for child labour, while industry is accounted for 26 million, service for 18, but according to ILO these numbers will grow fast in the next few years with a global movement from

agriculture to more advanced productions (ILO, 2017c). ILO has the total abolition of child labour by 2025 as a project, in the same perspective of the UN Sustainable Development Goals. The two conventions on child labour are widely ratified, the Conv. n. 182 on the worst forms of child labour is now covering 99.9% of children and the Conv. n. 138 covers 80% of the kids worldwide, with respectively 181 and 170 member States that ratified them. The ILO actions, a part the cooperation with other international institutions, is focusing on this topic by suggesting and cooperating with Governments to rise up the minimum compulsory education, by doing so children will be obliged to start to work later and in the meanwhile with a better education they will have greater opportunities. The main concern in this sense is the lack of resources by public authorities to build up a proper educational system and by the families to afford materials and to live without the money earned by the working sons (ILO, 2017c). Going in details: the minimum age to work according to ILO is 15 years old, but there can be exceptions motivated by specific socio-economic situation of a member State that can lower it to 14 years old, but that member will have to report to ILO to explain the reason for this different standard (art2 Conv. n.138/1973); for jobs with risks for safety, health and moral development the minimum age is set to 18 years old (art. 3 Conv. N. 138/1973). Member States have largely ratified the conventions on discrimination (n.100 and n.111) but there are some problems in their effective application: the employees need effective way to voice against discriminations, there's the need of labour inspectors and a fair allocation of the burden of proof, in some cases discriminations on national extraction, social origin and political opinion are difficult to detect (ILO, 2011). On the other side large improvements have been guided by the European Union, by its directives every State of the Union has specific rules on race and sex discrimination, other States are conforming on various topic: marital status, maternity, age, disability. ILO has been focusing on inducing members to introduce minimum wages to reduce and eliminate gender pay gap and to apply quotas at managerial positions, in order to have a society more fairly in opportunities. After the crisis of 2007 the discriminations rose up, particularly about unemployment gap between immigrants and local workers, this has been helped by the fact that in harsh economic phases governments tend to focus on different labour-related topic than discriminations. ILO with its Decent Work Country Programmes (DWCPs) has started to work with governments to make them adopt various rules on each one necessities: so a

part from female entrepreneurship, female working conditions, equal employment and remuneration there have been programmes on workers with HIV/AIDS, protection of indigenous and tribal people and people with disabilities, with results measured every few years (ILO, 2011). A special mention should be made about gender pay gap, one of the main topics to address on the right of non-discrimination: some European governments (like Germany, Iceland and UK) are quite near to close it, thanks to some initiatives like certifications on same wage for men and women, compulsory report in which the firm explain if it has differences in its wage structure and the reason for them (ILO 2018b). There are not only gender related differences: motherhood can be an issue too, “mothers appear to suffer a wage penalty whereas fathers seem to be rewarded with a wage premium” (ILO, 2018b), this disparity can vary from 1 to 30% of the wage and the reasons are various: “gender-based stereotypes and imbalances in unpaid care work and family responsibilities, and may also be affected by the lack of adequate public provision in areas such as childcare services or adequate company policies on flexible working-time arrangements” (ILO, 2018b).

Another important act by the ILO is the “Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy”, firstly adopted in the 1977 and the most recent updated has been in the 2017. In this Declaration there are reference to an enhanced social dialogue, to the respect of the 1998 Declaration and to other charter on human and social rights. The difference compare to the 1998 Declaration is that the ILO is addressing also MNEs but as usual it is in a promotional logic; should be remarked as well the declared intention of avoiding law shopping on social rights (Brino, 2018).

ILO by now has as members almost every nation in the world, with this it has been a key player in the creation of the so called “level playing field” since these basic standards that have just been explained are present in a great number of Countries. ILO is helping to enlarge these rights or to reach these standards by its programmes and technical help. The greatest concern about the ILO is its naming and shaming policy towards non complying States, by not being a supranational institution with strong powers like the EU it has been confined to a soft law region, by which it cannot impose sanctions or force the adoption of fundamental standards and rights (Lyutov 2014). On regular Conventions: “The most extreme measure that the ILO may apply to the non-compliance of a member state with the international labour standards is provided in art. 33 of the

ILO Constitution. If the member state fails to carry out the recommendations, if any, contained in the report of the Commission of Inquiry, or in the decision of the International Court of Justice, as the case may be, "... the Governing Body may recommend to the Conference such action as it may deem wise and expedient to secure compliance therewith" (Lyutov, 2014).

While the ILO has as main subject the public authorities in order to create a level playing field for corporations the OECD Guidelines are addressing the MNEs, and, as stated in the Preface, they are: "are recommendations addressed by governments to multinational enterprises. They provide voluntary principles and standards for responsible business conduct consistent with applicable laws" (OECD, 2011). The first call to action by OECD to MNEs is a broad "Contribute to economic, environmental and social progress with a view to achieving sustainable development" (section II, let.a). The Guidelines continue by encouraging to have a greater social dialogue, respect local communities and fundamental rights, combat corruption and bribery, use of fairness when dealing with customers, comply with taxes, avoid anti-competitive behaviours and cartels, greater disclosure both of financial elements and of information connected to social and environmental risk and policy; the human rights section in its commentary recalls the "Respect, Protect, Remedy" of the Ruggie Report in its framework. The industrial relations are meant to be inspired by co-operation and social dialogue, with particular attention to representation and collective bargaining, the OECD suggests as well how much to pay the employees: "multinational enterprises [...] provide the best possible wages, benefits and conditions of work, within the framework of government policies [...] at least adequate to satisfy the basic needs of the workers and their families" (section V, art. 4b). The status of the Guidelines is not hard law, often they are quoted in tribunals and used as moral guidance, but until now they are not compulsory. A way for becoming hard law can be seen in their incorporation inside the national legal systems, by now they have been used as references by EU in some directives. What are legally binding are the National Contact Points: where Unions and consumers can issue MNEs and ask for a recommendation after the violation of the Guidelines, but as it can be imagined their decisions are not legally binding (Foort, 2017).



Moving to the United Nations it is possible to look at some of its actions: the Global Compact, the Sustainable Development Goals (SDGs) and the Guiding Principles on Business and Human Rights. The first two are quite connected: the Global Compact principles are “fundamental values that they should embed in their business” and the SDGs describe the destination towards which we want to go — time-bound, quantitative targets to work towards” (UN, 2018). The Global Compact consists of 10 principles to follow concerning 4 main areas: respect of human rights and avoid their violation, the fundamental labour rights of ILO 1998 Declaration, a precautionary, responsible and friendly attitude toward the environment and the work against corruption and bribery; the UN reports that more than 90% of the companies are adopting this principles in doing their business (2018). The SDGs are more various in their scope, from innovation and infrastructure to gender equality, from climate action to quality education, the UN affirms that the most adopted ones are Goal 8 on Decent work and economic growth (69%) and Goal 5 on Gender equality (64%), so they are still not fully adopted by the MNEs, probably because they have been in force since the 2015, quite recently compared to the Global Compact (UN, 2018). The policy used by the UN to spread the adoption of the ten principles is the naming and shaming: there is an compulsory yearly report to the stakeholder on principles’ implementation, violations are punished by a reprimand on the website and the insertion in the non-communicating list, after that an enterprise can be de-listed; it is still not hard-law but this can deeply harm a firm reputation, that can be a strong non-monetary sanction (Brino, 2018b). Indeed in an analysis on listed companies it has been seen that investors appreciate the disclosure imposed by firms complying with UNGC, it can act as a certification and a signal for the shareholders, while it does not require a fee from the firm and in some cases (like in EU) the requisites can be lower than the country legal standards (Janney, Dess, Forlani, 2009) The UN Guiding Principles on Business and Human Rights have been adopted in the 2011, using as basis the report by Ruggie and its three pillars: protect, respect, remedy, they “are grounded in recognition of: (a) States’ existing obligations to respect, protect and fulfil human rights and fundamental freedoms; (b) The role of business enterprises as specialized organs of society performing specialized functions, required to comply with all applicable laws and to respect human rights; (c) The need for rights and obligations to be matched to appropriate and effective remedies when breached” (UN, 2011). In the principles there is strong emphasis on the role of the States in

spreading and protecting the human rights and in checking and controlling the enterprises' actions, no matter about the size or nationality; the firms should comply with laws and respect the International Bill of Human Rights and the ILO 1998 Declaration on Social Rights, enterprises should apply the due diligence while operating, assessing if there's risk and how to avoid it and in the case of a damage occurred they should remedy to that. The remedy issue consists in the fact that "States must take appropriate steps to ensure, through judicial, administrative, legislative or other appropriate means, that when such abuses occur within their territory and/or jurisdiction those affected have access to effective remedy" (UN, 2011). As it has been explained in this section these international institutions have great influence and consensus but it is difficult for them to impose with hard law instruments the decisions and the rules they make, in the next section the focus will be on States, so dealing with hard law but in a jurisdiction far more restricted than the area of action of a multinational corporation.

### **1.6 Hard Law: trying to move forward from national jurisdiction**

In this section the main topic will be the hard law in human and labour right regulation at international level, as it was said before the main problem that the national authorities are facing when dealing with MNEs is the different geographic scope; nevertheless some cases of Countries that have been able to overcome national jurisdiction are present. One of the first in this sense have been the United States with the Alien Tort Claim Act of the 1789, its current version is the following: "The district courts shall have original jurisdiction of any civil action by an alien for a tort only, committed in violation of the law of nations or a treaty of the United States" (June 25, 1948, ch.646, 62 Stat. 934), this seems to make the US courts the proper place to discuss violations committed abroad. Its main points are that the plaintiffs must be a stranger, the tort must have took place outside USA and, under the current interpretation, it can concern both international law, treaties and customary law, the defendants can be both individuals or groups and of any nationality (Adamski, 2011). From the 18<sup>th</sup> century to the 1970s the Alien Tort Claim Act has been applied less than a dozen times, while since the eighties it has become popular again. A famous case under this law is the *Doe v. Unocal* (1996). The Unocal was constructing a pipeline in Burma and it hired local

soldiers to control the work, even if the company was aware of their record in human rights violations, the episodes happened saw the local population subjected to rape, forced labour, murder and similar. The Court decided that Unocal was not liable since it did not intend to generate human rights abuses, and then after the appeal by the plaintiffs the company decided settle the case privately giving compensation to the villagers (Adamski, 2011). After being called in front of the court Unocal developed an unilateral code of conduct putting the human rights respect at the centre and hired independent experts in order to monitor eventual violation occurred in the project (Shamir, 2004). The same law has been used to sue against Yahoo! Inc. in the 2007, here the violation was that the company assisted the Chinese government in the acquisition of information with the purpose of imprisoning two dissidents people that were using the US-platform to spread their ideas; the American justice here has been a way far more cautious, the political opinion on the Alien Tort Statute was that it could compromise the relations with other States, so the courts started to require a more explicit violation of human rights, that those rights were widely recognised in the developed countries and that the link with the company was direct (DeNae, 2008). Before the judge's decision Yahoo! decided to settle the case with the families of the two dissident: "Yahoo! settled the claim with the families of both dissidents. The terms of the settlement were not disclosed, although Yahoo! has promised to pay the plaintiffs' legal costs and establish a humanitarian relief fund to provide support to other political dissidents and their families" (Fielding 2008), leaving unsolved the debate on the scope of the Statute and on which rights were reasonable to protect. In these two cases it easy see how much MNEs fear the reputational damage of being judged as guilty of human right violations, the companies preferred to refund the families of the plaintiffs, in a way that could be said to be a reactive corporate responsibility. Two recent and interesting cases are the *Kiobel v. Royal Dutch Petroleum* and the *Jesner v. Arab Bank, PLC*. The first one is about Nigerian citizens calling to the court the company since after some protests by the local communities for environmental damages caused by the firm the local government reacted using the military force, the soldiers were responsible for beating, raping, killing, and arresting residents, the guilt of the company according to the plaintiffs was that it gave support and logistics for the military actions (Harvard Law Review, 2013). The US Supreme Court decided for a dismissal of the case, declaring that the Alien Tort Claim Act has not any jurisdiction outside the United States, according to them if there is no

explicit mention of foreign jurisdiction it is to be supposed that there is none; another issue reclaimed it that it would have been an interference with a foreign sovereign country (Harvard Law Review, 2013). With the last case, *Jesner v. Arab Bank* (heard in the 2017 and ruled in the 2018), it is possible to set as hypothesis the end of the foreign scope by the Alien Tort Claim Act, the plaintiffs are suing the Arab Bank since they have been victims of terrorist attacks and the Bank helped to finance those activities, going against the international law. "On April 24, 2018, the U.S. Supreme Court delivered a 5-4 ruling in *Jesner v. Arab Bank*, deciding that foreign corporations cannot be sued under the Alien Tort Statute" (Hamilton, 2018), the sentence affirms that the political branches are accountable to take decisions in the matter of foreign corporation and their liability under the US courts; another big issues is that American corporations would become sceptical about investing in foreign countries, fearing possible trials for human rights violations and this would harm as well the developing countries by slowing down their economic catch up with the western countries (Hamilton, 2018). In detail Justice Kennedy lists the three points by which it was not possible to have jurisdiction under the Alien Tort Statute: that act should be appealed as a last remedy, it could set in danger the foreign relations of the US and finally the specific case caused tensions with Jordan for anti-terrorist fight; by this the only hypothesis that can survive for the use of the Alien Tort Claim Act is on suing American corporations on universally recognised rights, but still with vague interpretations on the foreign jurisdiction (Harvard Law Review, 2018). In the US legislation it is possible to find also the California Transparency of Supply Chain Act of 2010, the main problem addressed by the ruler in this act is the slavery for economic production, it is applied to every retail seller and manufacturer that is doing business in California with a gross turnover exceeding 100'000'000\$. The means used by the law are the public disclosure and the effects of that to the public opinion: seeing the report by complying enterprises on the measures adopted to avoid exploitation in their value chains as a minimum legal standard and acting by "naming and shaming" on the non-reporting corporations, there's no specific action required but it is compulsory to publicly states what are the methods the enterprise uses to avoid trafficking (Greer 2018). A limitation of this law arises from the Dormant Commerce Clause, a judge-created doctrine limiting the State's power over interstate commerce, especially if it is seen as a way to reach an economic advantage it is per se invalid; it should be kept into place it there is a strong governmental benefit and no less

commerce-discriminatory way could achieve that interest (Greer, Purvis, 2015). The public reaction to this mandatory CSR disclosure is quite interesting: while NGOs and consumer organizations are asking for more detailed reports the investors are on the other side, at the beginning of the enforcement of the law the firms under its aim performed in the stock market below the average and then the negative performance persisted for some industries perceived at risk (like textile and footwear) particularly if large sized. The investors prefer a smaller disclosure since it is perceived as a risk for the consumer reaction on one side and on the other as a political and social expense from the enterprise (Birkey et Al., 2018).

Moving to the United Kingdom on the 26<sup>th</sup> of March 2015 the Queen gave the royal assent to the Modern Slavery Act: it establishes the offences of forced and compulsory labour, human trafficking and slavery, punishing them up to the life imprisonment, it helps to give some reparation to the victims even by confiscating the assets of the exploiters; there are as well some provisions that are aiming to the eradication of slavery across all the value-chain (Haynes, 2016). The part that addresses MNEs is the 6<sup>th</sup>, "Transparency in supply chains etc", the corporations are required to prepare an annual report on slavery and human trafficking, it is possible to say that it addresses MNEs since it requires the firms to produce this report including disclosure about "(a) the organisation's structure, its business and its supply chains; (b) its policies in relation to slavery and human trafficking; (c) its due diligence processes in relation to slavery and human trafficking in its business and supply chains" (Part 6, section 54, art.5, Modern Slavery Act), the report has to be public and available on the company website, must be signed by the owner or the legal representatives, the employees must be trained about modern slavery and human trafficking. From a managerial point of view this compulsory disclosure can be dangerous for companies acting in grey legislative areas or not properly overlooking the activities outsourced: "Failure to comply with the injunction can lead to an unlimited fine. Furthermore, the mandatory disclosure requirement will enable members of the public, employees, consumers and investors to make informed decisions about which organisations they do business with. Statements (and any failure to produce them), are likely to attract the attention of non-profit organisations and sections of the media that report on social and human rights issues. [...]The consequences of failing to take the issue seriously, in terms of damage to reputation and competitive disadvantage, could be significant" (EY, 2017). Even if this law by the

English legislator is a great step forward in the regulation on MNEs there is a problem underlying some of its implicit assumptions: even if it is required to a firm to report on all of its supply chain the limited liability could set a limit to the prosecution of human right violations, the corporate veil can create and hurdle in the addressing of the accountability, this can be take up to the point to see the Modern Slavery Act in its provision on the supply chain as a mere soft law on compulsory disclosure, not imposing any effective measure that the companies cannot surpass by using their separate corporate personality (Mantouvalou, 2018).

On the 27<sup>th</sup> of March 2017 France adopted the Law on the Duty of Care (LOI no. 2017-399 du 27 Mars 2017), with the main aim to address human rights violation by firms even if occurred in their supply chains, at the beginning the rulers tried to set inside a procedure to shift the burden of proof from the citizen harmed to the company but they did not have success in this objective due to an intense lobbying action by the economic world; this law had a difficult path to its adoption, including a ruling on its constitutional-compliance (Cossart, Chaplier, Beau De Lomenie, 2017). The law is holding large corporations accountable for what happens in their supply chains, in this case is not all about a simple reporting actions, they have a duty of vigilance on possible human rights violations, going to the text the plan written by the enterprises “shall include the reasonable vigilance measures to allow for risk identification and for the prevention of severe violations of human rights and fundamental freedoms, serious bodily injury or environmental damage or health risks resulting directly or indirectly from the operations of the company[...], as well as from the operations of the subcontractors or suppliers with whom it maintains an established commercial relationship, when such operations derive from this relationship. The plan shall be drafted in association with the company stakeholders involved” (ECCJ, 2017). The law states as well that any person who is damaged can ask for a compensation “for the harm that due diligence would have permitted to avoid” by the author of any failure to comply with the law (ECCJ, 2017). Being an obligation of process and not of result the burden of proof is lying on the injured party, so he or she will need to prove that the firm has been guilty by not applying the due diligence (Cossart, Chaplier, Beau De Lomenie, 2017). The historical step forward made by this law is in the obligations related to the reporting activities and in its strength: a part from the burden of proof there are juridical duties

arising from signing the report and non-reporting firms can be sued for negligence is the harm caused is related to the non-compliance with the law (Momsen, Scharze, 2018).

Moving to Germany it is possible to see how strongly the public authority received the EU Directive 2014/95, which aimed to a greater transparency in social and environmental information shared by the businesses. The Bundestag adopted a new provision in the Code of Commerce addressing large enterprises (with more than 500 employees, capital market oriented, balance sum exceeding 20 million € or total revenue exceeding 40 million €) in order to force them to draft a non-financial statement including in its topics: environmental consequences, employees matter, human rights respect, social concerns and prevention and fight of corruption. A missing or non-complying statement can result in a fine up to 10 million (according to the benefits enjoyed by non-disclosing and the size of the firm) (Momsen, Schwarze, 2018). Even if it is relegated to a transparency matter the way in which this provision is enforced can bring to an improvement in the human and social rights protection by making larger enterprises glass-palaces and reducing the grey areas of the business by forcing them to adapt and disclose, being obliged from one side by the public authority to inform and from the public opinion to act properly since it will be informed of that.

For what it has been seen in this paragraph the main attempt States are making is to overcome the limited liability of corporations and to hold them accountable for all the main violations all along their value chain that is to pierce the veil created by the corporation legal structures using liability limitations or to impose a duty of vigilance over the supply chain or over the suppliers. The limited liability has been initially conceived as a device for entrepreneurs to attract capitals and investors and to pose a limit to the possible debts incurred while doing business, with the modern globalization the enterprises started to look at this as the way to limit the risk, making it being borne by the single national subsidiary who was going to be fully responsible but only for its country (Muchlinski, 2010). Even if some cases of parent liability for subsidiaries' fault are present historically it is possible to note a certain reluctance by Courts into using an economic entity perspective to address the enterprise as a whole, instead it is possible to infer a certain path dependency into judges' decisions about the respect for what the company decided for its liability and risk separation on its legal structure (Muchlinski, 2010) and, at least in the American Common Law it appears to be unlikely that in the

future the veil piercing will be used to allocate torts and remedies beyond the corporate liability limitations (Miles, Holland, 2013). The due diligence was born during nineties for financial reporting decisions, has been then transposed to anti-corruption and fraud avoidance and during the last decades it has become the cornerstone to the legal act imposing transnational responsibility for human rights over multinational corporations. The concept has been adopted in some legislations with the purpose to render the headquarters of a company responsible for violations in the production of their output, usually by forcing them to control their value chain, assess possible risks, take corrective actions against them and avoid buying from suppliers involved into human and social rights violations; the due diligence has been recalled by OECD Guidelines and UN Guiding Principles as a standard to impose and as a flexible instrument to prevent rights violations. By now it has been adopted in different and blurred specifications: ranging from a remedy obligation in the case of a tort occurred to compulsory interventions in the case of risk discovered to a simple reporting duty with an informative intention (Martin-Ortega, 2014).

### **1.7 Social upgrading and downgrading inside global production networks**

Since the protagonists of this work are the Multinational companies is natural to introduce some issues and problems related to the international expansion of their production chains: in this section the focus is on the global value chains and the social impact of MNEs in developing countries. A definition of global value chain is given by Gereffi et Al. (2001): “those activities that are required to bring a product of service from conception, through the different phases of production – involving a combination of physical transformation and the input of various producer services – delivery to final consumers, and final disposal after use”, the reasons for the cross-border expansion of the value chains are various: acquiring scarce resources, finding a low cost advantage, being near to knowledge, skills or to the final market. Firms inside the system can choose to pursue the low road by trying to remain competitive by optimization, rationalization and low cost outputs, squeezing margin and profits or they can decide to take the high road and upgrading their competitive position, by innovations, higher productivity or a better quality (Bernhardt, Pollak, 2016). In this production related perspective what is called upgrading is the way in which developing and emerging economies can enlarge the share of values captured during the operations through the



firms operating there; suppliers and distributors can improve their competitive position in four upgrading ways: product, process, intra-chain and inter-chain upgrading (the first two involve improvements inside the functions already performed, the third one regards acquiring new functions, integrating or diversifying inside the same chain while the last one is about moving to other value chains in order to exploit the knowledge and means acquired) (Gereffi et Al., 2001).

From the production side it is now needed to pass to a social right related point of view: this requires to move from considering the labour as a production input, characterised by its costs and the quality and skills embedded in it to consider workers as social agents and taking into account their entitlements and rights as part of the instruments to enlarge their well-being. From this social point of view production networks and value chains are the economic side of a larger social environment, the economic perception of labour used to analyse the global value chain must be thought as embedded in a larger social dimension of labour. Social upgrading can be defined as the process of improvement of social rights and entitlements of workers and the enhancement of the quality of their employment, including working conditions, economic situation, rights and protection as well as the impact over the local communities (Barrientos, Gereffi, Rossi, 2010). Naturally the low road in this case can be a social downgrading, with economic actors experiencing lower wages and protections and the presence of MNEs and export clusters is and has been debated for its positive and negative effects. The wage determination from the economic theory can be seen as determined by the level of technology used for the production, under the neoclassical theory or as the result of social bargaining and interactions of employers and employees and their associations using the institutional theories. Since often economic and social perspectives have been analysed together it is possible to relate them: in the case of economic upgrading and a simultaneous social upgrading it will be a high road growth, it will be instead a low road growth if the economic upgrading is happening with social downgrading. Speaking about economic downgrading the low road decline occurs when it is coupled with social downgrading and high road decline if the economic downgrading comes with social upgrading (Milberg, Winkler, 2011). In a study by Bernhardt and Milberg (2011) it can be seen that in developing countries the economic performance for agro-food, apparel and mobile TLC/phones industries improved in 20 years (1990-2009) and in the meantime the social performance stands often on the opposite side with downgrading

or stagnation: in most of the cases the employment rates grew but no improvement has been seen on the real wages. On the tourism sector the story is the opposite: for this service industry the economic downgrading is coupled by a social upgrading. Since in this scenario the performance is consistent for industrial sectors in the same State across the industries it is possible to imagine that the social upgrading is related to some extent to the policies undertaken by each country and the internal dynamics of occupation and bargaining (Bernhardt, Milberg, 2011).

The problem of other actors interfering on the global value chain social performance is discussed also by Gereffi and Lee (2016): in what he calls cluster governance the public institutions and other collective actors are taking active role in the social upgrading, influencing procedures, standards and shared norms. According to the authors there are private, social and public governances interacting at horizontal (cluster) or vertical (global value chain) level: local governments influence the cluster from the public governance while WTO, ILO and other international organizations are acting at GVC level from the same governance category. In this categorization the private governance is the leading firm at GVC level and the local supplier/firm at the cluster level, local community and international community instead are the components of the social governance, both exercising pressure at different levels and facing different firms of the same GVC. Among the different ways indicated by this taxonomy (e.g.: multi stakeholder path if the social upgrading is generated by a large number of organization, labour-based path if rooted in local employees associations) two of them are the most interesting for the topic of this work: market-driven path and CSR-driven path. The first one sees as the protagonist the market: in this case the firms of the GVC are pushed to adopt better social standards to differentiate themselves in the final market, hoping to obtain a price-premium from the consumers, but markets may fail to provide a sufficient margin to responsible companies. There is the possibility that the market is not concerned with social issues and that the excessive price competition can exert a downward pressure on social rights (Gereffi, Lee, 2016). This market path will be more difficult to undertake for the rising share of value that the developing countries are acquiring in the global trade: from 2020 the world trade will be divided equally in North-North, North-South and South-South, while during the 90s 60% of world trade was inside the first category and 30% in the second one (Lamy, 2013), but as Gereffi and Lee said the southern market are, by now, less responsive to issues of CSR and social rights and they are relying more

on prices for their buying choices (2016). The latter path has its focus on the compliance with the CSR of the buyers, on the pressure by leading firms that are trying to avoid reputational damages by the disclosure of wrongdoings along their value chains; the complex side of this path is in the double demand expressed by the buyers, if from one side they require the compliance with some basic standards on the other side they are often asking for lower prices, forcing the suppliers to squeeze the margins and putting social protection and social rights at risk to contain costs. When the value chain is not that visible there may be no compliance pressure since the leading firms are not scared about the possibility that the public opinion comes to know what is the *modus operandi* of the suppliers (Gereffi, Lee, 2016). For what was seen until now analysing clusters of production in developing countries the economic development is not automatically or usually followed by a social upgrading, specifically a rapid development can lower the level of workers' rights and protection, examples of these clusters are the garment industry in Bangladesh, the footwear in Brazil and the leather in India (Pyke, Lund-Thomsen, 2016). Finally, even imagining a situation in which countries and suppliers are running in the present, suffering lower wages and downgrading in order to conquer a dominant position in the global sourcing for the next future MNEs and developed countries more generally are constantly investing money for research and development activities, including possible future changes in the productive combinations, with improved machineries and a smaller number of workers required. This aspect is confirmed by the fact that developing countries that have been the location for labour-intensive outsourcing are passing directly to being post-industrialized countries, this by skipping the industrialization phase, necessary to the development of a large middle class and for the growth in terms of wealth, inhibiting a path of growth capable of including a large share of the population (Berger, 2014).

Now, after seeing the theoretical framework, it would be useful to move to an observation on what happened concretely in some of the Nations that directly participated in the global value chains of the western MNEs. Looking inside Europe the most evident case is the expansion of western production to Eastern Europe for its lower costs, particularly for labour-intensive industries. This process undertaken during 90s and 00s made it possible for the western firm to send raw materials to eastern factories where they were going to be processed by local firms, this, from an economic point of view, inhibited the development process of a local system of production of

output, reducing the focus on manufacturing phases with lower value added compare to design, branding, marketing and distribution functions. Since 2004 it was legally easier for MNEs to produce in southern Asia: this reduced dramatically the share of production of apparel made by the former USSR Countries, they were able to gain back shares of production after that some companies decided to implement a faster production cycle, needing the production near to their final markets (e.g. H&M and Zara). With fast-fashion producers as the only market to serve remained for the area the eastern European suppliers often carried out double working time record, in order to make people work more than the maximum that the buyer's CSR permitted, using the fake records for legal purposes. In Romania and neighbouring countries firms started to use a skilled core labour force for higher quality production and flexible workers as buffer for extra-demand periods; for what it is possible to observe the first category saw its health and safety protection and work related rights improving over time, while more stretch was bore by the second category in matter of working conditions, anyway all of them experienced violations in the maximum number of working hours, since flexibility was the main competitive advantage these areas were able obtain. In this context social upgrading has been selective, there have been cases of private standards, set as CSR requirements but not extended to all the sub-region and often unattended since the buying departments have been far more interested in prices and margins compare than to follow the social statements of the CSR (Plank, Staritz, 2016).

As anticipated many companies during the first years of the 21<sup>st</sup> century moved their production to the Asian South East, about this change it is possible to consider the development of two countries particularly involved in the apparel industry: Bangladesh and Sri Lanka, according to the World Bank data the first one is producing 6.4% of world apparel exports and has its focus on commodities, the second one has a share of 1.2% of global trade with the focus on niche and fashion production, both countries saw the presence of MNE as buyers, with the production mostly done by local firms (Lopez-Acevedo, Robertson, 2016). While Sri Lanka adopted the ILO's Fundamental Conventions Bangladesh did not ratify the one on the minimum age to work and by creating Export Processing Zones the Country allowed weaker protection of the right of association and collective bargaining. In these two Nations the main finding is that the economic upgrading at firm level is often associated with social upgrading; firms dealing with relational governance with the buyers and with higher margins are adopting social

standards and implementing the CSR required by the market and by the MNEs that are doing business with them. In a captive network situation where the buyers are trying to keep the price as much low as possible since they are buying commoditized products with low to medium costs and skills, the moderate economic upgrading that the countries experienced in this category of enterprises (mostly small and medium size enterprises, with negative power asymmetry when dealing with big foreign buyers) has not been coupled by a social upgrading. In this low-skills segment of production suppliers are changed every 3 to 5 years, buyers are uninterested in leading the economic and social upgrade of the firm but their aim is to buy commodities at the lowest price in the market. Wages are kept at the minimum or below the minimum when possible, other kinds of protections and standards are not implemented since the final margin does not permit them. Anyway in both countries after some years the findings are that all the GVCs adopted at least written contracts and minimum wages; going from captive to relational relationships and to higher value added firms adopted differentiated wages for key-roles in the production and at the top level there are firms that adopted training programs, workers participatory committees and security programmes (Khattak et Al., 2017).

Another country that has been under the focus of the development of the fast fashion industry is Morocco, since the eighties it has been a destination for labour intensive production in the garment industry and it still remains a very important partner for France and Spain for geographical reasons. Since 2005 the country suffered the larger trade of Europe with the Asian South-East, local firms decided to move towards a more flexible production with higher quality in order to find a competitive advantage, at the same time producers changed their approach from a basic manufacturing operations over the inputs received by foreign MNEs to a more complete output production, including the selection of raw materials, adopting improvements in the design and other phases of the value chain but they have not been able to reach the position of full package providers that requires a larger base of knowledge and skills. Morocco is still not a top performer in human and social rights: in the sector informal contracts are widely used, there is a large gender disparity and local firms do not guarantee safe working conditions: for these and other concerns some European firms started from 2003 (and more strongly from 2007) to require the adoption of the Fibre Citoyenne that is a sector level code of conduct. Thanks to this standard required by the biggest buyers

and others actions and development programs undertaken by the ILO the local workers experienced a large social upgrading, rooted in a mix of institutional and market pressures (Rossi, 2013). Rossi (2013) found in her research that the local workforce is strongly segmented for the rights protection: the skilled workers have long employment history, they have the trust by the firm and often they earn bonuses over the minimum wage but at the same time unskilled workers are often paid less than the minimum wage, with no contracts and for short period of time, they are usually coming from the inner part of the Country and they are being used as a buffer for the higher demand periods in order to maintain the high flexibility required in the manufacturing activities. Particularly for these flexibility related requirements managers are unwilling to disclose the data on the ratio of regular and irregular workers and for what it seems they are adopting fraudulent practices with the purpose to maintain the standards of the code of conduct and being responsive to the market at the same time. In Morocco as well the economic upgrading has been followed by a social upgrading only for the skilled workers, resulting in some cases with a downgrading for the unskilled workforce; at the same time it can depend on the market they are selling to: for example English firms are more concerned with social issues compared to the Spanish ones (Rossi, 2013)

Another country suffered a social downgrading in the same industry as well: South Africa opened up its tariffs barriers in the 1994, adopting free-trade programs suggested by the GATT, then the local firms were pushed out of the market by low cost imported products from China and southern Asia, some of the local companies tried to keep the labour standards but they were forced to close or inducted to not comply anymore by a large number of local firms operating “under the radar” in order to remain competitive on the final price. Local workers experienced wages under the minimum amount set by the law and working conditions that were not complying with the required standards. A neighbouring Nation, Lesotho, instead was able to keep up with its standards and to grant the employment rate in its country, this by having from the beginning a cost curve for the employees lower than the South African one but being inside an unified free-trade area with the other country, Asian firms supplied from local companies or made investment there in order to sell in the African market. The main issue in this case is that Lesotho’s firms were larger and complying with all the country standards but at the same time wages and the minimum conditions were lower compared to the ones of the

neighbour countries, making local workers relying only on this arbitrage for their salaries (Godfrey, 2015).

After the theory and these cases it is now clear about the ambiguities and risks faced by workers and employers in the apparel industry all around the world, with possible social downgrading and upgrading after a single economic change in the scenario and with a delicate international competition on price and speed that makes the competitive advantage for companies situated in the lower segments of the market difficult to maintain in a changing environment.

### **1.8 Concluding Remarks**

The main evidences that come from this chapter are the following: the difficulties in building hard law systems able to regulate multinational enterprises, the ineffectiveness of soft law instruments and that market pull and production requirements are influencing the social rights sphere from the economic side. About the first point the Alien Tort Claim Act has undergone to some limitations and its past uses have been more a threat to MNEs rather than courts' decisions, moving the firms to find an agreement with the plaintiffs before the judge took his or her decision. Other laws like the Due of Vigilance of the French legal system and the English Modern Slavery Act are more compulsory disclosure rather than effective systems to control enterprises' operations and imposing real remedies to the people that suffered from firms' actions, especially in the French case the burden on proof allocated to the plaintiffs is posing a serious limitation over the real effectiveness of this provision. The soft law has been a powerful instrument for creating a moral obligation over Governments in most of the world countries in order to take measures against the hardest violations of basic, labour and social rights but, since the social interest has been for long secondary compared to the economic one in the agenda of WTO and other organizations, many countries did not ratified yet all the eight Fundamental Conventions of the ILO. There are as well cases of violations granted by the law like the Export Processing Zones. Going to a more economic perspective pressures have been exerted by the final customers over the MNEs in order to force them to adopt some social standards and the international cooperation among consumers associations helped in this sense. The market sensibility raised up the minimum level of protection granted also in the outsourcing facilities used by western corporations in some cases. This driver is not acting in all the industries and

in all the markets: some segments are more price-sensitive, making firms able to stay in the market even if they are exploiting cross-border arbitrage in the human rights protection. Finally the necessity of the production managers forced many suppliers to disrespect the fundamental social rights: in the lower-price segment of the market and the fast-fashion industry the need of flexibility and revenues even if the margins are small have driven the suppliers and the firms to hire temporary unskilled and underpaid workers, to not comply with the maximum of working hours per week and the minimum wage to pay; in the worst cases the safety and health conditions were under the minimum standards. For what it was seen in this chapter, due to the lack of effectiveness of the legal systems to impose the social right observation and to the economic pressure for a race to the bottom in order to enhance profits and to obtain an optimization of the manufacturing processes it is not possible to rely on the law or on the free market for a full respect of human and social rights. For this reason better working conditions should be relied upon enterprise's free decisions and upon the ethical consumption among final customers. In this sense enterprises will be able to run an upgrading process toward higher price segments on one hand and higher human social rights protection on the other, as it was explained in the last section: higher standards are often directly following improvements in the final products and economic upgrading in general.



## **Chapter II**

### **Corporate Responsibility from strategy to operationalization**

#### **2.1 Chapter Introduction**

The second chapter of this work will introduce the main theme of this thesis: the corporate social responsibility and the instruments at the disposal of the companies to deal with human and social rights and with the protection of the environment. While it is no more a question if companies should or not engage themselves into the subject instead the situation becomes different when the focus shifts to the choice of how to implement the strategy deliberated, each one of the devices can assure different degrees of legitimacy, reliability, internationality and adaptability. The first two paragraphs in this chapter will deal with the theory: the first one by discussing concepts about the position of the initiatives for CSR in the spectrum between hard and soft law, if there is any need for effective punishment after a violation of the CSR rules that a company gives to itself and finally the position that a strategy for responsibility can acquire inside the company, from an instrumental use to a model of company that is fully open and at the disposal of its stakeholders. Secondly the point will be on the triple bottom line, a perspective that sees the corporation going into three directions at the same time: the profit, the people and the planet, different goals to adapt for the same entity and the need by the board to find consistency among them. In the third paragraph the protagonists will be the codes of conduct, here it will be analysed the relationship between suppliers and buyers for the outsourcing production, then there will be some examples from the garment industry to focus the attention on the solutions that companies found in order to avoid scandals in their supply chains. Then the topic will shift to certifications: instruments that companies may use in order to give credibility to their actions, an external independent organization that verifies the adherence to a set of standards or procedures is going to be useful in order to reduce the information asymmetry in the dialogue between companies and stakeholders, the former ones will have greater legitimacy and stakeholders will be more open to accept what is stated by the firm if it is verified from outside. Finally the discussion will be on the social report: this last instrument can be adopted by MNEs in order to explain to the public opinion what are the achievement of the corporation in the various field of the CSR, while the

codes are the procedures followed and the commitments for the steps to take, the certification are verifications of what the company is doing, here the focus is on the explanation about the results achieved on the social and environmental sphere, giving people the numbers to rationalise, compare and judge the impact of the firm. The main purpose of the chapter is to give a framework and a base for the last chapter, see what are the best practices and the features of the instruments, at the end of this part all of the CSR landscape will be clear enough in order to proceed with the analysis of the two case studies that will conclude this thesis.

## **2.2 Definition of CSR and its main instruments**

The Corporate Social Responsibility can be defined as “the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large” (Holme, Watts, 2000), or by the UN as a “company’s delivery of long-term value in financial, environmental, societal and ethical terms” (UNGC, 2016). The UN Global Compact gives five defining features for a CSR: principled business, strengthening society, leadership commitment, reporting progress, local action. The first one is about complying with all the standards in human and social rights and other requirements while carrying on the firm’s operations, adopting the second feature means to go beyond corporate walls and to address the surrounding society, also by caring about resource scarcity, education and the general well-being of the communities touched by the firm’s value chain. The third aspect has its focus on the necessity of having the top managers and the board directly involved and committed to the company CSR initiatives, the fourth feature instead is calling for a larger reporting activity also on sustainability, generally stakeholders are asking to have measures and numbers of the impact made by a corporations over the society and the environment instead of pure values declarations. Finally the local action is focused on the different needs and sensibilities that different countries and areas are expressing, a firm that is acting in an international scenario must take into account that the different stakeholders will make different claims, for example if they are both workers associations but representing employees working for the firm in two different countries (UNGC, 2016). CSR is substantially different from charity and philanthropy: the firm here is assessing the impact of the corporation’s functions and of its economic strategy at large toward the

environment, the communities and the individuals that get in touch with the economic activities carried out by the firm (Haslam, 2007).

The CSR can be collocated inside the category of soft law: it is not based on the hard law principle of an enforced command and control action by the public authority, in this soft law perspective there's the self-regulation adopted by an enterprise, NGOs or similar or imposed by category associations but without that strong public power typical of the hard law. The frameworks in which CSR and hard law have contacts are the inter-normativity and the co-regulation. In the first perspective the playing level field has to be created by the syncretism in the action of different regulation sources with horizontal linkages connecting different regimes, overcoming barriers from the use of industry specific rules or from the lack of general principles. In this way a code of conduct may be the integration system between the trade and profit related purposes with a more general care towards the externalities created by the operations carried out by the MNEs, that otherwise would be not taken into account by the hard law instruments. The second of these two perspectives is the co-regulation: the aim here is to overcome the traditional dichotomies of the legal framework, like public and private, self-regulation and law or similar dualities. In this way in each couple the strengths of each component should be enhanced by integrating and combining the elements. This perspective accepts the non-public sources of law and it hopes for a greater shift from government authority to a "private-social" form of regulation (Perulli,2013). Making it more evident using the words of Perulli: "If the inter-normativity builds bridges and path among scopes and levels differentiated but interrelated of regulation, the co-regulation creates bridges and paths between devices, instruments and regimes of regulation" (2013). Going further in the second perspective it is possible to find in the CSR an instrument of private authority that has its source in the power exerted in the economic sphere by the corporation, indeed private authority happens when a corporation takes the lead in establishing norms, institutions, rules to shape the behaviours of the participants or affecting the opportunities available to others, the private and the public authority can merge into the public level and the private authority can demonstrate the same structuring level of the public one (e.g. cases of shared standards or industry codes of conduct). Private authorities can be seen as a way to increase the efficiency of an economic system by reducing the transaction costs suffered by the actors by the creation of standards, rituals, shared views where the governments are leaving to the people the

freedom of choice: in this sense the power is passing from governments to private actors by a “diffusion of authority”. In the opposite way it can be seen under a negative light using a neo-gramscian interpretation: a non-State regulation of economic affairs for a more flexible global production structure in the post-Fordist era (Rudder, 2008).

The power exerted by private authority, and CSR in this topic, has to find the legitimacy and the hegemony for itself, the second feature comes with the leadership acquired in three fields: political intellectual and moral. The first one involves integrating specific forces and their interests and making them repudiate other means, the second aspect is about formulating a large project by which it is possible to advance the narrower corporate interests as well, thirdly there’s the need for a policy paradigm in which conflicts over competing demands can be negotiated without stopping the overall project (Haslam, 2007). This hegemony requirement is fully met by the CSR: “it integrates potential veto players in civil society as “stakeholders”, establishes a flow of material resources intended to incorporate stakeholders, and advances a total world (economic) view which rejects the role of the State as protector of the community interest and channels all dissent into semi-institutionalised multi-stakeholder consultations managed by the firm” (Haslam, 2007, p.278). But the weak point of the CSR and self-regulation is the source of their legitimacy, they are not rooted in a constitutional chart, not in a democratic and public law-making process, they are not legitimated by other sources like the degree of expertise and authority used or the objectivity in pursuing their aims. The legitimacy is given to CSR by the lack in the public legislation that are implicitly allowing room for other sources of law (Scheltema, 2014): for example the deregulation of finance and other industries that took place before the 2008 crisis as a State-retreat has been followed by a larger self-regulation and a greater use of CSR instruments as a way from corporations to regain the respect and credibility to the public opinion and their final costumers (Perulli, 2013). This governmental delegation may stand at national level but it may not be acceptable to use this argument at international and global level; in this scenario it is possible to figure out as a legitimisation of CSR and similar initiatives the acceptance by stakeholders and other authorities of the instruments adopted: this is the case of MNEs adopting codes of conduct for minimum labour standards along their value chains and dialoguing with local communities, NGOs, workers associations and other stakeholders. Ignoring stakeholders may result in an opposition from some or all of them towards the

corporation's actions, while an inclusive approach gives to the enterprise a solid consensus base legitimation and it gives the possibility to discuss problems from an array of different views on the same topic, making the corporate governance able to consider different solutions or potential harmful side effects that would have been otherwise neglected (Scheltema, 2014).

These harmful side effects are the economic base to find a reason for the CSR: the actions undertaken by most of the firms may result, faulty or not, in negative externalities over the local communities, and costumers generally, negative externalities are costs that are arising by the consumption of a certain good, in this case they can be an excessive pollution created by the firm's activities or the decrease of wages by the competition among local workers or other similar improper effects rising with no intention or no direct action from the corporate operations. Sometimes externalities may require a normative assessment if they are negative or positive, for example a diffusion of western culture and manners in a Middle East country that is happening after FDIs from US or European MNEs may be seen as a modernization in a positive sense or as a disruption of local tradition in the negative counterpart, requiring a decision on the moral and ethical base for externalities categorization. These effects can be included inside the broad category of market failures: indeed people or other organizations are suffering costs that should be allocated to the enterprise, to alleviate this malfunctioning the firm or the government should find a way to reallocate costs and benefits in order to have a situation more similar to a perfect market allocation of them (Crouch, 2006). The problematic issue here is that a firm, whose main intent is to maximize its profit, at least for a strict economic perspective, should be taking into account externalities and provide remedies for the affected people or communities even if it is not forced to do so by the public authority, so to impose to itself lower profits for an ethical responsibility. A theoretic point that can be used to include inside firms' decision making processes an interest towards CSR and the externalities produced is the social governance: specifically every firm is comprised inside a larger community, made by other firms, the local communities, governmental institutions and similar that impose a pressure the firm's board to the entrepreneur in order to make the decisions taken by that economic actor in line with the larger common interest, or at least not allowing it to inflict a too great damage to the others. A firm may have economic interest into the adoption of best practices for human rights, codes of conduct and other CSR initiatives:

markets are not only implicitly regulated by prices, there are features that may worth market recognition by an additional willingness to pay by the consumers or the mass market may require some minimum standards that may become the minimum to offer to stay competitive. The corporation in this sense should pay attention to actual requirements and to what will be necessary in the next future in order to anticipate the minimum requirements of the medium period: build their reputation and be ready before the other competitors for the customers. This will help to be more future oriented even if the firm in most of the cases will sacrifice the profit maximization in the short run; this could be anyway a rational choice since it is implementing future cash flows and doing this it is also augmenting the economic value of the firm (Crouch, 2006).

In practice there have been various attempts to validate the negative or positive linkage between CSR performance or broader an ethical behaviour by the firm and its market capitalization, its ROI or other measures of financial and economic performance. In a study on the best-500 Indian firms it was found that there's a strong link between the CSR investments and the firm performance during the next year (Rajput, Batra, Pathak, 2012). Another study has taken place about the relation between the certification of CSR investment, the pay-for-CSR-performance given to managers and finally the market performance of the firm: the resulting situation is quite complex, while investments on CSR are appreciated by the market, it is seen positively paying the managers for it since it is going to align the stakeholders' interests with the managers actions but it will increase the risk of opportunistic behaviours leading to overinvestments in order to increase the wage. The best result for the shareholders to increase the stock price of their firm is to have investments on CSR actions, possibly over the industry average but at the same time there's the need for some form of assurance or certification, in order to make it credible even if the managers are getting benefits and extra pay for that (Brown-Liburd, Zamora, 2015). Since some studies have shown a consistency between efforts and investments in CSR and a better corporate financial performance or an improved stock market evaluation of the shares it should be rational to ask what are the conditions that are regulating the positive or negative results of these expenses. A longer study from 1995 to 2007 Tang, Hull and Rothenberg (2012) gives an idea of the dynamics regulating the relationship between CSR engagement and the corporate financial performance: a firm has a certain pace in its investments in responsibility, this should be not a way too fast, since diseconomies can arise by investing too much in a

short period of time or too fast without allowing the firm the necessary time to adapt its internal capabilities and to fully understand and exploit the asset and knowledge acquired; the second feature is relatedness, that is the similarity among the means and strategy used in the firm path for its CSR; the third point is consistency that regards a continuous, systematic and regular engagement for CSR, not an ad-hoc solution for some reputational damage that occurred to the company. The findings here are confirming that companies investing in CSR in a consistent and related manner are the ones that are benefitting from these expenses, so what it is possible to add in this discussion is that CSR-expenditures can be a profitable investment for businesses but the caveat that should be done here is that a firm has to choose which one will be its main scope of action for sustainability and responsibility initiatives and it will have to put into place continuous efforts across the years in order to make itself and the relative CSR actions more credible and to reinforce its reputation among costumers, especially if the firm is dealing with a sensible final market (Tang, Hull, Rothenberg, 2012).

After having seen the legal, legitimacy and economic perspectives the last one to be cleared is the ethical point for a CSR strategy implementation: over the years philosophers and theorists had different opinions about the obligations allocated to a firm toward its stakeholder. About the topic of accepting or not a view of an ethical behaviour of the enterprise, resulting in the adoption of CSR practices, there are four different categories of thoughts: the opponents, who are saying that any business must only think about its own economic profit, a part from Friedman, already quoted in the first chapter, here it is possible to find Von Hayek, who stated that it would be subversive to have groups of people exerting pressures and claims to an individual that is trying to realize himself and to achieve his goals (giving for granted that everyone has the aim to achieve the greatest profit possible). The second group is made by the distrustful ones, who are not believing that there could be space for ethical actions from an enterprise, in the case those would happen only for an economic return of some type, they see morality and business on the opposite side of the spectrum and there's disdain for the actions taken in order to make it seem that an enterprise is sustainable. Thirdly there are the cynic opportunists; who think that business and ethics are not on the opposite side, on the contrary a firm should put into action some ethical behaviours in the case in which there are economic benefits, for example tax reduction after a certification or apply certain standards because the controls needed for them are

benefitting the firm at operational level. Finally in the fourth group there are the optimists, here the sustainable behaviour can be positively related with the financial objectives of the entrepreneur, in a win-win perspectives that sees the firm as a synthesis of economic and ethical trajectories. A problematic point is the following one: while ethics and morality inside communities are verified by the punishment following an action that is considered unethical or immoral by the law, there is the need for a codified system that tells what the acceptable behaviours are. If this assumption stands for the life in a community some matters are arising for the business ethics, considering that they are self-regulating mechanism or other instruments inside the larger soft law scenario there is no punishment established for a violation to these ethical provisions. What is possible to infer on the CSR is that the individual is taking care of the consequences of his/her actions by the silent agreement that's binding him/her to respond towards the community of the actions that were undertaken after a choice of his/her free will. Using the lenses of philosophy the main conclusion is that the corporate social responsibility and the strategies for sustainability are the means used by the firm to take into account issues not covered by codes and laws of the nation or the community, they are not overlapping but completing each other (Capodivacca, 2013). Basically even if CSR and sustainability issues are often referred as business ethics there is no obligation rising over the enterprise and once again CSR remains a voluntary decision; on the other side all the requirements and legal minimum standards that an enterprise must satisfy by hard law instruments are in the domain of the ethics (e.g. ILO Fundamental Conventions).

After having seen these three main points of view over the topic it is possible to treat it from an internal perspective describing how a MNE can relate itself to CSR, its aim and its instruments. From a less to a more responsible and sustainable behaviour and state of mind a firm may pass from the laissez-faire to an enlightened self-interest to forum for stakeholder interaction and finally to a shaper of society approach. The first one has the respect for the law as its principle, making the firm being the investment to reach profits, the employers adhere to the legal requirements while they are implementing strictly financial strategies, stakeholder relationships are unidirectional and consider at the margin of the enterprise's scope of action. The second approach recognizes the long term advantages of a proper management of the relationships with the stakeholders, this interest for them is seen as rational since its economic returns over time, often



there's the adoption of the best practices and an engagement in a flow of communication towards the stakeholders; example of this approach are companies giving benefits to their employees since they are improving retention from an HR point of view. Thirdly the forum for stakeholder interaction approach sees in the firm the obligation to incorporate expectations and interests of the stakeholders, results should not be assessed only on a financial base but other values should be taken into account (the triple bottom line would be an example of this mentality), the reduction of the financial profits in a certain measure could be understood under the light of a greater social welfare. By this approach CSR themes are discussed in the board as well and often some structures inside the organization are built up with the purpose to deal with these topics daily, in this perspective the strategies will take longer to be chosen because managers will need more time in order to discuss and decide on trade-offs among different objectives and the various impacts that those strategies may have on the different stakeholders groups. Finally the shaper of society approach states that financial aims can be regarded as secondary or as limiting the enterprise in its true aim: to change the society and its governing rules; in this case the relationships with other firms, NGOs, associations and institutions are vital both for the surviving of the firm and for its objectives. A limitation to this approach is the second rank occupied by the profitability so often it is implemented only by non-listed firms that do not have to respond to shareholders pressures. An example of this last approach may be public utilities or services, the aim is to upgrade the living standards of the local communities while often the financial stability is reached by the intervention of the public authority that supply the money needed (Johnson, Whittington, Sholes, 2014). Leaving aside the first and the last approach the other two are worth attention since they are economically sustainable while keeping in mind that stakeholders nowadays have a strong impact over the firm's performance, on the other side these two approaches are trying to achieve a win-win situation, with a different focus that can be more directed to the CSR or to the financial statement.

### **2.3 The Triple Bottom Line: moving forward from the economic level**

The triple bottom line has been often used to refer to the concept of sustainability but it can be seen instead as a framework in order to set the strategy of a company to direct itself to it. The concepts and definition of CSR and sustainability are slightly different:

while the second one can be defined as the ability of being financially profitable in the present while not compromising the future of the firm. The concept of time that it is the base for sustainability can be applied to the R&D department of a company, to its scarce resources but also to the strategy conducted toward the workforce and the surrounding communities and environment; in any case there is the need for a trade-off between different periods of time. In this perspective CSR and its instruments are mainly regarding the resolution of the issues arising from the conflicting demands that different stakeholders are making to the company, the focus on the current stakeholders may results in the obscuration of what may become the future needs. In this sense the concepts are different and responsibility may be seen as a content of the larger matter of sustainability, with CSR focused on the short-term and sustainability on the longer horizon, at the same time what it may be responsible and sustainable in the short period may not be sustainable in the longer run, for example charity donations are responsible but they may be not help a community to grow in the long term if they are not made with precise goals. To properly face the issue of sustainability managers have to avoid short-termism in their decision making routines and the strategies of the company have to be analysed in a dynamic perspective in order to understand the problems that may arise in the trade-offs between the present and the future periods (Bansal, DesJardine, 2014).

The triple bottom line is a concept, firstly used by Elkington in the 1998, that can be seen as the operationalization of what it is intended for sustainability, in this view an enterprise has three different performance indicators' groups that will be used to analyse its results: "the triple bottom line concept suggests that firms not only need to engage in socially and environmentally responsible behaviour, but, also, that positive financial gains can be made in the process" (Gimenez, Sierra, Rodon, 2012, p.150), so these three bottoms are expressing the needs on the financial, social and environmental issues. From this perspective the only way to achieve a sustainable development for a firm is to have at the same time the social, environmental and financial performance: otherwise if anyone of these is neglected or insufficiently developed the corporate performance on the triple bottom line will have flaws (Fauzi, Svensson, Rahman, 2010). The three bottoms have been proven to be related by a field research by Svensson et Al. (2018) in which they discovered that economic aspects have a great impact over the social sphere while their effects over the environment are limited, on the other side the

environment is affected mostly by the social side (elements like the corporate culture, reputation, commitment). While the ways in which the companies decide to act it is largely dependent on the local culture and the firm's strategy the ways in which the three spheres interact is consistent beyond borders (Svensson et Al., 2018). In another study by Gao and Bansal (2013) the relationships that were found are in the opposite sense: the corporate performances on environmental and social issues are positively affecting the financial results on the capital market. The two main things to care about are firstly that the companies to fully exploit the benefits deriving from actions on the social and environmental spheres should communicate properly with their stakeholders in order to be sure that they would appreciate them and secondly that stakeholders are attacking strongly a company that is performing negatively on those sides rather than compensating it for good initiatives. For these reasons while the first attention should be kept on the risk and how to prevent them to happen companies have also to allocate resources on their communication departments in order to establish a dialogue with the public opinion on the initiatives that the company is undertaking to be sustainable (Gao, Bansal, 2013). This view has to be interpreted in a dynamic perspective, continuously checking the congruence between the expectations of the internal stakeholders and the external ones; more than that the other point is the congruence of the objectives and of the ways to measure those across time while the context for people and environment is changing. The other need by the enterprise will be to synchronize carefully the objectives on the three different directions, since they will be conflicting in a certain measure. Another point that the management has to address is the shift that the triple bottom line is bringing to the enterprises, they are passing from being business oriented to be at the same time business, socially and planet oriented (Fauzi, Svensson, Rahman, 2010). The need to add to the financial goals other aims for a sustainable business is a request that comes from the stakeholders of the enterprise but it is not simple to fit these different directions inside the same strategy: this is what is called a wicked challenge, it is difficult to define, multi-causal and with interdependencies, it generates conflicts among stakeholders perspectives, it is crossing the boundaries of ecological, social and economic spheres, it demands complex judgement in the face of an high-stakes game, it is related with chronic policy failures (Eskildsen, Edgeman, Neely, 2015). Under this view the whole competitive position has to be renewed: indeed crossing the resource based view (in which the competitive advantage of a company has to be found

in its resources and the different combinations between them) with the triple bottom line a valuable resource now it is no more evaluated profitable only for the enterprise's needs but it has to be valuable also from a social and environmental point of view. Since in any case the final consumers will have to pay for the damages to the environment or to the people provoked by the production of goods it makes sense from the point of view of the enterprise to take this into account before and to produce sustainable good, then they will have to explain to their customers their choices but if they will do it properly they will be able to charge a correct price as well. The inimitability of the resources at the base of the competitive advantage is losing its importance: companies, if sustainable, are more open and willing as well to explain their costumers about their procurements and processes. Disclosure in this sense can help the competitors as well but differently from other models the main focus is no more to enlarge each one's share of the market but the total market and then the shares, the focus shifts from competition to co-competition (Glavas, Mish, 2014). The concept of co-opetition has been used also by Elkington (1998) in an early stage of the development of the triple bottom line theory; to fully understand this view the firm has to be looked as embedded in the social and economic framework, made by its partners, competitors and stakeholders. In the current economic world there is the need for partnership, that can be with customers, suppliers, distributors or even with competitors, the main rules in this way are to add value, build trust and take into account different perceptions (Elkington, 1998). A part from when they are dealing with their business models companies face different issues also when they sell products in the final market after that they have adopted sustainability as a principle in their processes, companies will be worried about the information asymmetry in the exchange with customers: the focus is on the third-party costs, usually neglected in the traditional business while here companies will do their best in order to increase the information symmetry with the customers. The issues that may arise in this sense are concerning both the presence of intermediaries between the firm and the actual producers of raw materials on one side and on the other side the necessity of setting up a process in order to explain to the consumers how the firm has been acting in the social and environmental sphere; this may be done by non-financial reporting, certifications and codes of conduct. In this way while acting with the final market companies will have also the role of giving information and educating the market: both with the intent to diminish the asymmetry and to enlarge the total market

but also to build trust among their buyers, since more information can allow customer to give more trust to a brand. Particularly the certifications that are visible on the final package of the product are the ones that help the most to educate final costumers and to make them understand what it is the total cost of production of what they are buying (Glavas, Mish, 2014). Companies are facing different issues on the environment that is surrounding them: a main point is the relationship with the NGOs, firms have to try to be in a partnership with them in order to build a reputation among the customers, at least for those that are interested into sustainability issues, and to use them as vehicle for their advertising campaigns linking the brand with some social or environmental initiatives. The shift in the responsibility context for the companies is that while NGOs are structuring themselves more and more like business, hiring people with managerial skills, firms can hire people from NGOs in order to exploit the skills they acquired in some specific issues faced with their previous organization. The challenge against the rising influence of NGOs is faced also at CEO and board level: the institutional context of firms is changing, moving from the old authorities derived from public power to the increasing legitimacy and authority that NGOs and other associations are acquiring also in the economic context, being able to shape the perceptions and preferences of the consumers (Elkington, 1998). The structure of the corporate governance itself may have impact over the performance in the realm of sustainability: firstly the presence of independent directors has positive results for the indicators on the social and environmental performances, this is happening because they alleviate the issues arising from the agency relationship between shareholders and managers. In a similar manner the fact that the chairperson of the board is different from the CEO helps to reduce the power of the agent and to give more power to the control exerted by the board. The diversity among the people sitting in the board helps to face the social issues of the triple bottom line, because there is the possibility to understand the same situation from different perspective, for example about the gender-gap, while it is irrelevant for the environmental issues. Finally the corporations that are dealing in the best way with their stakeholders have a CSR committee and the board that meet quite frequently: while the first characteristic allows to have a constant dialogue with the groups that the company has to deal with the second one can allow to discuss in the board about corporate sustainability since there is more time spent in board-meeting from the top-executives over one year and so more topics that can be discussed (Hussain, Rigoni, Orij,

2016). With companies under internal pressure to use triple bottom line as a marketing device and under external pressure by stakeholders asking for a more responsible behaviour on the business it is on the owners to impose the sustainability direction over the managers. It has been seen that for the implementation of the triple bottom line a great help comes from the pay structure of the managers, on the top levels but also lower in the hierarchy, then from them the sustainability principles will permeate the rest of the firm. At the CEO level the pay focused on short-term bonus is strongly related with a low performance on sustainability parameters and also with the risk that the present incentives will drive the managers to undermine also the factors that may bring results in the next years. A critical point into setting a triple bottom line mind into managers is represented by the agency theory: under this view there is not the simple linear relationship between the principal (the governance of the firm) and the agent (the management) since the objectives are divided into three categories there will be the need for the multitask agency theory, in a situation in which the direct supervision would be a way too much expensive the task of the governance is to design a proper incentive scheme. In this branch of the agency theory the principal will have to set multiple different tasks which will compete for the managers' attention and then for the allocation of their efforts. The governance of the firm will have to find the proper performance indicators and the power for each one of the incentives in order to obtain the desired actions and results. A turning point in this sense will be to enlarge the time horizon over the financial year and the market performance since the sustainability for social and environmental sphere is impossible to judge in a short-term horizon. While for top management the problem can be solved, at least to start in this direction, with stock option plans set on medium or long term horizon for the middle management it will be necessary to set performance indicators on sustainability since to them the appeal of stock option will be smaller given the narrower impact of their decisions (Merriman, Sen, 2012).

While the triple bottom line in its original formulation is a concept quite old it acquired importance again with the introduction of the industry 4.0: indeed the industrial revolution has among its feature the sustainability: this can be realized using the new technologies and machineries, internet, big data and others in order to realize the big shift from the traditional factory to the smart factory. On the environmental side the most direct impact of the industry 4.0 will be dealing with the reduction of waste in raw

materials and with the optimization of energy consumption during the production by a previous analysis and a consequent decision, balancing energy and CO2 emission savings with the business needs. On the social sphere of the production the first big impact is on safety and health on the workplace, in the new factories seems that there are fewer incidents, also since there is greater automation the jobs are less labour intensive, from the business perspective this can help to boost the morale of the human resources. On a field research after seven years of the implementation of innovations in production, prototyping and design phases there are results in all the three direction of the triple bottom line. From an economic perspective the main improvements were on the shortened cycle time and time to market, a smaller rate of defects and damaged products, an improved control over the orders and more than that an increase in the EBITDA. For what it is more important for this work instead there have been results as well: on the environmental side there was the reduction of energy consumption and raw material waste, an higher use of renewable energies and the improved design and prototyping phases allowed the firm to think new environment-friendly products. On the social side the firm saw the reduction of diseases on its workforce by having the process automated, workers were empowered and there were opportunities for training on new competencies (Braccini, Margherita, 2019). This in not far from one of the case-study that will be discussed in the last chapter of this work, indeed Benetton in the 2015 decided for a re-shoring of a fraction of the production in Italy, using the model of the Industry 4.0, while it is not largely spread in the garment industry this Italian example allows to think about it as possible to adopt. (Vallin, 2016)

This perspective has been analysed here in order to give structure to the business case discussion on the last chapter and for its great relevance in the development of other CSR instruments or manners, an example is the Global Reporting Initiative that it is structured on the three dimensions, shortly it gives the possibility to use a broad framework to distinguish the directions of sustainability and analyse a performance. On the other side it is not coming without inherent issues. The problems arising from the use of the triple bottom line and the instruments that were developed from it are that companies started to use it as the goal and not as an instrument. The claim of being sustainable has been used by companies that in the reality started their path to reduce their social and environmental footprint, the issue is that there is a general definition on the direction to take and the virtuous relationships among the three spheres but there is

the lack of a common definition of sustainability that can be measured on some parameters. The self-assessed sustainability in the operations made the triple bottom line a mere device used for marketing and communication, while the main goal of the companies has largely remained the profits, using the CSR often in an instrumental way. Another big issue to use the term sustainability about the adoption of the triple bottom line is that it is making confusion among macro level and firm level. Sustainability can be used, according to Milne and Gray (2013), to describe a whole system so while a firm can adopt devices and processes to be socially and environmentally performing it needs to have also the neighbouring enterprises doing the same, otherwise it will not be sustainable in the future anyway. So while to the triple bottom line is given the merit of being useful to instil the CSR inside the business world from other perspectives it may be seen as the limit or as a device created only to be the external image of a financial-centric system, with possible limitations on the future sustainability (Milne, Gray, 2013).

#### **2.4 Codes of Conduct as companies self-regulation**

In the case of a lack of legal initiatives di the Governments private actors may decide to take the legislative role: an example of this case is when a company issue for itself a code of conduct. This is a soft law instrument that has its role inside the CSR scope. A code of conduct is defined by the European legislator as “an agreement or set of rules not imposed by law, regulation or administrative provision of a Member State which defines the behaviour of traders who undertake to be bound by the code in relation to one or more particular commercial practices or business sectors” (Directive 2008/122/EC, art.2, 1.f). These codes can be internal or external, in the first case it is a voluntary decision that has its source inside the enterprise, as an act of its self-regulative freedom; on the other side the external codes of conduct have their sources outside the firm boundaries, this can be the case of a GVC regulation by the leading firm or a specific requirement demanded by an associations of firm. A slightly different case is made by the deontological codes, that is required to be adopted by professionals or firms to be member of category’s associations, regarding the behaviours to adopt among them or when dealing with external people. The codes of conduct are concerning mostly the ethical aspects of the business, being an act of private autonomy but there are cases in which these self-regulations acts are able to result as well into legal binding obligations. Indeed if it was a simple collection of recommendations and advices given to employees



and declarations of intents it would not be an act relevant for stakeholder, even if it would be for marketing reasons, there is instead the need for consequences over violations, this aspect would render the code an effective instrument and it would be easier to appreciate in its value from the investors. In this sense there can be a distinction between two groups of codes: a first category in which there's a voluntary endorsement of the rules contained and a second one where there is a legislative sense given to those provisions; in the first category it is possible to find those code of conduct done in order to specify or reinforce some of the contents of the existing laws in order to acquire reputation and legitimacy among the stakeholders. On the second category instead it is possible to find codes that are an implementation of the law (for example explaining agreement among the parties of a contract), codes that are exhorted by the law but without any obligation to adopt one by law and finally codes that are integrating the law after legal provisions that are asking companies to adopt codes of conduct to implement some dispositions in their operations or legal requirements. Moving from the legal perspective to the sustainability point of view these codes are starting a dialogue about the claims for ethical behaviour made to companies from their stakeholders. By answering this call with the draft of a code of conduct the MNEs are acting on the market with the double role of economic actor and regulator, in most of the case adopting provisions for the safety and health of the people involved in the production and for the protection of the environment (Senigaglia, 2013)

The codes of conduct are posing internal limits to the actions taken by the employees and managers, at the same time these limits may result in an improvement in the performances achieved at corporate level, the consumer reactions to the human and social rights violations and to environmental issues are becoming larger in their effects and people are getting more sensitive in this sense. Codes can be a symbol for a tangible commitment by the firm to CSR related themes, it may rise up the firm reputation but other categories of benefits may be important as well: improved risk management, greater product differentiation and reduction in the insurance premium. But the point is to control that all of these results may be achieved by the code of conducts as an instrument for CSR. However many codes of conduct may result into "greenwashing" actions by firms: this means that organizations may decide to use CSR instruments in a symbolic way, in this sense supposed to be more a public relations image rather than an effective implementation (Erwin, 2011). While there is the possibility of a cost efficient

result for the firm, improving the reputation but not bearing the cost for building up a responsible sourcing and production system the risks are increasing: there is the threat that a public discovery of this ethic management practices (having lower environmental, social or human standards than what is declared) may disrupt the previous ethic position conquered and that the cost of renewing it may be larger than what was expected. On the other side the substantive codes of conduct on ethic and business topics need to distinguish themselves from the symbolic ones, otherwise the costs suffered for their actual implementation may not be recovered since other firms can enjoy the same advantages without having sustained the relative costs (Perez-Batres et Al., 2012). In their study Perez-Batres et Al. (2012) analyse the possible pressures by stakeholders that may push for the adoption or avoidance of an engagement into CSR and sustainable development looking at the substantive adoption of a code of conduct as the dependent variable. There can be a pull effect on the corporation towards ethical compliance arriving from the final customers, particularly in the case that the enterprise has its production or its suppliers located in developing countries, in this case there is the motivation for a standard adherence and for a substantive engagement into going further from what it is strictly prescribed by the law. In the other case a push by the stakeholders can be experienced when there is the presence of a strong regulative environment forcing the enterprise to comply to the law standards or, in the case in which this role is taken by stakeholders, they would be pressing the enterprise to adopt sustainable practices; particularly if they feel that the firm is not virtuous in respecting rights and protecting the environment. Among the findings of this research an interesting evidence is the following one: it seems that enterprises are adopting different strategies according to which group of stakeholder they are specifically addressing: they may apply it symbolically for marketing and product positioning while they may care more about the substance when they are dealing with the lack of the legal framework, anyway in the case of a consistent pressure by different groups of stakeholder recognized by the firm there is an higher probability that the firm may decide to adopt substantive strategies to cover itself from the risk of a public disclosure in front of a large number of different and active categories of stakeholders. A second interesting finding is that the presence of slack resources is positively correlated with the probability that the corporation engages into CSR but the relevant point of this that there is no distinction between the symbolic and substantive one, firms in financial

struggles will avoid to invest money into their sustainability but corporations with extra-resources may decide to undertake a purely facial strategy for their CSR (Perez-Batres et Al., 2012). From this point it is possible to say that the research from MNEs for lower cost sourcing to be able to compete on price may force them to avoid a sustainable behaviour that instead may be more present for corporations focusing on niches or higher quality products that usually allows them larger margins than convenience goods. As it will be seen later in this paragraph the main concern in the garment industry during the drafting of the codes of conduct is the relationship with the supplier, even if it is a common practice to outsource at least part of the production during the years there have been various cases of violation of human rights and environmental pollution. According to Kashmanian (2018) while in the late nineties multinational companies started to have a code of conduct for their suppliers the evolution in this sense has been towards an integration of the provision for the suppliers in the same code of conduct of the company, as to say that even if the production is made inside others' facilities it has to be made as it was inside the factories of the brand. The main risk that companies must take into consideration for the codes of conduct and other purposes when dealing with their supply chain are the following ones: physical risk to suppliers (impacts over assets and operations), input risk for the supply of key raw materials, regulatory risk, since the legal framework may change over time, the labour and community risk since the workforce may be affected by macroeconomic events in the areas in which the production takes place and finally the reputational or stakeholder risk that is related to all the ones above. A part from implementing a code for suppliers and expanding it to second tier suppliers companies are moving to give more transparency to all the supply chain, this is being made because the pressure exerted in this sense by legal, regulatory and consumer activities is increasing. Usually the steps to increase the transparency are mapping the supply chain, tracing the flows of materials, achieving certifications, reporting the suppliers publicly and the setting goals and disclosing achievements and failures. The difficult point faced by companies is that the supply chain is so wide and geographically spread that it is hard and cost expensive for them to understand and trace suppliers, even more for the second tier ones. Knowing better the partners and all the network of the supply chain would help the firm to improve its risk management procedures, by assessing each stage of the process and each area or supplier for its own specific issues and risk factors, at the same time it is

also more difficult to answer to the claim made by a company's stakeholders without knowing too deeply all the value chain. This can be easily understood looking at the textile industry, while companies are usually aware of the first tier supplier that are responsible for the delivery of the final product and some of the final stages of the production process, with these suppliers the main risk factors are concerning the social issues. Fashion brands are usually less aware of the second tier supplier, often responsible for washing, dyeing, printing and other risky operations, here the risk factors are not only on the social sphere but also on the environmental one since chemicals are being used. Stakeholders are giving more attention not only to social issues but also to environmental ones, by not knowing deeply partners involved in the previous stages of the supply chain the multinational companies are getting themselves at reputational risk (Kashmanian, 2018).

An interesting point it is now to test if these codes of conduct are effective in the real world, so there is the need to see if given that the enterprise decide to adopt an internal or external code it actually raises the standards of human and social rights or if it can remain an only facial adoption. In a research on the South Africa, Swaziland and Lesotho's companies producing garments mostly for foreign firms it was seen that the most of the workers affirm that there is a code of conduct in the company they are working for but the second finding by interviewing these workers is that it is often not implemented properly. In these countries seems that it is an usual situation for managers of production plants to know in advance when the controls from buyers are coming and they manage to know as well when the independent inspectors are going to check the plant, the employees told that they are given the order to not explain them the truth to the inspectors and often some last minute arrangements are adopted inside the factory (e.g. the use of masks while they are operating with chemicals). These false sentences said by the workers to people from outside the factory are usually exchanged with some favours by supervisors or managers that can be a day-off or similar types of bonuses. In a not so different way the participation to Trade Unions and collective bargaining are under attack by the factories' owners, despite the fact that freedom of association and the right to collective bargaining are included inside codes of conduct in most of the cases, workers declared that they are often threatened of being fired by the managers if they contact or if they join into workers' associations (Bezuidenhout, Jeppesen, 2011).

In a similar study on garment production in Bangladesh the findings are quite near to the other ones: the foreign buyers used for the studies are mainly using codes of conduct, one of these firm is adding a periodical auditing procedure on that while another firm is not using any code but instead it has the focus on the construction of a relationship over time in order to be sure of the reputation of its suppliers instead of relying on contracts. The codes of conduct are mostly concerning the respect of the local legal system and of the ILO Fundamental Conventions that can be said to be a basic approach to the sustainable development. On the other side the difficulties faced by first and second tier suppliers hard to overcome: in developing countries it is difficult in to find educated middle and lower level managers to be sure that the code will be put in action in the reality, the workers are not tied to the enterprise and seek to leave it as soon as they can get a better salary so it becomes useless in most of the cases to invest on training for them in order to let them start a career in the industry. Finally a cultural problem is that often people leave without agreeing it before during religious holydays and they may or not come back after that to work for the company. In this research what emerges from the interviews submitted to buyers and suppliers is that there are serious structural difficulties in the implementation of CSR codes and these problems are harder to face for the firm that are short of financial resources, another point is the proximity to the foreign buyers: it is easier, as it could be expected by firms to implement codes if they are directly dealing with the foreign company while harsh paths are faced by second tier suppliers, it results easier instead in the case of auditing procedures and technical assistance by the economic partner of the supplier. So also in the CSR there is a learning process and the MNEs need to invest in it in order to implement a code in a substantive way (Sundström, Hyder, Chowdhury, 2013).

Another example of the implementation of codes of conduct in the garment industry may come from the Vietnamese production, a Country that has been destination of production activities for low cost export, it has a minimum wage that is less an half of the one of workers in China, Indonesia and Thailand, the main markets are USA, Japan, Germany, Spain and UK while often firms from other Asian Countries are acting as vendors, signing contracts with Western firms and organizing production in Vietnam. In their study Siltaoja, Lämsä and Kujala (2010) are giving for granted that smaller producers may face more problems into adopting CSR practices and so there are focusing the case studies on large entities to check what is the best it is possible to

achieve in the area. In this country case what emerges is the inconsistency found by the producers when they are facing different costumers: is it indeed a common practice for the vendors to deal with different final brands and each one of them may require for itself a firm-specific code of conduct: this implies small differences like the minimum age to work or the total maximum working hours per week that even if they are changing by two years or four hours this enhances the complexity that local producers have to deal with. In this Country as it has been described before for the south-African area it is a common fact that managers know in advance when the controllers sent by the final buyers or by the vendors are coming to the factory and in the same way the workers present at the moment are trained on the way in which it is necessary to answer to the inspectors, making the correct application of the codes of ethic impossible in the reality. In this case the situation is described more as sympathy for their direct employers (the Vietnamese company) rather than their fear for the retaliation by the managers, what it is possible to say is that the problem for an effective adoption of a code may lay on the differences among cultures. While in the southern African one an highly hierarchical structure may be stronger than the law here instead the codes are facing the stronger relationships among employers and employees and the common believing that this adaptation of the reality for the inspectors will help the company to receive larger orders and this will improve the situation of the workers (in some cases employees are paid at piece rate and this may allow them to earn far more than the minimum wage). Even if it is hard for them some inspectors have been able to accomplish their tasks in an effective manner by trying to choose by themselves who were going for the interviews and going deeper with their questions. This led to some improvements according to the workers that can be the strict respect for the minimum wage or allowances for physical needs. Anyway codes of conduct should put into place an instrument to empower workers against the managers and the owners but this country case reveals that there may be no willingness from the workers to claim their right, so it can become more difficult to put the code into action for the MNCs (Siltaoja, Lämsä, Kujala, 2010). While on the other national case study the problem was the fear by the workers for their managers the result for the CSR implementation is the same

After these country cases related to areas that have traditionally been among the destinations for the low-cost offshoring of the production it would be proper to see some cases of companies' codes of conduct in the garment industry. H&M is a fast

fashion brand in Sweden in the 1947, in the company website it is possible to find their code of conduct and the ways the MNC is using to deal with the CSR issues for its sourcing activities. The company declares to control almost 99% of its first tier suppliers but the declared percentage for the second tier ones is 60, this means that the programmes of the company which will be described later are to be taken into account for a fraction of the production, with no possibility to ascertain if the same standards are respected for semi-finished products. The main commitment from H&M is to maintain a long term relationships with its suppliers and to help them during the years to reach and improve the minimum requirements asked by the corporation, H&M declares to be committed for a change managed through the cooperation, discussing not only the partner firms but also with local governments, NGOs and experts and with other garment producers inside the ACT association (among them Inditex and Primark are present as well). On the company website there is present a map of their suppliers, their address, their main product and the ranking given by the MNE (H&M, 2019), the company is taking interviews, and then helping to comply in an array of topics: health and safety on the work-place, minimum age to work, housing conditions, workers' rights, transparency and monitoring. The company quotes explicitly the ILO Fundamental Conventions and the Sustainable Development Goals, more than that it is engaged in the recycle and waste reduction on the garments, at the same time the firm is trying to find solutions in order to reduce of chemicals and to have a wholly organic product at the end (H&M, 2010). A second company to analyse in this sense can be the Irish Primark, another fast fashion brand focused on a very low price segment of the market. The company claims to have as payoff low prices but in a sustainable way, on the Ethic Code area of the Primark's website it is made clear the company's strategy: high quantities of basic products, reduction to the minimum quantities of parts, no expensive advertisement campaign, efficiency in shipping goods and by adopting this practices the company affirms to be able to cut costs far enough to arrange a sustainable and ethic way of producing goods in all of its sourcing countries and there is the presence of eighty experts that are responsible for the relationships with the suppliers in all the main production countries (Primark, 2019). The brand acts for the sustainability of the business by an initial assessment of the partners, a process of auditing directly done by Primark employees (yearly at least and more often in the case of any problematic situation to be solved), finally a cooperation strategy in order to help

the low performing suppliers to get back to the required standards. The company is engaged in the respect of the Modern Slavery Act, since based in the United Kingdom, so it has the obligation to control and report publicly on its supply chain (Primark, 2017).

Moving to the high-end market that will be the context of the other case study discussed in the last chapter it is possible to observe the Social Code of Conduct of Armani, an Italian company based in Milan but with outsourced and off-shored production, the document provides contractual obligations to all of its suppliers, they must comply to all the Fundamental ILO Conventions, to the local law and to what the company requires and in the case of contrast on the minimum requirement the supplier should adopt the stricter regulation. Armani provides also a specific section on the harassment on the workplace that has to be monitored and strongly contrasted and the company commits itself as well on the gender equality and the contrast of all the possible discriminations inside the factory, for race, marital status, religion and other. The company, differently to the others seen before, adopts an un-announced system of control and instead of providing assistance to the supplier to improve its compliance by helping it over time. Armani reserves for itself the right to cancel unilaterally the contract with the supplier on its discretion according to the gravity of the violations found, the partner is obliged also to keep documented track of various of the aspect mentioned in the ethical code, like the working hours and contracts, all this documents are supposed to be at disposal of Armani employees during the inspections. In a similar way the company is giving importance to the environmental issues of the business, suppliers are supposed to put into action plans to reduce waste, pollution, water consumption and to minimize the use of chemicals that are dangerous for the environment. On the Armani's code there is the obligation for the supplier to empower its managers in order to make them able to recognize and avoid polluting practices (Armani, 2017). A last example in this sense is coming from Gucci, another high-end fashion brand from Italy, born in 1921, that now is under the control of the French group Kering. The company started to have a code of conduct in the 1996, renewed later and since 2008 the board has among its members one from the CSR division, making it being a great commitment for the enterprise, on the website it is mentioned as well the importance given to CSR issues also by the group that owns the firm, Kering, that it is directly intervening in the content of the company's code. The company makes as its own internal requisites inside the Code of Ethics the respect for: the ILO's Fundamental Conventions, the Global Compact, the UN Convention



on Children Rights, the Guidelines for MNE of the OECD, the European Convention on Human Rights and the Universal Declaration of Human Rights by the UN, making a larger number of references compared to the other firms quoted before, by doing this what can be said is that the company at least engaged itself in a greater research on the topic and there is the interest in seeing the matter from different perspectives. The company by its code says that it will adopt audit and inspections in the suppliers' factories and that they will not continue the collaborations with partners that are not going to comply with their CSR requirements, at the same time it is said that Gucci will provide the needed assistance for compliance and that they will help to adopt the best practices for aspects concerning human and social rights and for the sustainability at large, marking it different compared to Armani. In this case there is a view of a longer relationship for partners that would like to improve their procedures. The group goes beyond the other provisions seen in the previous cases enlarging its scope to anti-corruption, privacy, avoid of insider trading and of the conflict of interests (Gucci, 2013).

Those seen before are all internal codes of conduct but an enterprise may decide to implement an external one, this may be the case of an alliance among different partners or the use of a set of rules seen as the market standards for the firm and its partners, producers of complementary products or competitors, so it is no more an act that sees as its only source the enterprise but the firm decides voluntary to adopt a fixed code sourced from outside of its boundaries. In this sense an example from the textile industry is coming from China with the CST9000T, this collective code of conduct sees four main stakeholders interacting: the Chinese government as the authoriser, trying to develop the reputation of the Chinese production and developing a fair market, the international customers that requires the adoption of human and labour standards, external influencers like NGOs and finally the business partners, so employees to protect and the CNTAC that is the organization that drafted the code of conduct. The provision to adopt are largely related to the ILO's Fundamental Conventions, specifically regarding: child labour, forced labour, discrimination, health and safety, working hours, remuneration, freedom of association and collective bargaining, the code doesn't address environmental issues and the relationship with the customers. Differently from the certifications and standards that will be discussed in 2.5 the CST9000T has no control by third party, but it is mainly a list of guidelines and best practices to adopt to improve the CSR procedures. At the aggregate level the CST9000T has not been so

effective on the economic side, the lack of the certifying authority on one side and the relegation to the Chinese production on the other made the foreign buyers prefer to ask for SA8000 or to impose their own code of conduct to their suppliers. Another weak point is the lack of environmental provision while for the western consumers the focus is not only on social matters, this code it would have seem just a partial one (Chen, Larsson, Mark-Herbert, 2014).

## **2.5 Certifications, means to reduce information asymmetry**

Inside the larger CSR topics there is space also for social and environmental certifications, these are means used by corporations in order to make their procedures and/or products respectful of certain standards and make this application of practices verified by a third entity in order to acquire credibility and to make the CSR commitments seen as applied in the reality in an objective way since guaranteed by a third institution. According to Brino (2017) the social labelling is “a sort of mechanism intended to inform the consumer about the characteristic of the commodity that he/she wants to buy and/or of the processes adopted to make this product by the enterprise and by the whole supply chain”, it can be both a promotional instrument (as it was seen in the first chapter of this work it may be effective particularly with developed countries’ customers, who are less price sensible), the main concerns for these certifications are the compliance with the international labour standards, the improvement of labour and life conditions for developing countries (Brino, 2017). At the same time a certification has to be deeply evaluated before being adopted, the main difference compared to a private code of conduct is the control applied by the external entity and for this reason the costs faced by the enterprise can rise for a series of reasons: a greater time spent by managers in checking processes and products, the cost faced by the enterprise in adopting new procedures and standards, the time to train the employees in order to be sure that they know what to do and what it is expected from them. The reason to introduce these costs has to be economically worthy: from a greater price on the final market to a greater legitimacy, it can be embodied in the larger strategy of the firm or it can be necessary to reduce the informational asymmetries lying between the corporations and its stakeholders (Panozzo, 2013). On the other side all the entities that apply the certification for the CSR standards are not in the same categories: they can be private, public or NGOs. While for the private ones the cost will depend on the number of

certifying corporations present for the market, going down to marginal price if there is competition among them or up to the marginal revenue extracted by the customer firm for selling certified goods or services in the case of NGOs applying this labels the cost should theoretically be always greater than the private firms since their final aim is the welfare of the final costumers and so they will apply all the means possible over the processes of the firm. At aggregate level firms have greater profits having certifications from private entities (in the case in which there is competition among them), consumers will have the greatest welfare if companies are getting their labels from NGOs institutions and the total surplus will be optimized under certifications given by the public authority, while in a situation in which the private certifying firm is acting in a monopoly firms will be better off by going to the public authority (Manasakis, Mitrokostas, Petrakis, 2013). In the way in which the social labelling is bringing information to the market it may be as well regulative in its consequences by undermining the potential profits that firms not complying with the third party certification are facing. Researches are not going all in the same direction: depending on the markets, the geographical scope of the survey and the particular market conditions, specifically the environmental side of the CSR on this topic has been deeper analysed compared to the labour rights side even if on this latter topic. What it can be said for sure is that companies having third part ranking or certifications are going to suffer less or not suffer at all in the case of a negative disclosure to the market about the supply chain of the industry or a mobilization related to some issues: examples of this are the market reactions divided per enterprise following the 1999 demonstrations of Seattle or following journalistic reports about the misbehaving happening in the Asian supply chains for garment (Metcalf, 2010).

Among the list of CSR certifications it is possible to quote some of the most famous: the SA8000, the ISO26000 and the ISO14001. The first one is a certification given by the SAI, Social Accountability International, an international agency in which there is the presence of delegates from Multinational companies, International workers' Trade Unions and NGOs, it has been introduced in the 1997 and it is focused on the global value chain of a company instead of a single commodity produced. A SA8000 standard sets that "The Company shall comply with national and other applicable law, other requirements to which the company subscribes, and this standard. When national and other applicable law, other requirements to which the company subscribes, and this

standard address the same issue, that provision which is most stringent applies” (SAI, 2014) the standard requires as well the compliance with a number of ILO’s Conventions expanded compared the Fundamentals: n.29 and n.105 on Forced and Bonded Labour, n.87 on Freedom of Association, n.98 on the Right to Collective Bargaining, n.100 and n.111 on Discrimination and Equal remuneration for male and female workers for work of equal value, n.135 on Workers’ Representatives, n.138 on the Minimum Age, n.155 on Occupational Safety and Health, n.159 on Vocational Rehabilitation and Employment of Disabled Persons, n.177 on Home Work and n.182 on the Worst form of Child Labour. More than that the Association requires the adherence to the Universal Declaration of Human Rights, the International Covenant on Economic, Social and Cultural Rights, the International Covenant on Civil and Political Rights, the United Nations Convention on the Rights of the Child, the United Nations Convention on the Elimination of All Forms of Discrimination Against Women, the United Nations Convention on the Elimination of All Forms of Racial Discrimination, and the UN Guiding Principles on Business and Human Rights. Among the provisions there is the obligation for the senior management to inform the people inside the company that they adopted the SA8000, a strategy and a series of actions should be put into action for it and the company has the duty to inform both the employees and the external stakeholders, so to do this it has to share its commitment with suppliers, buyers, final customers, shareholders and with the community at large. Companies must create Social Performance Teams (SPT) for the standard’s implementation, these teams are supposed to involve both the management and the workers’ representatives for the SA8000, but the duty of compliance at the end remains a task allocated to the senior management, The SPTs shall periodically assess the areas of non-compliance, prioritise among them and they should do risk assessments over the issues related with the standards’ topic and take counter-actions when it is possible. The compliance procedures consist of audits to the firm: “announced and unannounced audits for the purpose of certifying its compliance with the requirements of this Standard, the organisation shall fully cooperate with external auditors to determine the severity and frequency of any problems that arise in meeting the SA8000 Standard” (SAI, 2014). When a certified a company is dealing with a supplier, a subcontractor or with an employment agency it has to apply the due diligence in order to ascertain the compliance with all the requirements expressed by SA8000, for new partnership the correct procedure to follow is to inform the other part

about the requirements, then to find out what are the significant risks of non-compliance, to apply a reasonable effort in order to be sure that these risks are adequately addressed by the partner and help it to prioritise them, finally there must be put into place some compliance monitoring procedures over the partners. Among the various benefits that may arise from the possession of this certification there are an improved attraction of the consumers and a better price. It has been demonstrated also that this standard brings a greater ability to innovate and an improved technical efficiency since there will be more partners willing to cooperate in the business with the enterprise, since after the certification it will be able to do business also with other enterprise with a strong focus on CSR; more than this other studies revealed an easier access to credits from banks. From a managerial and financial point of view a statistic study over the years between SA8000 adopters and a control group of non-adopters had as result that the certification improves the sales of the firm and the productivity of the employees, this can be seen already in the medium period, after just some years, so the commitment is not for long term only but the result will be achieved quite soon, instead the critical point is the profitability of the firm. The adoption of the standard is not directly related with an increase of the profits, a lot of environmental factors are into the game for this, it is going to improve it in the case of a culture with low power distance where an empowerment of the workforce can be accepted by the top management while the financial effects are less evident in countries with a more hierarchical culture. The development level of the country of origin instead has not a great effect: the reason is that while profitability after should be higher for companies located in least developed countries this category of firms faces also greater costs at the beginning since, despite what happens for the enterprise located in the developed countries, the requirements for SA8000 may be fairly new compared to the local legislation (Orzes et Al., 2017). A study on the causes that bring a firm to adopt the SA8000 requirements finds out that the pressure exerted by different stakeholders' groups results into different outcomes for the internalization of the SAI practices. The public authorities, suppliers, customers, shareholders and financial institutions are not able to move the company to implement the standard in a substantive way in the reality, companies are using certification as a label for them, needed as commercial requirement or for marketing necessities. Other stakeholders instead are able to force the firm to put into action the SA8000 in the reality: these are active stakeholder that by some means can ascertain what it is

happening inside the enterprise and that have ways to discover if the implementation is truly done, it is the case of industrial associations, trade unions, NGOs, local communities. For what it is possible to see in this case the pressure by the stakeholders is not monolithic and the different groups have various effectiveness, on the other side firms can use SA8000, and other certifications, as CSR-washing, using it to satisfy their economic and financial needs but not respecting it in the daily activities (Boiral, Heras-Saizarbitoria, Testa, 2017).

Another widespread CSR-standard is the ISO26000, drafted by the International Standard Organization, this is made by a series of rules but differently from the case of the SAI it cannot be certified, it can be adopted by a firm as best practices but the reality may be still confused. For this reason it may seem strange that an organization like ISO has developed its own guidelines for business ethics, moving away from the managerial side and leaving apart the certification activities but the organization has both internationality and legitimacy enough to be seen as a believable actor on the economic field. The creation of this guidelines together with a number of stakeholders made them shared among the actors and a standard made by ISO it is easier to adopt by the corporations since they are most of the times already dealing with other standards by ISO: this makes ISO a suitable platform for CSR discussions (Moratis, Cochius, 2011). What ISO asks is to apply seven CSR principles: accountability, transparency, ethical behaviour, respect for stakeholder interests, respect for the rule of law, respect for international norms of behaviour, respect for human rights. The guidelines also suggest to companies to find their stakeholders and to start a dialogue between corporations, stakeholders and society, respecting external interest and understanding what is the influence that economic actions can have over them. Going deeper in the most interesting principles listed before: the transparency asks to the corporations to publicly communicate their decisions in CSR topics to their stakeholders, in the case in which this is not going to hurt a competitive advantage given by secrecy, they should communicate purpose, type and location for every activity and explicate impacts and strategies on CSR issues for each activity, the ethical behaviour consists of a commitment to the interests of the organization's stakeholders and the use of integrity, equity and honesty for the actions undertaken by the firm. The guidelines more than giving principles explaining way to act when companies face its stakeholders, are giving to the business community the core subjects in which the must focus their efforts: organizational governance,

human rights, labour practices, the environment, fair operating practices, consumer issues, community involvement and development; while some of them are themes that have already been discussed in the previous pages others like the organizational governance, fair operating practices and consumer issues are quite unusual. The first one is a recommendation for the companies to organize their management system and their internal organization of roles, responsibilities and interdependences in a way that allows employees to follow the CSR principles listed by the ISO 26000, in the same manner corporate responsibility issues should be taken into account inside the decision making processes of the firm, in a formal and informal way. Human rights as subjects for ISO are comprehensive both of the social, human rights and other topics like discrimination but inside this category it is possible to find as well the obligation for the company to use the due diligence in order to assess and minimize risks discovered inside its activities. Under the title of fair operating practices it is possible to find anti-corruption, responsible political involvement (be transparent for the sum of money given to politician and not lobbying in an over-influent way), fair competition, corporate responsibility promotion along the GVC and the respect for property rights. Finally under consumers' topics the following issues are discussed: fair marketing information, health and safety, sustainable consumption, consumer service, support and dispute resolution, data protection and privacy (Moratis, Cochius, 2011). As it has been seen the scope of the standards is broad, enlarging from the ILO Fundamental Conventions and the core rights that are usually possible to find, the scope is mainly the enterprise but the due diligence required can enlarge the subject to all the supply chain and there is a great attention to final costumers as well. Under these guidelines stakeholders have a primary role: this is happening since they are directing the firm towards a greater discussion with them to involve stakeholders into the economic and strategic activities. The negative side of the standard remains the fact that it is not certified but it is a mere commitment from the enterprise, if the firm actually involves more its stakeholders they will exert the necessary pressures in order to make this commitments substantially realized. For this standard a crucial point is the ability from the corporation's stakeholders to recognize that a firm implemented it and the benefit deriving from it, so if a corporation will think that this standard implementation will not have any effect because stakeholders will not notice it or because they will not remunerate in some way the firm for it the standard will not be endorsed by the economic actor; this is a critical

issues since both the standard is not certified and some of the categories faced by the firm will be doubtful about that and there may be in the market certified standards easier to adopt, maybe because they have a more focused scope and they can be also easier to remunerate as verified from outside (Castka, Balzarova, 2006). For the adoption of the guidelines MNEs can have a small impact over the international spread of the standards: the reason for this may lay in the fact that there is not the strict duty to control all the supply chain, in this sense instead the local governments and authorities can have a larger impact over the diffusion of the ISO26000 standard (Catska, Balzarova, 2008).

The ISO 14001 is another standard drafted by the same agency regards the implementation of a management system for the environmental protection, this is a voluntary instrument that enterprises may adopt to diminish pollution and waste and for a more efficient consumption of their resources, as results this certification can have both a better performance and an upgraded image and market trust. Since it is about the implementation of a management system the idea behind this is that a firm that knows well enough its processes for production, their risks and the criticalities related to them will be better off when there will be the necessity to assess the cause of some environmental problems or generally pollution. The deployment of the standards in the reality consists of five phases: a description of the environmental policy and the communication of that to all the employees, the planning phase, to determine which ones are the risky activities, to analyse and to set goals for them. Thirdly there is the implementation of the management system and the assignation of roles and responsibilities in the environmental issues, fourthly the creation of measures and procedures to control the activities that may have an environmental impact, finally there is the continuous re-examination of the effectiveness of the system created. The certification implements both the competitive situation of the enterprise for its more efficient consumption of the resources and its performance in responsibility when it is facing stakeholders, the field researches suggest that the certification is expensive and so only the well performing firms are able to commit to it, anyway it is better to wait for an explicit demand by the stakeholders before since it can be risky to enter into the process (Panozzo, 2013). On a survey over Italian companies the results are showing that the ISO14001 brings to an improved corporate image, to a greater compliance with the legal requirements and a decreased risk of environmental accidents, on the negative



effects there are the increased business costs and an higher complexity into the firm's routines and procedures, there are some size-related reasons as well: for SMEs the implementation of an environmental management system can be coupled with a quality management system, while the larger business are acquiring ISO14001 before and for them it can be linked with public relations and stakeholders management (Murmura et Al., 2018). In another study made at macroeconomic level across different countries it has be seen that this standard is highly related with the economic development of a nation, like the Kuznet curve. The adoption of the ISO14001 is slow at the first stage of the industrialization while it starts to rise when the industrial production of a country rise, this may be related with the costs of the standards that are not accessible for the firm on one of the least developed countries or to the need by the companies to differentiate themselves in the international market or it can be seen as a requirement to compete. The standard's adoption in this case is not related with the education system and not even with the social development of the country (Daddi et Al, 2015). This missing link between the social and environmental development can be filled up by the ISO, that as it was said before it has social guidelines as well, but there is at the same time the need of a greater involvement and commitment from the local authorities and the big multinational companies. Instead in the developed countries the ISO14001 is widely adopted: in this case is not merely an environmental standard instead the focus of the directors of corporations is on the management system that the standard requires: it can be helpful for financial reasons for waste reduction and risk avoidance (Daddi et Al., 2015).

## **2.6 Social reporting: accounting systems to measure the responsibility**

While codes of conduct decide the behaviour to which an enterprise commits itself and the certifications are standards verified from outside over some basic requirements the social reporting is corporate voluntary disclosure document which aim is to measure the impact of a corporation over the society and to give an idea of how much it is doing for the surrounding environment, the local communities and the stakeholders at large. The accountability for CSR issues can help to develop the business: from inside it can move the employees to a more sustainable and responsible consumption of the enterprise's resources, on the external side being accountable will allow the corporation to be transparent with the stakeholders and to make it certain that it is caring about its

footprint. Social balances of course are going beyond from the usual legal requirement for tax-related issues or to inform the shareholders or the public, so the involvement of the stakeholders in the process of finding the correct way to measure the impact will be necessary (Panozzo, 2013). The main tendencies on this topic are to have a precise and adapted way of building up a CSR balance, tailor-made over the necessity of the industry or of the business, on the other hand it is moving towards a more multi-goal approach, encompassing all the stakeholder groups faced without focusing on single aspects, by this the result will be a large and complete view over the enterprise in a manner that is tailored over its specific ways of doing business and its main criticalities (Panozzo, 2013). Companies can find various reasons to adopt the social reporting as practice, both integrated with the financial reporting or on its own, the main are: improvements in staff loyalty, public reporting about reduction of emissions, increased effectiveness in the long term risk management and an improved profitability of the firm. In some cases a social reporting is required from companies listed in some exchange market, in other case there may be a reduction in the tax to pay but this case is less important for the adoption of this instrument. Speaking about firms in developing countries the situation is different and it appears that companies are doing that in order to compete for the export processing activities offshored by MNEs (Boyko, Derun, 2016).

One of the guidelines for social reporting is made by Global Reporting Initiative, a multi-stakeholder organization, founded in 1997, its goal is to encourage a greater dialogue between corporations and their stakeholders and to drive enterprises to a larger voluntary disclosure of their data on economic, social, governance and environmental performance. There are different steps on what to do to report: firstly the firms have to clarify their profile, giving the context, the strategy and the governance, secondly the firm should explain its managerial approach, about how they entangle important issues, finally some performance indicators on the economic, social and environmental areas of interest. These GRI's guidelines are telling to the business community about how to report and what to report, they are not a standard and they do not give a value on the performance of a firm on sustainability, the grade given by GRI is on the amount of information disclose by the firm, that can be awarded with A, B or C (Vigneau, Humpreys, Moon, 2015). The GRI is asking to the companies to follow two groups of principles, the first one on the contents of the report is made by: the inclusiveness of stakeholders, the context of sustainability, which is that the enterprise has to care also

about the social and environmental issues, the completeness that is to be exhaustive enough that the stakeholders can understand properly the performance of the firm in each topic, the materiality, that is to say that what it is reported should have an impact great enough on the economic, social or environmental sides or that may influence strongly enough the stakeholders the enterprise is dealing with. The second group is about the quality of the report, here it is possible to find: the equilibrium in positive and negative lines, in order to make it possible for the readers to have an objective judgement, the comparability, among the past years or with report by other enterprises, the accuracy, the timeliness, the clarity and reliability (Panozzo, 2013). The GRI suggestions for the social reporting have been widely adopted by firms listed in the markets, the reason for this is that even if the collection and communication of data may be cost expensive on the other side the GRI managed to give standardization to the social reporting activities; this even if it made different big corporations comparable for what they do for making their business sustainable and this makes it easier from the investors' perspective to analyse the long term social, environmental and reputational risk of an enterprise before committing resources into it (Marimon et Al, 2012). The guidelines for reporting are by now the most important since diffused among the largest enterprises but there are some issues related to this as well: they are mainly thought for their users, so for the western large size corporations, secondly GRI is a multi-stakeholder initiatives but the share of the power exerted by the corporations is rising, even if NGOs and other stakeholder groups are still present. Some criticalities are arising for this model: most of the large corporations are using GRI guidelines by default, this is setting GRI as a standard procedure and it is making it to become the aim and not the instrument for CSR, companies are shaping their sustainability decisions in order to be able to get an higher grade on the disclosure index given by the GRI. By creating the report at the end of the period the CSR moves from a reactive or proactive situation to a merely retrospective one: the companies will be focused on searching what it has be done during the last year and most of the employees working on this phase are from communication and public affairs, the CSR management of the firm will go toward reporting task rather than effectively manage the activities related to the sustainability of the company. The result of this is that GRI thought the guidelines whit the aim to promote responsibility by the reporting practice and with the outcome of an increased corporate transparency and accountability, instead the real aim from corporations has

been to make the CSR a reporting initiative with the outcome of a higher apparent transparency. A great bonus for the enterprises using GRI system for reporting is the legitimacy and the credibility given by its adoption, they can respond to the external stakeholders while the actual CSR performance may have little difference compared with the past year: for the firm adopting a new reporting practice is usually less expensive compared to an implementation of new activities for sustainability or an improvement in the current ones (Vigneau, Humpreys, Moon, 2015).

Another interesting model for social reporting has been created by the London Benchmarking Group, created in the 1994 by a group of enterprises (IBM, M&S, BP, Natwest, Whitbread and Grandmet) coordinated by Corporate Citizenship in order to build a framework capable of measuring the impact for its community investment on a common scale. The main focus of this instrument is the corporate community investment, so money given by the enterprise for a purpose denoted by two characteristics: voluntary and charitable. It has to be a voluntary effort, even if it is possible to communicate also about the mandatory contributions made by the corporation, and then it has to be charitable, that is to “support an organization or activity that is recognized in its geographical location and cultural context as having a clear charitable purpose” (LBG, 2014), they may be also not listed as charitable organizations but at the end the welfare created must be for public benefit instead of the private one. The framework has to be applied by starting with the inputs used for charitable purposes, dividing them on the form of contribution (cash, time, goods), the driver for contribution (charity, investment, commercial initiative), then the issue addressed has to be clarified, it may be education, health, environment, economic development or others, finally the location of the investment has to be specified. The LBG has specific rules also on which categories of inputs are going to be summed up for the framework and how to calculate them: for example the company must not take into account the money given by a fundraising activity made by its employees. The second stage is to measure the outputs obtained, that are “a measure of what happens as the result of the contributions that a business makes to a community organization or activity” (LBG, 2014), and it is divided into community outputs, business outputs, and leverage. The first point is the one in which the management should list the individual reached, the types of beneficiary, organizations supported, the second one should explain the employees involved, the media coverage and the stakeholders reached in the

initiatives. Thirdly the company should report about additional resources coming from other sources, they can be coming from other organizations or directly by its own employees but on their own commitment inside the initiatives of the corporation (LBG, 2014). In the guidelines it is possible to find some of the rules usually followed for the financial accounting activities, like the concept of prudence: corporations indeed should be taking into consideration conservative values for the people reached in order not to boost the final result. The final step ruled by the model of the LBG is the most dynamic: here it is asked to the company to explain what is changed after its commitment of resources in the situation of the communities at which it aimed. The company should start by explaining the impact on the community from the depth of the actions, from a light connection to a radical transformation of the society, secondly what type of change this impact brought to the people in the community, secondly if it dealt with other organizations the company should explain how after the investment this partner is developing, for new services, more volunteers or similar. The firm can also tell to its stakeholders if the actions involved the environment and in this case if it has been directly or by changing the ways in which people related to it, finally it has to be explained how the corporation changed: the benefits for the employee volunteers (for new skills, change in the behaviour or general wellness) and for the business (an improved perception by the stakeholders, any benefit for business, brand, HRs or operations) (LBG, 2014). The framework by LBG is categorized by Panozzo (2013) as a model on the process, focused on how to improve the current position and the activities carried out, the model also has the strength to show the stakeholders not only the amount of resources that an enterprise decided to spend for a project or in the CSR context but has the peculiarity of finding the link between the various types of resources committed and the outputs obtained (Panozzo, 2013), this will allow the stakeholders not only to understand the financial magnitude of what the enterprise is doing but also to discuss about the ability of the management to use properly and efficiently the money, time and goods given to them for voluntary and charitable initiatives.

Another model on the same topic is the Copenhagen Charter, a document issued at the conference "Building Stakeholder Relations - the third international conference on social and ethical accounting, auditing and reporting" that took place in Copenhagen in the 1999, among the participants there were the Institute of Social and Ethical Account Ability, the Copenhagen Business School, the House of Mandag Morgen and the

consulting company PWC, KPMG and E&Y. This document is “a management guide to stakeholder dialogue and reporting” and it “aims to set out, briefly and concisely, the most important motives and principles involved” (The Copenhagen Charter, 1999). It consists of two sections: the first one is dedicated to effects of the reporting activity on the internal and external value creation for the company and its main stakeholders, to create value there is the need that the dialogue and the reporting activity with stakeholders are embedded into the managerial processes of the firm, the second part is dealing with principles and recommendations for dialogue and reports, the main phases of this are laying the groundwork, embedding the process and finally communicating the results. A good activity of stakeholder reporting may help the firm to create internal value by putting together and melding different blocks and managerial systems of the enterprise and by clarifying its mission, vision and core values, it can be also helpful for a better understanding of the governance and its pressures by other sources and to gather useful information. As it was said before it can also create external value: by dialogue and communication a corporation can clarify the situation and its potentialities to the external environment and this may attract new investors but a part from the financial side a firm needs to inform NGOs and other institutions as well since they are often allowing the legitimacy to act to a certain business by their positive or negative reactions. The company using dialogue and reporting may increase its reputation in the society, staying at what the Charter states, by this it will be able to attract and retain talents, it will have easier access to the capital and it will improve customer relationships. Finally the dialogue with stakeholder may result in an early warning cycle, which it gives to the enterprise advices and suggestions from outside in the case that the stakeholders find something that it is not working properly or if they discover a risk the enterprise is ignoring in a certain area in its activities, the dialogue will allow various and more precise feedback by the key stakeholders. The second part about the implementation of reporting explains that the top management in the phase of laying the groundwork should decide the amount of resources and people dedicated, the scope and goal of the activity. The second stage is the embedding process: there is the need to revise vision, mission, values and strategy to make them fitting with the stakeholder dialogue, then the company will analyse and prioritize among different stakeholders groups and the areas of interest in order to give relevant information to interested individuals. The final step is dealing with the draft of the report: prepare and revise it

and publish it, if it is possible the company should also make it being certified by an external institution in order to increase its credibility, finally the enterprise will engage in the feedback and discussion process with stakeholders (The Copenhagen Charter, 1999). The difference with the previous models described here is that this last one has the “generic” purpose to communicate with its stakeholders, so it is not properly and strictly a social reporting model or framework, in this case the company can decide the contents of its public disclosure. If the company is going to deal only with economic stakeholders it may not be so distant from the balance sheet at the end of the fiscal period, with the point that also shareholders may be interested into what the enterprise is doing for its sustainability. On the opposite side of the spectrum if a company widens up its public including NGOs, the local community and other groups that are mainly dealing with the impact over the society and the environment that the enterprise is causing it may be similar to a report based on the triple bottom line perspective of the business, including different issues and far from a purely economic representation. The second important point that emerges from the guidelines is the feedback cycle suggested, the enterprise is not simply publishing what it wants but it is waiting to know the opinion of its interlocutors: in order to understand its reputation but also to have advantages from that in form of risk reductions and other advices. This may be seen as an instrument to create the so-called forum for stakeholder interactions about the view of the enterprise (discussed in the paragraph 2.2, p.49).

The means that have been listed before are concerning the voluntary disclosure that an enterprise may decide to adopt for its strategic intent but on the same topic it is possible to include also the compulsory disclosure to which some European companies are obliged by the law of the community. In the communication of the European Commission adopted on the 13<sup>th</sup> of April 2011 there is a clear statement by the ruler (2.12) in which it is said that national Governments should use their resources in order to boost the market adoption of socially and environmentally sustainable goods, this should be made by defining new laws for public procurement in which, in a situation that it is still regulated by the free competition also with enterprises from other countries, there is the advantage to win from the enterprise that are sustainable for their business. The path that should be followed by the Member States according to the Commission is that the “public procurement can be used as a lever for developing a Single Market which is greener, more social and more supportive of innovation”, so the

aim is to build a green and socially responsible single free market (EC, 2011). After this first recognition a second step was taken by the European Community in this sense, this time by the European Parliament by its directive 95/2014: in this text the main point is the article 19 in which the ruler is addressing directly the large corporations, identified by having more than five hundred employees; in this case it is asked to them to prepare for the reporting activities not only the financial statement but also to have a social reporting process. The European Parliament states that “containing information to the extent necessary for an understanding of the undertaking's development, performance, position and impact of its activity, relating to, as a minimum, environmental, social and employee matters, respect for human rights, anti-corruption and bribery matters”, this is a clear view of the economy and the society under the triple bottom line perspective and it seems that without specifying that the Parliament is suggesting to use the model proposed by the Global Reporting Initiative that is already spread among the large companies in America and Europe. In the report companies should describe the business model and the strategies they adopted to pursue the principle of due diligence, principal risks related to their business and the key non-financial performance indicators that are relevant for their business. From the mere communication duty for the enterprise the European Union is allocating to corporations the obliged tasks to structure their non-financial performance and to install a social dialogue with its stakeholders, this can be said since the report has to be published within 6 months from the firm's balance sheet date. The Union is also caring about the quality of the information present in the report, indeed it is allowing the Member States to declare the obligation by the law for the large companies to have the certification on the report given by a third part. Venturelli et Al., (2017) in their research tried to see the correlation for the Italian firms between the compulsory disclosure decided by the European Commission and the quality of the non-financial reports for their completeness in the information. The results are that the companies regulated by the Directive 2014/95/EU are disclosing more compare smaller business as it may seem obvious but the category of companies that are the best performers in this sense are the multinational companies. The reason behind this is that the firms in this category have been already stimulated by the stakeholders' pressure on the topics of sustainability for their large impacts, so they had already put into place systems of non-financial reporting. The Directive will be effective for those large companies that are still reluctant on non-financial disclosure, while it will have a smaller



impact on those firms that are listed in the markets or that are big enough to be already provided with a reporting process; a part from the duty to inform the companies under this law will also be pushed to a more responsible behaviour since they will have to explain that to investors and stakeholders (Venturelli et Al., 2017). In another study, by Carini et Al. (2018), the point of analysis is the content of the compulsory disclosure and the relationship in contents between the financial report and the social report in the same firm. The two communication instruments are somehow overlapping: while the European Union is asking the companies to describe their business model in the social report they are not going deep in this sense since it is often better described in the financial report. The environmental issues are divided between financial and social reports, with a focus on environmental risk on the first ones. Employees-related topics are mainly discussed in the social reporting, both for performance indicators, results, policies and risks while social matters are poorly represented, the focus is usually on the outcomes, with no communications on risks and key performance indicators. On other issues like human rights protection, anti-corruption matters and diversity there is a fairly complete representation of the topics, with different focus among financial and social reports, by reading them together it is possible to have a complete image of the firm's position in terms of sustainability. The results about the quality of the Directive 2014/95/EU are good: according to this study it is going to enlarge the quantity of information published and it is going to force them to describe the different topics from various perspectives, strategies, outcomes, risks and others. The present rate of compliance, staying at the surveys and studies already published, it is from 36 to 49%: this means that the business world will have to adopt more complex report activities and give more information to the public in the next years to comply with the standards set by the European Commission (Carini et Al., 2018). In another study on the effects of the same Directive the results are that companies are openly disclosing more information on their informal channels rather than on the compulsory report that the European Union is asking them to do. The positive side of this is that companies will have to provide the public opinion with a complete report on their sustainability matters and this will oblige them to collect every perspective on the same document and thus they will give their stakeholders the possibility to compare among different enterprises on similar basis (Matuszak, Rozanska, 2017).

## 2.7 Concluding remarks

Starting from the beginning the first paragraph showed that the CSR is walking on a difficult path moving away from the pure soft law, indeed from the ethic perspective there is the need of a consequence after the violation of a common rule set inside a community (the company). From the legal perspective CSR is often filling the gaps left behind by the legislator or other times companies are taking up the role of rulers in the situations in which the laws are empowering the private actors in order to complete the public provisions or to specify them. Finally companies are using the instruments of the sustainability for their own interests: since there is no more the opportunity for them to follow a pure economic and financial strategy ignoring the claims of their stakeholders and the impact they have over the society and the environment. While a purely profit focused firm is not possible and a purely sustainability focused company it is not likely to become relevant in the competitive market, in the middle of these two extremes it is possible to find the two models of enlightened self-interest and forum for stakeholder interaction. While the first one accepts the CSR in an instrumental way for its own purposes the second one sees the triple bottom line as the philosophy to adopt in the strategy of the company, in both of the cases the CSR decisions will be relevant for the company. Secondly the theme has been the triple bottom line, in this view there is a point that is made clear: there is no business that can be sustainable if it is not caring about the environment and the people a part from the profit. From this perspective companies can avoid risks and improve their economic and financial performances and attractiveness in the capital market by showing to the public opinion that they can be both profitable and fair, putting a brake on the practices like social and environmental dumping seen in the first chapter. While this theory can be the base for some models of social reporting it can be also subject to criticize: often while the triple bottom line makes sense to introduce a sustainable model of business its adaptability for the use on social reporting and codes of conduct can make it being more the instrument to achieve in the communication rather than the path to follow for the company's strategy. Going to the instruments the first group that was seen was the one of the codes of conduct, here companies are drafting rules for themselves, to clarify in front of their stakeholders what are the procedures they adopt, but the turning point that can be useful in the next chapter is the discussion on the provisions for the supply chain partners. Here it has been seen that the critical point is often represented by the supplier of the fashion

brands, in this direction companies must adopt effective devices that can prevent scandals and misbehaviours, from the example seen the range is wide, from auditing to cooperation or to request a certifications for social and environmental issues. The certifications in those matters were the third topic, here the great difference in their structure was shown, companies can find guidelines or proper certifications, some of them are managerial systems and others are best practices to adopt: anyway firms should consider them since, in the case of the international spread ones they can be useful in order to reduce the asymmetry with buyers and stakeholders and often they are requested to local producers from MNEs in order to establish a relationship. Finally the discussion had its focus on the social reporting models used by companies, among them the Global Reporting Initiative is the standard in use for large companies in Europe and America and it used as well by the case study of the last chapter, it is wide enough for its topics to encompass all the three dimensions of the triple bottom line, creating an useful framework in which a company can establish its position comparing itself with its competitors. Others like the one by the London Benchmarking Group and the other by of the Copenhagen Charter are seeing the sustainability from a narrower angle. The first one is culturally bound to the English tradition of charity and fundraising, looking at the CSR like a company giveaway that has to be analysed under its criteria but it has the positive side to impose the firms a control over the effectiveness of the expenses done and this can help to improve over time the efficiency in the allocation of resources for each program. The second one is just asking the company to establish a greater social dialogue with its stakeholders, resulting quite far from the other reporting frameworks. Here the guidelines are helping enterprises to set up processes in order to establish a dialogue with the main stakeholders and a set of feedback loops, this usually helps to attract the attention of the enterprise on some sustainability issues by a secondary effect of having a greater and more frequent dialogue with external entities, the CSR implementation following the classic triple bottom line directions can be a by-product of the adoption of the guidelines set by the Copenhagen Charter. Finally it is possible to say that from this chapter to the next the main points to carry on are: the attention that has to be given to the punishment side of the self-regulation activity undertaken by the company, the care that must be given to each sphere of the triple bottom line, the turning point that the rules for supplier management are for codes of conduct in the garment industry. Then the importance of social labels in establishing new economic

relationship and the caveat for the different control structures they have, finally company should choose the social reporting model that fits the best for their CSR strategy and that can be helpful as well in order to improve over time the performance in sustainability.

## **Chapter III**

### **Brunello Cucinelli and Benetton, different views of CSR**

#### **3.1 Chapter introduction**

The purpose of this last chapter is to see in practice how companies are acting in order to make their business model sustainable in the long term by adopting instruments of the corporate social responsibility and how this framework in which a company can imagine its business may become an advantage for the brand. The first case study is taken from the high luxury textile and the second one from the mass market, precisely a fast fashion brand: Brunello Cucinelli and Benetton. The main instruments used for the analysis of the two cases have been the non-financial declaration given by each one under the obligation of the law; these two declarations are also certified by the same company, Ernst and Young, this fact makes them reliable and more comparable. The first case shows a company that has the attention for its workers, for the heritage of the Italian culture and for the environment as one of its main characteristics, the inner value of the brand are represented almost completely by its corporate social responsibility. The second case is denoting innovative ways to deal with its workforce, a great attention to the gender equality in the developing countries where they produce and they are cooperating with some NGOs active for the environmental protection. The large numbers of the company forced all of these actions to be done in a systemic way, structured for a big corporation; at the same time the company is going towards some directions that are new in the field of sustainability like the circular economy and the use of social networks to spread their values. The second case study is also the most problematic: the large use of offshoring for cost-saving reasons pushed the sourcing to unsafe factories and the brand had to deal with a negative reaction of its stakeholders and of the public opinion after the collapse of Rana Plaza in 2013. After the analysis of the two case studies following the triple-bottom-line dimensions the chapter will end with a personal discussion on the two corporations.

#### **3.2 Brunello Cucinelli: a business merged in its Responsibility**

Mister Brunello Cucinelli founded his company in the 1978 in Castel Rigone, and then from 1985 the company started to move to the city of Solomeo, the place chosen was an

ancient medieval town, bought by him area by area in order to build up the perfect place to work. According to mister Cucinelli Solomeo is the perfect hamlet where the soul can be peaceful, a place linked to the memories of his youth and so he felt the desire to renew it and to bring it back to its original beauty (Cucinelli, 2018, p.16). Indeed one of his main business credo consists in the fact that there is the need to produce beautiful goods and one of the basic needs in this direction is a proper enterprise location, in the meanwhile he continued to rebuilt and renew it piece by piece, building by building and he added new spaces around it (like the theatre and the garden). The starting point of this industrial story sees mister Cucinelli buying cashmere in order to produce jumpers for women in different bright colours, the inspiration for this business model came from Benetton that at the time was arriving in the markets with sweaters of different bright colour shades: this new paradigm applied on a different price segment and material permitted to Cucinelli to run up quickly in the market and to attract the attention (Cucinelli, 2018). He started the production when he was 25 years old, motivated by his passion and by the business idea he read by Theodore Levitt, according to him the developed countries were supposed to focus only in high quality production otherwise developing countries would run them out by producing the average quality products for a lower price (Cucinelli, 2018, p.57, p.62). Another interesting thing that helped mister Cucinelli to develop rapidly his ideas was to limit the market to those shops that were paying him even before that for the initial steps of the company, avoiding waiting payments from customers (Cucinelli, 2018, p.64). In this way the owner managed to create a pattern of steady pace of growth for the business: while the production was increasing year by year on the other side he was enlarging the initial base of the production, buying other building in Solomeo in order to create piece by piece the complete town for the production. In the same manner not all of the buildings were devoted to the economic side of Brunello Cucinelli, there are also a theatre, a park, the canteen and other facilities at the disposal of the employees; the idea of the theatre standing at the declarations given by the owner came to his mind while he was contemplating the pictures of saint Francesco and saint Benedetto (Cucinelli, 2018, p.90). Mister Cucinelli is also interested into arts and he organizes spectacles inside the company area, for the personal growth of the people inside. This model brought a type of growth that has been called by Cucinelli the “gentle growth” (*crescita garbata*), he is not only looking at the final lines of the financial statements or at the market

performance of the company but among his main aims there are also the wellbeing of the people inside, the respect for arts, history and culture, the creation of beauty and the respect for the environment around the company (Cucinelli, 2018). Like it is stated by Zsolnai and Wilson (2016) the goal of the enterprise can be defined as to “enrich the spirit of culture and give sense and fulfilment to the persons without damaging the community and the natural environment” (Zsolnai, Wilson, 2016) this clearly states that the company is far from a selfish belief about the role of the enterprise relegated to the financial area. Secondly the focus is on the individuals, the community and the environment, standing at what the communication is highlighting and from the perspective of the triple bottom line it may seem that the company is ignoring the financial side but it will be seen later that the performance of the company is actually outstanding and stable, even if it is not at the centre of the communication strategy. The segment chosen by mister Cucinelli for his products has revealed to be on the fastest growing since the establishment of the company and this helped him to maintain both profit and turnover high and increasing over time (Brunello Cucinelli, 2019, Koh, 2015). As it was said before mister Cucinelli established the firm in Solomeo, in the region of Umbria, and this choice has been for him a great commitment towards a set of values including the Made in Italy for its production: he has been following a no off-shoring policy from the beginning with the intent to fully deploy the power of the country of origin for the know-how present and for the set of value and brand image related. The activities are carried mostly in the region and totally in the country, for the full range of them: what he refused was the possible cost-saving and he denied to follow the mainstream strategy for the garment and textile production of the western countries during the last decades. The choice brought consistency to the brand and its communication with the production and “cultivated consumer positive emotional reactions that, in turn, led to positive consumer actions” (Grappi, Romani, Bagozzi, 2013). Another distinctive trait of this centre Italian company is its linkages with art and culture: both for the reconstruction of the old Italian town to use it as the site of the company, for the celebration of philosophers and famous literate on the walls of the enterprise by quoting them, by the funding of theatrical representation and other initiatives taken by mister Cucinelli and his corporation (Cucinelli, 2018). This is not the first time that it is seen has been done by a high-end brand, it is a best practice for both Italian and French luxury product company. Looking at the research by Chailan (2018)

art is supposed to introduce in the brand symbolic and aesthetic values to the luxury perception, this is done, among the different purposes, to counterbalance the damages of the industrialization to the perception of what luxury is, the complexity of the meanings of artistic codes in this way can be worn, migrated through the craftsmanship of the luxury designers and artisans. Different brands can be categorized accordingly to the temporal length of the commitment for arts and on the intensity of this commitment, going from a collaboration with one artist to a general interest for the art world in a holistic view (Chailan, 2018). Looking at the classification given by Baldassarre and Campo (2016) there are four possible configurations of a company relying on the fact that the sustainability can be used by the marketing departments as an instrument or it can be adopted in the reality: the four possible configurations are dark, opaque, translucent and transparent companies. The first category is unaware of the importance of sustainability and there is no trace about it on the company website or in its communication; there is low commitment and low-profile communication. With a greater importance given to the communication side it is possible to become an opaque corporation, with an opportunistic use of sustainability as leverage, used to appear rather than to be, emphasized by marketing with a high-profile communication. Translucent companies are realizing sustainability without fully exploiting its power towards stakeholders on the marketing side. Finally transparent corporations are giving importance in their business to the role of sustainability and in this view marketing and communication are consistent with what the company is actually realizing: sustainability is becoming an advantage and the reputation is built on facts that are also properly communicated, in this case the commitment on sustainability is high and the company is adopting an high-profile on the communication activity. The authors, a part from quoting the definition of humanistic corporate entity given by mister Cucinelli to his company, are highlighting the substantial and not opportunist adoption of the concept of the centrality of human beings in the business, exemplified also by the wages that are higher than the market average and by a participatory climate that is created to enhance the socialization process (Baldassarre, Campo, 2016).

To recall the view given by the triple bottom line perspective before going to discuss the aspects and strategies adopted by the company for the people and the planet it can be useful to face before how is the company doing from the profit side, to be sustainable the firm must create wealth, otherwise it would be a losing model. In the financial



communication to the shareholders and investors it is also present the declaration of the way that the company is following in order to create profits: humanistic capitalism, that is to create profit while generating beauty and without damaging the humanity. From the perspective of the business model the consistency and the communication linked to the brand image are important, from one side there is the need to communicate the values and principles linked to the philosophy adopted by mister Cucinelli, on the other side the company is committed to improve the perception of the Made in Italy that the consumers can have when they enter inside the shops, supposed to represent Italian houses and to communicate the brand in the last mile, for the independent shops there is the attention to check that the concept of luxury is properly transmitted to the public also through them and that they are not working against the rest of the communication made by the corporation. The company is selling its products in different ways: through their own shops to the final costumers and to single and multi-brand shops that are not part of the group. The company is increasing the importance and resources given to the e-commerce channel in order to improve the turnover and to enlarge the share of the Chinese market, at the same time great attention is given to this department since there is the necessity that also this channel of sale is following the brand values, an example in this way can be the respect given to the privacy of the final consumers. The financial situation of the balance sheet of the 2018 represents a flourish state of the company: 552 million € of net revenues and 95 million € of EBITDA, both of them increased more than 8% compared to the previous year, the operative result is 69 million €, with a 7.4% increase compare to the fiscal year 2017, all of these data are witnessing a growing company (Brunello Cucinelli, 2019). Now it can be useful as well to compare these performances on a ten years base with the 2009 report, in order to understand if this performance is a one-shot positive event or if it has been consistent as time went by. In the 2009 the EBITDA was 14.740 million € and the operative result was 11.490 €, this can witness a constant improvement strategy over the years with a company growing by an exceptional measure (Brunello Cucinelli, 2010). Moving to the market performance the company had its IPO in the 2012, with an initial price of 7.75€, from that period the company started to rise also its value according to the shareholders: indeed looking at the last five years the company grew from 20.42€ (16/04/2014) to 31.46 € (15/04/2019), with a minimum of 13.29€ on the 10<sup>th</sup> of February 2016 and a maximum of 41.70 on the 22<sup>th</sup> of August 2018. The group controlled by mister Cucinelli is also

continuously over-performing its category, indeed its result has been better than the Mid Cap of the FTSE MIB from March 2018 (Borsa Italiana, 2019). Mister Cucinelli said that the idea of listing the company came to his mind since he wanted to open the company to investors and because there is the need for every small company to be willing to listen to the market and to understand where they can improve. Another point that has been considered before starting to sell some shares in the market is that the daughters of mister Cucinelli will not be capable to run the company just because of their surname and so there is the necessity in a family business that is enlarging to set the basis for a model of ownership that can overcome the hardships of the passage through generations (Cucinelli, 2018, p.117). The main markets for the group in the 2018 have been Italy for the 15.9%, Europe with a share of 29.6, North America with 33.9% and finally Greater China with 9.9%, all of them are growing compare to the last year, particularly for the Chinese market, while the main channel is represented by the direct operated stores, accounting for the 53.6% of the sell. Finally the group financial report is also listing the principal risk factors that the business may face in the next few years and that may get the profitability into troubles: Brunello Cucinelli is facing an open market where there are already competitors in the “absolute” luxury segment and where there is the possibility for other brands to move upward across different price categories and to become competitors for mister Cucinelli. The company may undergo to some unfavourable market and macroeconomic conditions since it is operating across a vast array of different markets. From the production side instead there are some legal topics that must be under control: that can be the relationship with customers, health and safety on workplace, labour law generally, a strong increase in the level of protection that a company must guarantee may result in higher costs for Brunello Cucinelli or it may force it to abandon the market; anyway the company is confirming that by now the standards adopted are so much higher compare to the law requirements that there is no reason to be worried. On the operational side instead Cucinelli is stating that the company may face difficulties in finding the human recourse properly trained with the craft ability required and the procurement of raw materials can be hard due to natural conditions. The report is ending by a declaration of mister Cucinelli: after doubling the turnover in the seven years after the IPO the objective is to double it again in the next ten years (Brunello Cucinelli, 2019).

After seeing this financial side, confirming that the company is doing very well on that it is now time to see if it is doing as much on the other dimensions of the triple bottom line, to have the possibility to judge if the company will be sustainable and fair. Mister Cucinelli with no doubt had always put the social side of the company in a protagonist role from the communication point of view but now there is the need to ascertain if this is also done in the reality; the company, since it is matching the parameters established by the European Commission, is publishing every year a non-financial report for its stakeholders in order to explain them the corporate situation and to give them an holistic view of the company business. The company has 1826 employees, this number is greater compared to the ones of the past years, indeed it was 1473 during the 2016 and 1670 during the 2017; the company is employing largely more women than men, the first ones are the double than the latter ones. The company is also giving permanent contract to almost 90% of its employees, particularly for the European ones and the people working for Brunello Cucinelli are largely doing it full time, this can give both a proper amount of money to live and it can create a decent stability in the life of the people working for mister Cucinelli, in a similar manner the company is employing more women than men with a large difference and this is also inside the social sphere of the enterprise since women often have more difficulties than men to find an occupation. The main issue that can arise in this topic is that males are outnumbered by females for blue collar, sales and white collar jobs while there are more males than females for the decisional roles: managers and board position. While the large number of women employed is positive under the social lenses there is the lack of homogeneity inside across different positions in the hierarchy. The company also gives attention the differences across countries and cultures by having five different HR managers (Italy, USA, Greater China, Russia and Japan), this can allow a faster and more tailored answer to any matter that may arise in the business and the company is showing off a great focus and commitment to the employees' side; on this same perspective at the corporate level there is the presence of a Human Resource Committee, responsible for the consistency across the different managers and to maintain the control over them to be sure that they are following the values and the credo of Brunello Cucinelli (Brunello Cucinelli, 2019b). From the perspective of the human resource management mister Cucinelli has great and innovative ideas: an employee of his company should not send e-mail too far from the working hours and people are starting all together to work by 8am

to finish around 5pm with a break for lunch by 1pm, there is not any control for the entry-time, everyone is supposed to check for himself, on the other side overtime working hours are discouraged since people are supposed to take care of their family and their own life (Fenner, 2015). A lot of these provisions about the job schedule came to mister Cucinelli's mind during his youth: he saw his father working for long shifts and then he started to elaborate this philosophy on the fairness of the relationship between employer and his employees. On this same issue there is also the wage scheme that has been adopted by Brunello Cucinelli, blue collars are paid approximately 20% more than the market average, this is supposed to allow them a fair remuneration and to increase the satisfaction with the job, more than that there is a maximum difference in the ration between the managers and white collars wages and the ones of the blue collars in order to maintain a certain degree of fairness and balance among the people working for the same company (Cucinelli, 2018, Sacchi, 2014). This structure has been created since the family of mister Cucinelli experimented the discrimination and related humiliation while he was going at the high school and his family moved from the countryside to the city and he was feeling to be treated in a worse manner and to be poor compared to his new classmates (Cucinelli, 2018, p.48). The reduced gap in the wages is also a matter of dignity in the view of the employer, according to him the human dignity is the corner stone on which he builds up his life of man and entrepreneur (Cucinelli, 2018, p.53). For what it has been seen until now on the management style of the human resources adopted in the company it can seem reasonable to think that there are some traits of paternalism in the behaviour of mister Cucinelli, in the book he wrote he states that even if has been compared to Olivetti he feels to having created something more similar to the model adopted by Robert Owen during the first industrial revolution (Cucinelli, 2018, p.90). Mister Cucinelli is also feared about the aging of human resources, the company must remain young enough: the organizational device that he has elaborated brings the older managers to become co-managers during the last five years of their careers in order to advice and support the new and younger managers, with a lower wage to make the company able to sustain an higher number of managers than what was expected (Sacchi, 2014). The attention given to every matter that may arise from the management of human resources has as result an improved performance by them on some basic indicators: the ratio of illness and the number of injuries (while measure their productivity would be more difficult and less strictly related to facts). Inside the

corporation during the last year there have been only eleven injuries, the same amount of injuries on the way to the workplace, the ratio of injuries is less than 1% and the absenteeism rate is 2 to 4% in Europe and 6 to 7% in the countries outside the EU. The company may have in the next future also the possibility to improve the current result on the social sphere (and the other dimensions as well) by adopting some of the innovations that together are representing the industry 4.0, indeed the non-financial communication is stating that the company adopted a project in this sense in the 2017, the objective is to decrease the human intervention in the repetitive tasks and routine in order to let them operate with their specific know-how and to full exploit their creativity. The turning point in this sense that must be kept under Brunello Cucinelli's focus is to maintain the current craftsmanship and artisanship while adapting some phases and stages of the production flow to the new requirements and possibilities (Brunello Cucinelli, 2019b). The effects that are falling under the sustainability perspective are not only related to an improved job-design and probably and higher satisfaction for the workers involved but also to the environmental issues seen in the paragraph 2.3, that are less waste, higher possibilities to recycle and a decrease in the consumption of energy (Braccini, Margherita, 2019). Mister Cucinelli is also stating that the innovation that he is adopting are generating benefits also for the rest of the value chain of the corporation, particularly in Italy: the suppliers and the companies responsible for outsourced activities will have the possibility to learn new devices and processes and to implement their know-how by dealing with the innovations adopted by mister Cucinelli's corporation, at the same manner their employees by some devices adopted (like the RFID on the products) will be able to reduce the share of time allocated to repetitive tasks getting benefits similar to those allowed to the employees of Brunello Cucinelli (Brunello Cucinelli, 2019b).

Even if the respect for the people working for the company is occupying the main place inside the communication of the company the protection of the environment is not being forgotten. Under the view of the humanistic capitalism of mister Cucinelli the human race is supposed to be the protector of the nature, meant to be responsible and respectful for it. The company is paying attention to every phase of the production, particularly to the laundry that can be a risk factor at environmental level, secondly there are strategies in order to contain the consumption of energy and to control the safety of the production phases and the quality of the final outputs. From their own non-

financial report it is clearly stated that the company has not an elaborated environmental policy of self-regulation since the pollution and related risks are so unlikely to happen and so small in their possible effects that the company adopted only basic provisions reported also on their Code of Conduct. During the 2018 the company changed its supplier for the electricity in Italy and now it is using renewable electricity for more than 50% of the total, at the same time by switching to the supplier selling hydroelectric energy mister Cucinelli achieved a certified reduction in the amount of greenhouse gas emitted. The only big risk factor at environmental level for the company is the laundry and its operations, for this reason mister Cucinelli has specific authorizations and the company is taking care also of the depuration of the water used in this purpose and periodical analysis are made to check the adherence to the standards set by the law. While most of the information contained inside the non-financial declaration are limited to the Brunello Cucinelli group a small fraction of them are also dealing with what is happening inside the company that are taking care of the outsourced phases of the production: this is happening for the protection of human rights and the health and safety of the people working for them (Brunello Cucinelli, 2019b). Finally it is possible to add that in the board of the company there is a large presence of independent voters: this characteristic as it has been seen in the second chapter of this work may help the company to face and to discuss issue related to the sustainability and to soften the attention given from the board to the financial side of the business, all of this comparing this model with others companies that have less or none independent voters in their board. In the specific for Brunello Cucinelli there are four independent members out of ten people and mister Cucinelli sitting at the board of the company (Hussain, Rigoni, Orij, 2016; Brunello Cucinelli, 2019)

Like it will be seen later in the other case study Brunello Cucinelli has a style for its advertising campaigns that is distinguishing the company in the market place, the photographs are also used in order to highlight the values of the company and its credo. One of the main themes in the campaigns has been the protection of the natural environment that instead it has been less represented in the institutional communication seen before. These campaigns according to mister Cucinelli have the objective of catalysing the attention on the need for a new humanism and to recall the ancient philosophers and thinkers in order to make them revive again in the XXI century (Cucinelli, 2018, p.78). The company also states to use the images in the books of its

collections, doing these it is possible to have a deeper view of what the company wants to communicate by entering in contact with one of their point of sales, while the wider advertising campaign is giving a first point of contact in order to reach a larger share of the population. The company of mister Cucinelli is also active in other charitable and sustainable initiatives: it started to renew the buildings of Solomeo in the 1985, there is also the interest in taking care of the surrounding area of gardens and green, there is the shared view that the company can grow also in its extension but without damaging or strongly changing the surrounding natural arrangement of the environment, after the 2016 earthquake the company gave money in order to repair the city hall and the city tower of Norcia. The company has its own school supposed to preserve and maintain the craft know-how of its artisans and it helped also people during their period in jail in order to make them learn a job and to build up some possibilities of starting a better life in the future. The company is also giving a percentage of its profit to the related Foundation (Fondazione Brunello e Federica Cucinelli), born in 2010, with the double purpose of persecuting charitable initiatives and to promote and preserve the culture and arts of Umbria and Italy (Brunello Cucinelli, 2019b).

### **3.3 Benetton: innovation and responsiveness in the CSR strategy**

Benetton is a company active in the garment industry, established in 1965 by the Benetton family, the company has the headquarters in the city of Ponzano Veneto; the corporation is now under the control of the holding of the family, Edizione srl, that is owning shares in an array of different business. From the single brand Benetton the corporations has broaden its borders and it has three brands under its control: United Colors of Benetton, Undercolors of Benetton and Sisley, the last one has been acquired in the 1974. The company got listed in the 1986 in Milan, Frankfurt and New York, in the same year it enlarged its presence to the sport world by acquiring a team in Formula 1 after some years in which they have been the main sponsor for it, the team has then become the Renault one. In 2012 the role of president of Benetton srl shifted from Luciano to Alessandro Benetton and the company has been organized in three different divisions: one for the real estate management, one for the brands and the third on the production of the outputs. The company has been also dedicating attention to its sustainability and corporate responsibility: in the recent years Benetton has been a leader for the DETOX campaign of Greenpeace and they started programs for women

empowerment, an example has been in Bangladesh both for homeworking and inside the garment factories; in 2017 Benetton srl has been the first European fashion brand to join as associated member in the IWTO (International wool textile organization) which aim is to care about the sustainability of the value chain (Benetton Group, 2019c). Like it has been done for Brunello Cucinelli case study the analysis is going to follow a path in the perspective of the triple bottom line, after a brief view of its financial and economic performances the focus will shift towards the sustainability issues both for the people involved (as workers or as part of the local communities) and the protection of the environment.

The performance of the group cannot be seen without at least a short review of the innovations that Benetton brought in the competitive scenario in the first years of its history: until 1968 they didn't have mono-brand shops, then they opened the first one in Cortina and other two in a couple of years. After those stores Luciano Benetton developed a model that has been an evolution of the franchising agreements: there were Benetton agents responsible for finding partnerships to open new stores, they were receiving orders, training the new partners and helping them to set up everything in order to have stores perfectly aligned one to the other and with the philosophy of the brand, at the same time agents were also independent companies, maybe also called to help to finance the new stores for the kickstarting phase. All of these shops were also obliged to sell only Benetton products and to follow the guidelines, the promotional and advertising campaigns and other directives coming from the headquarters. With this model of business under the period in which Aldo Palmieri was CEO of the company the number of shops was rising with a steady pace and at the beginning of the nineties they reached five thousands of shops all around the world; he has been also pushing the ownership to list the 25% of the shares in the stock markets. The idea that Palmieri had was to list the company to reinforce its presence worldwide that at the time was only commercial, he also thought about rising the share of production that was not located in Italy (it was only 15% in the 1988 located in foreign countries divided into licenses and directly owned factories) (Ketelhon, 1993). From the operational point of view the innovation brought to the market by the family has been the "tinto in capo", the jumpers were usually made as garments after that the fabric had been dyed, instead the process created by Benetton was about producing not dyed garments that were then brought to the dye process after that the costumers requirements about colours for the coming



season were quite known, reducing the unsold garment, maximizing the fit with the market trends and achieving a reduced time to the market that made them able to overrun their competitors in the responsiveness. From nineties the larger numbers in the production forced Benetton to transfer part of the production outside in order to reduce the costs, the company was replicating outside the same model by directly owning the factory or by having shares and dividing the ownership with foreign producers. Even in this configuration products were sent to Castrette in order to be stored and sent to the shops. The tight style of control that was being exerted by the centre of the company permitted to keep the same level of quality and the desired final products, with less than two months as lead time (while in those years the European and North American companies had an average lead time that was about nine months) (Sartal, Martinez-Senra, Garcia, 2017).

The current business model sees the main brand United Colors of Benetton focusing on sustainability, innovation and quality while Sisley is positioned in a higher price segment of the market. Since there are economic troubles that will be seen later here the company is redesigning the structure and layout of the shops, one of the first examples is the one in Oxford Street in London that is integrating new technology and different channels in the traditional brick and mortar shop. From the operations side the company is improving the management of the logistics procedures and the firm is implementing also a process of reverse logistics and the integration of IT in the management of the stocks and the warehouse (Benetton group, 2019) The company has been flourishing during the years of international expansion: according to Camuffo, Romano and Vitelli (2001) the revenue increased from 400\$ million of 1985 to more than 1 billion and 800 million of dollars in the 2000, as side effect of this large growth the ROE and ROI decreased from around 50% in 1985 to 18% for ROI and 15 for ROE in the 2000. The company since some years is financially and economically suffering, with revenues and profits decreasing yearly. To have some numbers in the 2017 the company produced 111 million of pieces, sold by more than five thousands of shops, the brand is present in 85 markets and by the e-commerce channel in 25 nations (Benetton group, 2019). Looking at what happened in the last five years the company had a turnover of 1.602 million € in the 2013, this has decreased with a constant pace: 1.547 in the 2014, 1.529 in the 2015, 1376 in the 2016, 1280 in the 2017 and finally 1230 in the 2018. The net profit instead has always been negative recently, from -199 million € in the 2013 to

-181 million € in the 2017, the best result has been -45 million in the 2015, the total of net asset decreased as well from 1287 in the 2013 to 429 million € in the 2017 (Edizione srl, 2014, 2015, 2016, 2017, 2018; Benetton group, 2019). The situation seems negative and persistent, the holding company has given different reasons for the bad performances: generally there have been errors in the management of the retail channels in a consistent manner, more than that the group has to blame also the value exchange for some production areas and the general decrease in the demand particularly for the domestic market in which there is a stagnation in the industry. The main markets for Benetton Group in the last financial declaration given by the holding are: Italy for the 36.5% of the turnover and the rest of Europe accounting for 38.8%; speaking about the channels used to reach the customers the most successful one by now is by indirect stores that are responsible for the 57.4% of the turnover (Edizione srl, 2018). The brand Benetton is heavily relying on the kids segment to fulfil its sales, it represents 40% of the turnover while the company is willing to enlarge also the share of the market represented by the 25-35 years old segment (Benetton group, 2019). The main risk factors at the operational level for the company are represented by: the brand strategy since the company is try to achieve a new position for United Colors of Benetton and this may fail or may result in a situation economically worse than the previous one. Secondly the changes in the channels of distribution may be difficult to adopt or there can be situations in which different channels are competing one against the other, on the same perspective the changes in the retail and in the position of the brand must be accepted as well by the internal organization, in order to avoid structural conflicts. The company is also caring about the success of the entrance in the Indian and Korean markets, for this the company is slightly readapting the styles of the collection in order to be more international (Benetton group, 2019). The company has been struggling during this decade in a bad situation from an economic and financial point of view, for the analysis of this dimension the only positive sides can be that the repositioning of the main brand and the investments made in the retail channels and their innovation can result in the medium term in a renewed profitability for the corporation. The success in the Eastern market as well may help the company to face again a positive situation and to start to recover from the recent losses.

After the discussion on the profits to see what are the strategies and the achievements of the company in terms of people and planet it is useful to have a look at the values that

are highlighted inside the non-financial declaration of the corporation: colour, that is both for the history of the brand and for an happy approach to life, quality, freedom of expression to produce tolerance, ideas and dialogue, social commitment to avoid every violations in the human rights, internationality to overcome differences and barriers and culture. From the point of view of the governance Benetton Group has four independent members inside the board, in the same percentage of the total members that is present in the board of Brunello Cucinelli, 40%; the company has also a dedicated committee for Human Resources and Remuneration and one for Sustainability. The company is involved in the Sustainable Development Goals by the United Nations, Benetton endorsed five goals out of 17. The brand is committed to: gender equality, good employment and economic development, ethic production and consumption, fight against climate change and to create partnership to sustain these objectives. Although the adherence to the program has not any binding provision and it is depending on the goodwill of the company there is the possibility from Benetton to use this partnership with the United Nations in order to grow in terms of reliability and consumer trust since it is working side by side with other companies and with one of the most famous International Institutions in order to achieve results in terms of sustainability. This is also a mean to make stakeholders able to understand and compare different companies on the same framework since the SDGs are spread among companies all around the world (Benetton group, 2019).

The company is employing 7.510 people, most of them are women. As it has been seen before for Brunello Cucinelli the large share of women in the total of workforce for blue and white collars is then becoming underrepresented at the managerial level. The company in Italy has 29 male managers out of 33, while there is no female manager in the rest of Europe and in the other countries, these numbers result in a total of 4 female managers out of 45 at global level. Benetton has various programs directed to its employees, giving attention to the different needs that they may have, these initiatives are grouped in the “Benetton Per Te” for Italy while there are local programs for other countries. The greatest innovation compared to the previous years is the creation of the “Banca Ore Etica”, to which people can donate some hours of their holidays in favour of people that have specific needs for more time to take care of their relatives or of themselves. The group gives the possibility to adhere to the project “Stretch”, in which workers may decide to adapt the time in which they start and finish to work in order to

fit it with their needs and if it is possible they can also work from home one day per week, the enterprise organizes English lessons for free to its workers in order to improve their knowledge, there is also a special day dedicated to the workers' sons that are finishing the school in which they visit the company and they can get a feedback on their CVs from the recruitment team of the company. There is the project "Welcome back, mom" in order to reintegrate women after the maternity leave, there is a plan for health insurance for workers and their family and the sport centre La Ghirarda in which the employees can enter with a discounted price. Inside the company in Ponzano there is also a nursery in order to facilitate the maternity and early years of newbie moms, a part from giving help to the women to keep working the nursery is also following the philosophy of Benetton and there are lessons given to the parents in order to explain them specific points and to alert them about the psychology and growth of kids (Benetton group, 2019). The company is strongly committed to provide training and new competences to its workers: there are various projects to which people can subscribe or be enrolled by the company. There is the Benetton on Board for new hires in order to instill in them the culture of the group, the Benetton Engagement and Store Training to train store managers and sales assistants and to make them communicate and to enhance the consistency among different shops, Strategia UP to find and train talents that are working inside the distribution channels, other projects and programs are active in a more limited manner, the common purposes are training and personal development united with the diffusion of the values of the two brands. Other programs are "Persone a Colori" for personal development, programs for selling instructions for each brand, the "Omnichannel" to teach to the store crew the innovations given by the interaction of internet and technologies in the new stores, then lessons to learn how to use MsOffice and specific programs for each department. The amount of hours of training and education provided by Benetton in 2018 has been 29 844, decreasing from the 2017 and the 2016 (the results were respectively 30.029 and 55.647), the reasons for this are that some projects haven't been taken into account anymore and that the company is going through some internal changes that forced the top management to leave aside in this phase the attention for these activities (Benetton group, 2018, 2019). Benetton group is respecting with all of its workers the provisions that are set by the national contract of each one's category and the company is committed to the 0 injury policy, adopting special strategies and devices in order to reduce as much as possible the number of

injuries for people working for it, moving further from the legal standards and in this sense there is a specific committee dedicated to detect and analyse possible process and tasks that may result in an injury and how to avoid it before it happens, the injury index (number of injuries on the total hours) in the 2017 has been 1/100'000, decreasing from the previous years. The company is careful about the respect and protection of human rights and in the control of its value chain to check that all the production is made following the minimum legal standards of local and international provisions. The company states to select its suppliers not only on the economic reason like prices or quality, but also basing the judgement on the adherence to certain social, human and environmental standards; the company is adopting a Code of Conduct, this has the purpose to set clear rules for the suppliers while the relationship is being established to allow the public opinion to know the rules followed in the Benetton garments' production. The company in its Code of Conduct adheres to the provisions set by the European Strategy for the CSR and to the Guidelines for Multinational Companies set by UN in 2011; there is also the possibility to check where the products are made and some specific information on each suppliers. Benetton is checking the respect by the suppliers of the Code of Conduct through the auditing process that is performed by the CSR Management team and there are inspections that are performed by a company specialized in this kind of operations. Every supplier is going through the audits every 6 to 24 months, in some of the cases the standards required are remaining unmet, for this reason Benetton group has the power to start with a follow up process of more frequent audit and inspections in order to make the supplier catch up or the company may as well end the relationship. During the 2018 half of the suppliers (325 out of 707) have been expected and related to this 59 were found to have potential or actual negative social impact, of this group 24 of the relationships were closed for the magnitude of the risk of negative social impact while for the remaining ones it has been started a procedure in which Benetton Group will help the supplier to catch up (Benetton group, 2019). The company is active through a wide spectrum of social campaign by which it is trying to cover the role of shaper of the society from the position of an enterprise particularly in matter of women empowerment. Examples in this topic are: the project "Nanhi Kali" to found girls' education, the project "POSH" to fight against sexual harassment on the workplace and to spread equal policy for both the genders, the "Sakhi" project with the purpose of giving the basic health controls to female employees and to educate them

with programs to learn a foreign language and craft laboratories and the program “Aarohi” with the NGO CRY to create re-usable female pads for women living in rural areas and finally “United by the Light” in cooperation with HelpAge India to allow for free check-ups and surgery for eyes to senior citizens (Benetton group, 2019). In the last years instead there have been: “Tutte per una. Una per tutte” in which a special product has been created and marketed with the profits given to an agency of UN to protect women against violence, “United to End the Violence against Women” in 2016 with a video created to attract the attention on the topic, “Power Her Choice” has been developed in order to spread the idea of freedom of choice for women in matter of having children, this by participating to a conference in London, other cases has been also “Teijendo Futuro” and “Colorful Minds” in Mexico, both for kids, the former to think about the future of the Nation and the latter to sell books at a low price. For women empowerment and gender equality the company is active with an array of programs and initiatives particularly in India: in 2017 the company created “Miss Woman with a Voice”, giving a prize for fundraising on social platform for an NGO, “United by Purpose” to cooperate with local artisans for special collections (Benetton group, 2018).

Even with all the projects and the attention declared by the group in its institutional communication while the company has been in the business there has been an accident in the social and human rights protection. It is the case of Rana Plaza disaster happened on the 24<sup>th</sup> of April 2013 when a factory in Dakha, Bangladesh, collapsed, a week before the disaster the building was partially closed since a governmental inspection found some cracks in the building. The workers were anyway obliged by the owners’ representatives to continue their tasks with the threat of not giving them the salary accumulated until that date; while some men refused to get inside most of the women (representing the largest share of workers in the Bangladesh garment industry) decided to continue their job under those menaces (Akther, 2014). In that occasion died more than 1.1 thousand people and more than 2 thousand got injured, this has been the greatest shock for the public opinion in the garment production for the recent history, also because the number of Western brands that where involved in the factory with the role of final buyers, the occasion has been used in order to focus the attention on the global value chains and from this a number of campaigns took place in order to promote more clean and responsible sourcing and production. While there were some improvements at system level, according to the producers the prices paid by foreign

brands are still too low to permit to local factories to invest in safety and health enough money to be sure that no major accident will happen again (Naimul, 2019). Benetton was not buying from Rana Plaza factory anymore when the disaster happened but the brand has been dealing with it for a while. They started the cooperation from the 2012 through a supplier that was subcontracting to a firm operating inside Rana Plaza, Benetton inspected the building and authorized the production there, it ceased anyway at the beginning of April 2013, before knowing about the problem that the public authorities discovered; in terms of value of production the garments from Rana Plaza represented the 0.06% of the total of Benetton and the Bangladesh on its own was the 10.2% of the total value of production. After the disaster the company decided to contribute to the remediation process by adhering to the BRAC initiatives and giving them 0.5 million \$ for livelihood support, counselling and general assistance to the victims and their relatives. By looking at the ILO data the company has contributed for more than what necessary: while independent expert accounted to Benetton group a sum of 0.55 million \$ the company decided to double it and to give to the Rana Plaza Trust Fund 1'100'000 \$, making clear that the company has the intent of remedy to the misbehaving to which it took part. The 30 million \$ sum that ILO was hoping for in this Fund would have been almost double if all the other company would have given proportionally the same amount of the Italian brand, some of these other companies are: H&M, Inditex, Primak, Walmart and Auchan (Benetton group, 2015, Pwc, 2015). The company now is part of the Accord on Building and Fire Safety as associated member, is not a project developed by Benetton on its own, it includes more than 190 brands, each one of them has to list the suppliers from Bangladesh involved in the production. All of these factories are subjected to inspection, remediation and programs for the workplace, the first inspections are focused on fire, electrical and structural safety, then there are follow-up inspections and corrections, after that there are training process for managers and workers and other programs in order to improve the situation. As an outcome of this procedure the safety will improve on a system wide base, avoiding the race to the bottom on social rights and working conditions, the factories will be safer and in a verifiable manner since inspections are done by the engineer of the Accord. There is a shared responsibility between the international buyers and the local suppliers in order to maintain the required minimum standards, there are training processes that can improve the situation in a lastly manner and there is an higher probability that the

relationship with the producers from Bangladesh will become a long term one with a learning process streaming from the multinational companies. (Accord, 2018).

The company is active also on the protection of the environment; as it is well known the dye process is risky for chemical pollution and all the garment industry is producing a large quantity of waste also in terms of cloths that are not going to be used even once (Cooper, 2018) for this reason the company and its competitors are called by their stakeholders to prevent excessive pollution. The green mentality at Benetton starts from the R&D processes: examples of this are the mineral dye or the TV31300 (the jumper produced in Castrette with an I4.0 technology), sourcing and production have seen the DETOX campaign, the use of sustainable cotton and the controls in the process; transportation and logistics are done to minimize the emission of greenhouse gas, to optimize the use of vehicles and for intermodal transport; shops are using renewable energy, led lights and recycled shoppers. About wool the company has the certification by Woolmark, granting the quality and is member of the IWTO, the company has developed the B-Wool project to produce wool jumpers with a smaller environmental impact and easier to wash at home. The cotton used by the brand is using at the 4.7% organic and non-GMO cotton, the 27% is coming from sustainable sources and the recent membership inside the BCI (Better Cotton Initiative) committed the company to enlarge the share of cotton that it is made reducing the use of pesticides and chemicals and fairly treating the workforce, that by now is the 23% of the total, the company developed also bio-based fibres, to produce swimwear with characteristics similar to nylon materials but with a smaller environmental impact and less polluting. Finally the Responsible Down Standard certifies that the feathers from geese and ducks used by the company are made in a sustainable and respectful way towards the animals. Benetton Group by being part of the project DETOX of Greenpeace is involved in the reduction of the environmentally hazardous chemicals , particularly 11 substances by the 2020, in the 2016 the company won the Detox Catwalk for being one of the fashion brands that reduced the most the use of chemicals; the company is also testing the water of the wet processes (like the laundry operations) all around its global value chain so Benetton can get insights from suppliers as well (Benetton group, 2018, 2019). On the logistic side the company is optimizing the use of transportation means by mixing trains, ships and trucks, it is using gas instead of diesel for what is possible to reduce the greenhouse gas production and there is a high control possibility from the headquarters



that can track every single piece produced to manage the deliveries. Finally the company entered in the circular economy: the goal is on a medium term basis and with the purpose to reduce the amount of energy and raw materials used in the production and at the same time decrease the waste and losses in the output. From 2019 the company will cooperate with the TK Blue in order to analyse and optimize the consumption of energy and the pollution (Benetton group, 2019). The vision given by this topic is not distant from the concept of sustainability, indeed: "A circular economy is like a lake. The reprocessing of goods and materials generates jobs and saves energy while reducing resource consumption and waste", there is the responsibility of the producer extended also to the final use and disposal while the cooperation with the costumers is increasing under the common view of a greener economy (Stahel, 2016). This aspect is called Extended Product Responsibility (ERP) and it is given to the company from its stakeholders, pushing to create products that are easier easier to discompose and to recycle, with no hazardous element inside and to design them in order to have some possibility to recreate raw materials from them; all of this with a general attention to the environmental respect and protection. While the actions by the public authorities are still missing Benetton and other firms acting in the same way are setting the ground for the environmental dimension of this view of sustainability, in the future hard law may be bring this concept to a system-wide base (Kunz, Mayers, Van Wassenhove, 2018). The company improved the quality of the clothes and reduced the number of pieces produced in order to make the customers buy less of them but use the for a longer period of time, in this way the project B-Long is supposed to find solutions for an improved quality and to teach to the final users the correct way to make those jumpers last more than what is the average product life. There has been also some research in new treatments that are decreasing the impact of the production and consumption: mineral dyeing, that has a reduced environmental impact compared to the chemical process and the ozone for denim to reduce the waste of water. In this direction there is also the implementation of RFID on the products that by now are mostly focusing on warehouse management and shoplifting but in the future it will help the communication with the final users and it may result in a new channel to instil in the society the circular view of the economic system (Benetton group, 2019).

Finally Benetton as a brand has always been associated with its campaigns: they have been used as an instrument to achieve popularity or at least attract the public debate on

a certain topic and associate a battle for it, at the same time the company has been acquiring the role of shaper of the society for the public opinion. Benetton logo is linked with the famous photographer Oliviero Toscani, according to Luciano Benetton communication should start from inside the company and in Toscani's opinion there is no need to advertise a product: for these reasons the cooperation has been a long term one, with Toscani almost continuously occupy the role of creator for the brand and the image have always been about the society and the environment. The first campaigns, starting in the 1984 with "All the colours of Benetton", were aimed to overcoming differences and racism by representing groups of different people, a white and a black handcuffed together or a black woman breastfeeding a with boy for example. What the company understood was that the target of consumers (women from 18 to 34) was greatly more aware compared to the same segment of the past generations, the following step so was to move forward in interpreting the society and its problems. From 1991 the campaigns have become more controversial going to touch some topics like AIDS, political violence, war, environmental disaster, examples of this period are the photograph of David Kirby dying of AIDS and the three hearts labelled white yellow and black. In this second period some of the ads have been banned for being sexually explicit, against the moral or inadequate for the audience of certain magazines. Going to the recent years a great debate arose from the UNHATE campaign (this time without Toscani's intervention) that has been using the computer technology to represent kisses between the most important and distant world leaders (Obama and Hu Jintao, Mahmoud Abbas and Netanyahu, the Pope and an Imam), the results have been more than 3000 articles, 600 TV reports, topic trend on twitter and Google and a +60% of likes on the Benetton Facebook page. The company had also to apologize for some of the pictures like for the one representing the Pope (Incze et Al., 2018). Oliviero Toscani came back to the company as creative director in the 2017 and the 2018 the campaign has been focused on the immigration with the pictures of immigrants of first of second generation working for the Italian public institutions with the aim to represent the new faces of Italy (Benetton group, 2019). To conclude on this topic while the company has been successful into attracting the attention and into creating relational capital with the customers that wanted to buy values and philosophy from the brand on the other side the main issue has been that so little was done to help in that struggles: little or nothing has been devoted for long time for example to fight AIDS or racism or for peace (Incze et

Al., 2018). Like it was seen before now Benetton is acting in a various array of situation that the criticism of before may not appear possible anymore, indeed the company has dedicated project for the developing country, for the mothers, women in general and for the environment, for what it is possible to say about this is that it may be missing the link between the campaigns and the concrete actions deployed by the group.

### **3.4 A synthesis and comparison between Brunello Cucinelli and Benetton**

For what it was seen before the two case studies represent companies acting at the two extreme of the market and with different business models and priorities but nevertheless the structures of responsibility that they developed are peculiar and interesting. In this section the path to follow will be again suggested by the view of the triple bottom line, comparing the two corporations on each one of the relevant dimensions.

Benetton group has 1'230 million € of turnover, has lost in the 2017 million € and the company has been employing a total of 7510 people, its turnover and the workforce are far larger numbers compare to Brunello Cucinelli, this company has instead 400 million € of turnover and it is employing 1826 people (in 2018), the company reached a profit of 47 million € in the last financial year (Brunello Cucinelli 2019; Brunello Cucinelli 2019b; Benetton group 2019; Edizione srl 2018). The business model created by Brunello Cucinelli has been able to infuse in the fashion production the Italian heritage coming from the Roman period until now, while there is also the cultural component coming from the quotes and lines of Italian and European artists, philosophers and writers present in the communication, speeches and advertising campaigns made by the company or by the owner (Brunello Cucinelli, 2019b). A part from this concept innovation there has been also a product one in the use of colours for cashmere that has been copied and adapted from Benetton with a different material (cashmere instead of cotton fibre) (Cucinelli, 2018). Instead Benetton developed both the “tinto in capo” to process not-dyed fabrics and dye ready garments as late as possible and the new distribution channel model bypassing the franchising and keeping a tight control over the shops; the immaterial part of the innovation in this case has been represented by the messages contained in the advertisement campaigns, people were able to wear an idea and a vision of the society by buying from Benetton (Benetton group, 2019; Sartal, Martinez-Senra, Garcia, 2017) . Bypassing the concept of business model and going to

pure numbers it is easy to see that Cucinelli is flourishing due to the fact that the segment of the market chosen as destination of its garments has a large willingness to pay and it has not been touched strongly by the crisis, on the opposite side Benetton group has been stuck in a mass and cheap market that after 2008 has not experienced a flourishing economic situation. The second company is now restructuring the distribution channels in order to update them and to refine the interaction of the traditional and online distributions, at the same time there is also a second intervention aimed to the final product that is supposed to refine its content in terms of quality in the next seasons (Benetton group, 2019). Both companies are trying to exploit the e-commerce as an instrument to increase the turnover while they still have mono-brand shops; the company of mister Cucinelli is also reaching its consumers by multi-brand shops, this may make it easier to reach some far markets and can help positioning the brand in the desired niche of the market by selling it near to some other more known companies. The companies are different also in their sourcing and operations' locations: Benetton has developed to a multinational configuration for its activities, producing in Asia almost 40% of the value of the production (Benetton group, 2018), this is increasing the risks of social and environmental concerns. Mister Cucinelli instead has chosen an all Made in Italy strategy for its production, both for the country of origin impact on the final product and for its view and values in which the cost reduction is not present. The configuration chosen by mister Cucinelli is giving the company almost the certainty that no social and human right violations are happening along the value chain and the company is having long time relationships with the suppliers, this would make any violation easier to ascertain for the tight coordination with the leading company (Brunello Cucinelli, 2019b). On the contrary Benetton group developed a system of controls and follow-up procedures: there are inspections for suppliers and subcontractors must be authorised and random controls can happen, partnerships can be cancelled or limited until the solution of the issues on the standards to respect (Benetton group, 2019). Even with all of these procedures to follow and inspections to undergo the group face the consequences of the Rana Plaza disaster by the public opinion reaction: the location in developing countries and a long value chain are creating a mix of a weak protection standards generally present in the area with difficulties in making controls for the distance from a geographic and cultural point of view. From the procurement and sourcing side Benetton is using organic and non-GMO

cotton fibres for a small share of production and for the what it can be read in the institutional communication this percentage may rise in the following years, while on the wool products there is the presence of the certification by Wollmark and the membership of the company in the IWTO (Benetton group, 2019). The other company instead avoided the use of certifications: from the non-financial declaration is only affirmed the adherence to the national and international rules when they are acquiring raw materials and that the company is checking that the suppliers are not adopting practices that may cause sufferings to the animals (Brunello Cucinelli, 2019b). The two different approaches are symbols of two different views: it is possible to trust Brunello Cucinelli as a firm, for reasons like its consistency and the brand image; on the other side Benetton is adopting external certifications and relying also on the external entity to increase the credibility of the behaviour.

Secondly it is necessary to speak about the behaviour of the two companies in terms of respect for their workforce and for the communities that may be somehow influenced by the operations carried on by the corporations. Firstly the numbers are so different (even more comparing the company at the state in which they were ten years ago when Benetton had 1 billion more of turnover) that a structure like the nursery is more difficult to imagine in the case of the company from Umbria. Going directly to what is more comparable the working schedule is strongly fixed in the enterprise of Brunello Cucinelli, people are starting at the same time and they are not supposed to being working after 5.30pm, on the contrary Benetton is developing programs that are allowing people to start and finish when they prefer and to let them have “smart-working” opportunities: the second model seems more open to the necessities of the current times so that everyone can fit the working hours in his or her own commitments. A very similar aspect of the two corporations is the share of women over men, they are outnumbering the male in the company workforce but at the same time this share is not equally represented in the higher positions of the hierarchy, making the gender equality still not reached at this point. About the wages it is possible to say that mister Cucinelli is committed to pay around 20% more of the market average and there is equality between blue and white collars, Benetton group doesn't give any information about the wage structure but they affirm that there are bonuses linked to the results, the company confirms that all the national contracts are respected while in the developing countries they are committed to pay at least the minimum wage. The bonuses Benetton

is giving are based on the results achieved on different levels of the organization and on two different time horizons, by doing so the company is able to stimulate both long and short term performances and both corporate and units' ones. On a different bonus structure the company is giving incentives also to the stores and their crews (Benetton group, 2019). Both companies are active in the limitation of the injuries with sensible reductions over the last years and they are also active in the implementation of the Industry 4.0: in Brunello Cucinelli by an higher use of devices and software in order to reduce repetitive tasks, in Benetton instead they produced a jumper using automatic knitting machines, even if it lacked of the market success the company is still investing and studying other solutions both on materials and techniques to adapt it for the mass market. Benetton group has also the merit of having a number of programs dedicated to Asian countries where a large share of the total production is located and they are usually devoted to gender equality, prevention of illness and health problem and a spread of literacy, this can help local communities, spread the knowledge about the brand and for the future may help to build up a base of consumers for the company in the region. The actions of the other case study are radically different: the owner has a foundation that is active in the construction of schools and hospital in Africa while in Italy the brand is funding the restoring of churches and monuments, this is fitting well with the values expressed by the communication of the company and the headquarters themselves are a symbol for this for being located in an old hamlet. According to the view of mister Cucinelli in which for the human's arts and beauty are necessary for a proper way of living, these charitable actions must be located inside the category of programs undertaken for the people. Finally the two brands have also a different view about training and education of their workforce: Benetton group has programs that allow workers to use some of their time to enlarge their know-how and capabilities, some of this programs are on-line, others are dedicated to the commercial partners in the distribution channels and others are useful to find out who are the talents inside the company. Brunello Cucinelli instead has a different view of training and education and this is basically articulated in two moments: there is the school in which people may go to learn specific knowledge of the craft techniques, that are now distant to the skills the company can find from the market, so there is the need from them to have their own school in which there are also ex-workers that are training the future employees; another characteristic way that has been developed by mister Cucinelli is the

cooperation between old managers and new ones during the last five years of career of the former ones that are acquiring the role of advisors, a last instrument adopted by the corporation is the use of internships that are resulting in permanent contract in most of the cases using the initial period as on-the-job training (Brunello Cucinelli, 2019b; Benetton group, 2019).

Finally both companies are taking actions in order to prevent and reduce pollution and the impact over the surrounding environment: on this topic the company from Ponzano is doing far more compared to Brunello Cucinelli, the reason in this sense may be they have different segments and business models. While mister Cucinelli's company has always been low in the environmental impact the fast fashion business has been more hazardous in matter of polluting chemicals, for this reason Benetton family adopted a number of counter-action to reduce the risk and to give the brand a green image. The company, as it was said before, is using raw materials that are causing a reduced impact over the environment and they are developing new ones; Benetton group is also checking the suppliers that are performing the tasks that are representing the greatest risk factors for pollution and they are testing the waters to be sure that no hazardous chemicals are poured into nature and that people are safe while working. Another point that is making Benetton a green company is the attention to the logistic side by optimizing the management of the warehouses and the use of trucks; at the same time the company is developing inter-modality in their choices of the means of transportation reducing emissions and traffic. The corporation is also taking care about the material used for packaging and in the stores in order to reduce the consumption of non-recyclable ones (Benetton group, 2019). The approach of the other company studied instead is less complex in this perspective: the non-financial declaration states that the company for the type of raw material chosen has not any notable risk in this direction, the phase that is being the riskier factor for environmental pollution is the laundry that is kept under control, the company started the "green project" supposed to reduce the consumption of paper inside the firm, one of the direction of this will be the digitalization of the archives. The company in the recent years, a part from an higher use of electricity from renewable sources, has not been doing important actions in order to reduce its impact to the environment and some of the indicators on waste and consumptions are growing, this may be clarified by the fact that the company has been

running up in terms of turnover in the recent years and the optimization may result difficult in a period of fast growth (Brunello Cucinelli, 2019b).

For what it was seen in this section the manners to interpret the corporate social responsibility can be widely different and even company that are not capable of performing well on the financial side may still continue to adopt practices for their sustainability in order to use them for marketing and credibility purposes. Comparing the two case studies Brunello Cucinelli is doing far better than Benetton on the economic dimension, Benetton may be able to recap in some years if the strategies adopted recently for products and distribution channels will be successful. For Brunello Cucinelli the growth has been consistent and the brand has the leading position in the niche in which it will be difficult to be overrun in a short period of time. For the protection of the environment the company of the Benetton family has a policy largely more structured, being able to have partnership and to find in each category of product they are creating which are the raw materials to be used to recued the impact, the company is also dealing with the stores and logistics that are important aspects to be taken into account for the pollution of a geographically spread corporation. The bulk of actions that are taken on the people dimension are different among the two companies but they can be both considered virtuous: Brunello Cucinelli is permeated from the corporate culture by the attention to its workers while Benetton group adopted different programs, not reaching an adhocracy and mantaining a certain degree of consistency among them.

The two companies are doing an action of non-financial reporting, in both cases is the law that is obliging them to do so since the size is large enough to get touched by the EU Directive 95/2014, the reporting is certified by EY but for what it would have been useful in the previous analysis it is missing a section that can give numbers to the action, like the one proposed by the London Benchmarking Group. Anyway the model adopted of the Global Reporting Initiative is the most comparable since it is spread among European corporations and at it is also easy to adapt to different companies like in this case; the structure by reflecting the triple bottom line dimensions gives also the possibility to understand separately every topic and to judge them analytically. The companies are also different for the use of certifications: there are none from Brunello Cucinelli while they have been widely adopted by Benetton group particularly in the sourcing. Benetton has: RDS on feathers, FSC for paper, Woolmark on wool, the company



is then also experiencing an array of cooperation, partnerships and prizes that in a different manner may give the same credibility and acceptance that are given by the certifications. Among this relationships the entities involved are: in the operations IWTO, BCI, ZDHC, SAC, for human and social rights FAO, OMS, UN agencies (UNHCR, UNFPA, UN Women), CRY foundation, for human resources MIB Trieste, Milano Fashion Institute, University of Padova and LUISS, and they have been recognized with prizes by TATE Gallery, by the organizers of Career days and the won Smart Working Awards and India CSR Awards both in 2017 (Benetton group, 2018, 2019; Brunello Cucinelli, 2019b). The company in its Code of Conduct is also declaring the adoption of the guidelines of the SA8000, the Code is a basic list of norms, in this case clarifying the compulsory adherence to ILO Fundamental Conventions by the suppliers and to the commitment taken by the company in the environmental protection, it is also specified that the company reserves for itself the right to inspect the suppliers and subcontractors and they must allow and help these interventions. Brunello Cucinelli in the Code of Ethics is more general: the relationships with suppliers are supposed to be established for long term period and for mutual learning and improvement, the suppliers are expected to adhere to the style and values of the buyers and to comply with all the legal requirements. By outsourcing in Italy this company has a less stringent pressure to find out what are the provisions to require to the suppliers: it is sufficient to follow local rules, different it is the situation of an outsourcing in developing countries like the one done by Benetton group (Brunello Cucinelli, 2011; Benetton group, 2019, 2019b).

### **3.5 Concluding remarks of the Chapter**

In this section the analysis of two Italian companies permitted to acknowledge the variety of solutions that corporations may find in order to answer to the requests and pressures exerted by their stakeholders. The first case showed a company that is built over its sustainability and responsibility, which became a significant trait in its value proposition, the second one has a large number of different actions that are deployed in order to face and deal with an array of problems that are different in each one of the regions that they are located for production or distribution. For what can be said the company of mister Cucinelli seems to interpret the CSR as a shaper of the society: the profit is still present but it must be a “right profit” and it is seen by the owner as a gift from the nature, like it was once for farmers, the company is also listening to the people

involved in its operations and taking care both of the surrounding area and of the Italian heritage in general, in a measure that they can afford. On the other side Benetton strategy may seem to have been conceived progressively to the increasing number of different requests that stakeholders are addressing to fast fashion brands, Benetton has been successful in this by creating partnerships and starting a large dialogue with non-profit organizations that may help in the next years to consolidate the image of the corporation and that may work as well as an early warning system in the case that part of the company is misbehaving in some critical aspect of the CSR and sustainability. The number of different programs and projects launched by the corporation may result in a progressive loss of consistency and in less efficiency of the resources spent for CSR for the increasing complexity in managing different actions on a wide geographical scope. Some of the actions undertaken are also going to potentially build a solid competitive advantage for the brand that may reach the trust and credibility from the market by being the first to find out new and greener solutions for the raw materials, starting from the projects that the R&D department is developing for the brand. While Mister Cucinelli has sustainability at the base of the business model and part of the value of the brand comes from that instead for Benetton it is different: a scandal like the one of Rana Plaza may disrupt years of work and developing countries as the locations for the production are not often linked in the consumer's mind with the respect of all the labour, social and human standards. As it was seen before both brands experimented the industry 4.0, if Benetton will try again in this sense it may be able in the future to enlarge the share of production in Italy, both to have larger margin but also to make the consumers sure that the corporation is not taking any risk on the respect of the workforce and the environment.

## Conclusion

The section closing up this work is partially following the structure used also for the rest of the thesis: it will start from the discussion of the external framework faced by the company, then it will follow with the internal possibilities for responsibility actions and at the end there will be the conclusion about the companies discussed. Being active in an array of different countries the Multinational Company seems to escape the jurisdiction in which each Country is able to use its hard law system and, on the other hand, the soft law instruments of international organizations are too weak to counterbalance the economic power of corporations. The main concern for some national governments and for international organizations is the race to the bottom done by countries to attract FDI and wealth and the social dumping done by MNEs to refine and optimize their cost curves at the expense of the environments or people's rights. The results of this are a pressure over the social and human standards required by national laws in order to compete in the attraction of low-skilled jobs; this phenomenon can avoid the growth of a country in the long term period by binding the workers to a specific and labour intensive production sustained by deregulation. To avoid this and to set a level playing field organizations like ILO and UN tried different instruments: ILO drafted Recommendations and Conventions that are now widespread but they are as well protecting rights that are basic, with the negative side that there is no strong punishment against non-complying countries, the retaliation is limited to the naming and shaming policy and it goes not so far from what the UN can do. UN is using for its Guidelines and SGDs the naming and shaming policy that may work since the reputational damage can be strong enough to press the companies to maintain their commitments. Another point on ILO, UN and other entities is that company are free to join in their guidelines and draft, leaving them free to refuse to adopt their provisions and not be hurt later if they do not perfectly comply. The point on this category of rulers is that while they have jurisdiction by being international they are lacking of the power to exert and to enforce the provision and decision they made. On the other hand Nations are disposing of the authority inside their borders and they can draft hard law provisions: it is still far from a perfect situation since the authority is limited to their countries while MNEs are for their nature international and for that national authorities need to find a system in order to be able to rule also misconducts happened abroad. One

of the first laws in this sense has been the Alien Tort Claim Act that recently, with the *Jesner v. Arab Bank* case, seems to be reduced in its scope in order to avoid the transformation of USA in an international court and any possible political friction with foreign countries. Other attempts in this way have been the California Transparency of Supply Chain Act, the Modern Slavery Act (from United Kingdom) and the Law on the Duty of Care (by the French Government): all of these laws even bringing new constraints and obligations for the companies in order to set up instruments to avoid slavery, human trafficking and other major violations are missing the point. What can be a common trait in these acts is that companies are able to separate their legal entities, dispersing in different legal persons what from an economic point of view is a unified entity. So even by making companies responsible for the value chain or forcing them to disclose their supply norms there is still the possibility that they are evading controls and, like in the French case, the pressure on the legislator by companies can be so strong to result in the establishment of fines that are too low to be effective or in no economic punishment at all. In this view seems that economic entities do not have any incentive to apply the environmental and labour standards in their operations but it is not properly like this. Corporations by being in the market have an impact over society and like in the perspective given by Dodd a company cannot suppose selfishly to continue its business without starting a dialogue with workforce, suppliers, customers, governments and all the other entities that can be listed in the stakeholder category. After the liberalism period of the Eighties the same thesis has been supported by Freeman: according to him companies are forced by society and the organizations of people and consumers to adopt policies in order to be responsible and sustainable. Nowadays the ethical consumption and the awareness of the consumers are still growing while on the social side the presence of NGOs and activists' groups is still strong and it is affirmed over the years: this has been the reason that brought companies to adopt a stricter policy for rights protection since there is an economic advantage in being responsible. In most of the markets a brand that is tamed to practice major violations on labour, social and human rights or polluting over the standards may be pushed out of the market by the reaction of the consumers while in other markets or niche it may be profitable to adopt a stricter policy in order to attract groups of consumers that are particularly sensible to those topics. In this sense companies can also scale up the quality ranks and reach higher margins by upgrading their product, this strategy is also linked with an improved

responsibility in the operations and in the interlinked perspective in which all the actors are influencing each other there is also the possibility by countries to upgrade their economy from a social point of view aiming at attracting skilled jobs and avoiding the race to the bottom and the search for labour intensive jobs that may also slow down the development in the medium and long period. On the opposite way Export Processing Zones and Special Economic Zones that have been in fashion during Nineties and the beginning of this century were being tamed to be solutions for a fast development of growing economies have been now proven to generate pollution and often also major violations of labour and social rights, usually about working hours or minimum wage.

To counteract and to elaborate a sustainability strategy companies can adopt the instruments that the CSR is giving them. CSR is different from charitable actions since there is the focus on the impact that the company has over society and the environment: this means that managers have to analyse and find out where the critic points of their operations are in order to reduce the negative externalities. Streaming from this companies and consumers can reduce the negative externalities of their operations and their purchase decisions while the extra-price paid is supposed to be fixing the larger costs suffered by the company in order to put into place actions meant for the sustainability of the business. From a legal perspective the self-regulation in matter of CSR can be also demanded by the hard law that in some topic asks the private actors to set their rules according to a certain array of principles for their economic actions; in other cases companies are establishing norms for their own will in order to declare what are the rules that they are going to follow. From the corporations' perspective the actions for responsibility can be taken in an array of manner and purposes that can go from an opportunistic way and a "green-washing" action for marketing reason to an optimistic perspective in which there is a deep understanding of the issues the business is bringing to people and planet and the deep will to remedy to those. In any case while stakeholders have been largely accepted by the business world then each company needs to engage in CSR in order to be recognized and accepted by its stakeholders. This cooperative way of intending the social dialogue is also expressed by the triple-bottom-line perspective, according to which the sustainability is reached by a business through the interaction of the directions taken for profit, people and planet: this framework becomes important since it has been demonstrated that there are interconnections among the different dimensions and profitable and successful companies are often well

performing in each one of them. The owners should set for the managers and for the board objectives and measures of performance than can take into account the actions done by managers along all of the three dimensions, in order to have as result a complete evaluation of what has been done. From this perspective may also arise a large co-opetition in the economic scenario reducing the pressure to lower the prices and the costs for the companies and increasing the possibilities to cooperate on research or other operations across companies. Going to the instruments that the actors can use to deploy their strategies in CSR one is the Code of Conduct: a self-regulative body of rules that can be rising from a the initiative of the company or can be requested by the public authority; in any case the distinction that can be made for codes is that companies need to have a strong commitment in it, there is the necessity of punishments in the case that employees or suppliers violate the code otherwise from the external perspective it will remain a pure marketing device. To adopt substantial codes there is the double pressure exerted on companies: the push from the institutional stakeholders in order to self-regulate on basic rights and a pull effect from the market requests that can induce the company to draft a code in order to maintain or enlarge its revenue. The positive aspects of codes is that they can be tailored on the needs of the specific companies and they can be useful to set procedures and routines inside and as an instrument it may help to fix and spread the culture and the values of the company across itself. The negative side of codes is that, particularly in the fashion industry and in the developing countries, when there is the presence of a supply chain that is involving an array of different suppliers it becomes difficult to be sure that codes are fully enforced: companies to avoid so need to take charge of inspections and controls in the factories of their suppliers, subcontractors and second tier suppliers, they may also choose to outsource this task by hiring specialized companies taking care of inspections or they can accept only certified producers. Certifications are indeed means that can be useful to companies in order to reduce the information asymmetry that may arise both in the relationships with other corporations and when they are dealing with the final customers. In this way firms may borrow the legitimacy and the reputation that the external certifying entity has; the social and environmental label may come from different sources and even if the perfect case for the total welfare would be a certifying public entity the most spread ones are given by ISO and SAI. The ISO26000 is by the former one and it can help companies to establish procedures to institutionalize the social dialogue with stakeholders while with

the ISO14001 companies can set management systems in order to avoid environmental scandals and to prevent negative reaction by the public opinion establishing inside a system of check and control routines. Among social labels the SA8000 is giving more credibility in the market since SAI is organizing inspections in order to check that the fundamental labour and human rights are respected in the certified companies; while it is differential in the least developed countries instead in most of the nations it may be only a certification on the respect of what the local laws already request so it is quite cheap to implement, nevertheless for MNEs can be useful to buy from certified suppliers so they can be sure there are inspection by a third entity. Finally the last instruments analysed, the social reporting models, are helping companies to internally maintain the workforce accountable for their action while explaining numerically to their stakeholders the impact of the business and the effectiveness of the CSR strategy in the remedy and in the proactive perspectives. Among the models analysed the GRI is the most common for medium and large companies in USA and Europe, giving comparability across firms and being easy to understand ensure that stakeholders are aware of the social and environmental impact of the company; the negative side of the framework is that it may become the goal of CSR. Companies may be also pushed to adopt the actions that have the biggest result on the final report. Other models have their own peculiarities: the LBG's model has a focus on the final performance and the efficiency in the expenses while the Copenhagen Charter's model is too generic and focused on the social dialogue with stakeholders to influence the direction of the company and the actions for CSR but it can have the positive side of preventing misbehaving and negative disclosure by previous discussions with external groups that are experts in social, human and environmental needs and protection. In any case large companies in Europe are obliged to have a social reporting procedure by the Directive 95/2014: the focus on this sense remains only on the specifications of the model and on the content, accuracy and quality of the report to prepare.

In the last chapter two case studies were analysed. The first one, Brunello Cucinelli, gave insights from a company that built its business over two main features: the quality of the products and a deep respect for the people involved in the production; mister Cucinelli started from the beginning with the belief that Italy and other developed countries were forced to focus on the high-end production with a bigger margin because there is no chance to maintain the competitive position with the developing countries on prices.

Other characteristics of the business model are the interest for Italian art and culture and the low environmental risk in the production. It is possible to say that the strategy adopted by the company is a proactive conception of corporate social responsibility: the interest in the well-being of the workforce is present from the communication to the reality of the company and it doesn't seem for marketing reasons only. Mister Cucinelli is also deeply involved in a listening process to the external world: according to him the company needed to be list for listen to the market, listening may also give the ability to prevent and anticipate any possible risk in the CSR scope and to keep in pace with the innovations in terms of sustainability. The other company discussed has been Benetton group: the history of the company has been focused on the fast fashion and the mass market, forcing the management to develop strategies in order to keep the cost curve low. For what has been discussed in the previous chapter the situation of the production of garments in developing countries has been critical, often protagonist of violations in the respect of labour and human rights, the company itself has been touched by the scandal of the Rana Plaza disaster. In order to become legitimated on the CSR dimension by the public opinion and its stakeholders elaborated a specific strategy on different directions. In Italy the group has tried new instruments and technologies in matter of HR, in the developing countries the focus has been on the deployment of programs that may raise the quality of life by acting on the basic needs and social rights of the workforce and the local communities. A third point of action has been the environment for which the company started to prevent and control pollution risks and environmental damages and at the same time the R&D has focused on new materials and processes that may have the double effect of producing environmental friendly outputs and to increase the quality. Summing up the company seems to have developed its CSR starting from a reactive processes due to the situation of the industry at large but at the same time the high innovative content and the deep interest demonstrated together with the number of institutionalised linkages with external organizations active in rights and environmental protection may let the public opinion rightfully think that it is also proactive in its intentions.



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