



**UNIVERSITY OF GOTHENBURG**  
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**Long-term social value creation through CSR**

A case study of Ferrarelle S.p.A.

Francesco Maria Orefice

Supervisor: Evangelos Bourellos  
Graduate School

## **Abstract**

In the last few years, the concept of Corporate Social Responsibility (CSR), its impact on the overall social well-being and social outcomes, has captured the interest of experts and academics. While many companies acknowledge it as an absolute strategic necessity, it is unlikely to be considered a tool to create value which goes beyond the company borders. The CSR is indeed often seen by companies simply as a way to draw positive public opinion; and even when defined by a true commitment, it fails to have a significant positive impact on society. For these reasons, CSR is seen by many as a failing attempt to turn business organizations, naturally led by the pursuit of profit, into socially oriented organizations, inconsistent with their fundamental mission.

The purpose of this thesis is to develop a new concept of CSR, to work potentially as a tool to enhance companies' business competitiveness as well as to generate "social value". To this end, the opinions and theories of several experts were analyzed with the aim to shape a theoretical framework for CSR evolution, by stressing the crucial role of stakeholders and non-governmental organizations (NGOs). The focus is on the successful implementation of a CSR policy undertaken by the Italian company Ferrarelle S.p.A., which is active in the bottled water industry. Lastly, the data gathered were compared with the findings of the literature review in order to propose an innovative framework for sustainable and socially effective CSR.

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# Chapter 1

## Introduction

In 1776, Adam Smith, who is considered one of the most influential classical economists, published his most famous essay, the *Wealth of Nations*. One of the main concepts conceived in his work was the *invisible hand*, that is, the economic system, when provided with substantial freedom, it can guarantee the greatest overall good to society. Any interference with the free market by governmental forces could only constitute an obstacle. In a free market, every human being is led by his own economic interest and he enhances the overall wealth of society, thus increasing competition and efficiency. About two centuries later, during the Cold War, the American Milton Friedman (1970) proposed what is usually known as shareholder theory. He suggested that the only purpose of business companies was to safeguard shareholders' interests, namely, to increase profits, while the only constraint to that is respect for the law. The rationale behind the theory is that a corporation should not be led by moral purpose, since any deviation from the objective of profit would be only an economic damage for the whole company and therefore, it would translate into a damage for the overall wealth of society.

Today, the theories of Smith and Friedman are increasingly tested. In fact, it seems that the two economists overlooked the externalities that a free market may lead to. According to the OECD (2002), an externality "refers to situations when the effect of production or consumption of goods and services imposes costs or benefits on others which are not reflected in the prices charged for the goods and services being provided". A classic example is the case of industrial pollution: corporations producing pollution are not likely to address actively the problem, since it would transcend their goals as economic beings driven by the logic of profit. On the other hand, companies led only by profits contribute insufficiently to solving the social problems affecting society.

In this context, the concept of Corporate Social Responsibility (CSR), defined as "the responsibility of enterprises for their impacts on society" by the European Commission (2011) is born, with the intention to change the classic vision of

corporations as “amoral organizations”. However, why does society need corporations to embrace CSR?

As pointed out by Visser (2015), the social challenges the world is facing has reached an extremely important level of urgency and corporations are called upon to contribute. In the Agenda 2030 for Sustainable Development promoted by the United Nations, the main environmental and social issues the world is facing are highlighted, from climate change and pollution to poverty. For instance, it is stated:

Sustainable growth and development require minimizing the natural resources and toxic materials used, and the waste and pollutants generated, throughout the entire production and consumption process [...]Preserving diverse forms of life on land requires targeted efforts to protect, restore and promote the conservation and sustainable use of terrestrial and other ecosystems (Agenda 2030).

Thus, corporations are the economic players, and through their business activity, they can ensure economic wealth. However, at the same time, they are called upon to maintain sustainable growth taking into consideration the side effects”, in apparent contradiction with the shareholder theory.

Moreover, companies are not simply required to internalize their externalities. As described in Agenda 2030, poverty, lack of basic infrastructure, and inequality are other social problems affecting the world. Although at first glance corporations seem not to have direct involvement, it is important to highlight how they can be active players. For example, research can address business occasions such as serving in developing countries the Base of Pyramid (BOP), which is the majority of the population including consumers with reduced purchasing power, who could benefit from low prices.

However, whether from the point of view of society the active involvement of companies can really produce social outcomes, corporations as economic players strive to survive in a competitive environment and, as stated by Friedman, they cannot afford to undertake uncompetitive decisions that break free market laws. Society cannot expect companies to damage their own business by employing more expensive resources or acting in a more responsible, though more sustainable, way.

And customers may reward responsible companies by choosing their products or services, which could be an incentive to undertake greenwashing practices or philanthropic activities. The aim, therefore, could be to promote the image of a company or its brand, without generating any real long-term improvement for the whole of society.

For this reason, Visser (2015) questions: Is CSR capable of enhancing the world or do companies create more damage than positive effects? Why do global problems seem to get worse even though companies are more involved in CSR practice? Is CSR failing? However, as argued by Visser, CSR is not failing. What is failing is the CSR strategical orientation and how it is usually undertaken by corporations. Therefore, what is needed is a new sustainable CSR which can guarantee, on the one hand, the economic interests of shareholders, and, on the other hand, safeguard market freedom and real social benefits.

### **1.1 The case study – Ferrarelle S.p.A.**

Ferrarelle is an Italian company active in the mineral water industry, founded in 1893, in Riardo, southern Italy. Ferrarelle started its business thanks to the presence of a natural spring water source, which was bottled and sold all over the country. The successful firm changed ownership several times during its lifetime until 2012, when the Italian family Pontecorvo Ricciardi bought the company and started to diversify the business with assorted brands. Above all, the Pontecorvo Ricciardi family started to integrate a CSR business model with the objective of reducing waste, improving relationships with no-profit organizations, trying to build a better workplace environment, maintaining the high quality of the products, and safeguarding the natural environment around the groundwater.

Moreover, Ferrarelle managed to build a strong relationship with local NGOs, contributing, through several social activities, to the enhancement of the local community and its environment. The promotion of local touristic attractions through sponsorships and partnerships, and the collaboration with NGOs to safeguard the natural resources, are only some of the initiatives undertaken.

The exceptional nature of CSR strategies lies in the corporation's strategical orientation and the economic results achieved so far. Indeed, along with its social efforts to improve the relationship with stakeholders and to enhance the local community environment through agreements and partnerships with NGOs, Ferrarelle has experienced growth in financial and economic performances. This is a perfect combination between Friedman's shareholder theory expectations and an effective social commitment toward the social and natural environment.

## **1.2 Research question**

Whether CSR will be able to survive in the future strictly depends upon the company's ability to change the way CSR is usually conceived and implemented. The purpose of this study is to address the problem by proposing a new interpretation of CSR focused on four points:

1. The link between a company and the local context where it operates.
2. The relationships with stakeholders, especially NGOs, which are the key to a profitable and socially effective CSR for the local community as well as the company itself.
3. The need for a new CSR orientation that is not merely image-oriented, but can also create social value.
4. The economic sustainability of the company undertaking the CSR.

Although the literature offers many investigations into the old CSR orientation, the latest ideas on its development are usually fragmented with several researchers proposing different strategies. To develop the above-mentioned CSR model, the present study considers wide-ranging academic opinions and empirical findings from analysis of Ferrarelle CSR policy.

Therefore, the following research question is posed:

*What CSR strategy is capable of creating social value in the long term as well as guaranteeing the company's economic sustainability?*

### 1.3 Research limitations

The present study aims to develop a paradigm of sustainable CSR based on the creation of social value using the most recent and reliable literature and empirical findings from Ferrarelle. Therefore, the objective is to create a strategic framework to employ in different industries and corporation contexts. However, there are some limitations concerning its general validity.

First, due to the uniqueness of the topic, the literature review is fragmented, with several researchers proposing different approaches to CSR. Although these different points of view are reconciled, with the aim of providing a holistic interpretation of the problem and solution, its effectiveness may depend on the different cases and their competitive environments.

Secondly, the company was chosen due to its commitment to CSR and peculiar approach to the creation of social value. However, even though it constitutes a successful example in the food and beverage industry, it does not provide any proof of validity in other industries.

In summary, even if the basic idea is valid regardless of the nature of the industry, every context is characterized by different stakeholders and rules, which may require an appropriate adjustment of the proposed framework.

### 1.3 Thesis disposition

In addition to the introduction, the thesis consists of five chapters:

- 1. Theoretical framework:** The second chapter provides the theoretical background of CSR from its first interpretations. Then, the peculiarities of CSR in the food and beverage industry, and the tools to employ in analysis of Ferrarelle, are discussed.
- 2. Methodology:** The third chapter explains how the research was conducted.
- 3. Empirical findings:** In the fourth chapter, all the data collected concerning Ferrarelle are presented. The information was obtained through interview with Mr. Michele Pontecorvo Ricciardi, and the data collected from the firm's financial reports and its sustainability report are organized in such a way as

to permit a comparison with the theoretical framework presented in Chapter 2.

4. **Analysis:** In the fifth chapter, the empirical findings are compared with the theoretical framework, in order to find the possible incongruities and coherences between them.
5. **Conclusion:** The final chapter answers the research question and suggests further research on the topic.

# Chapter 2

## Theoretical Framework

This chapter provides the literature review concerning CSR, with a special focus on the food and beverage sector. Indeed, the goal of this section is to develop a model for a possible CSR strategy, focused on value creation for both company and community in the long-run. The first part of the review explores classic CSR interpretation, its main criticisms and its relationship with the notion of shared value. The second part focuses on the role of stakeholders and the strategic importance of NGOs. Finally, the third part examines the specific case of CSR employed in the food and beverage industry, the value of territory, and presents two different tools for the analysis of a shared value CSR strategy.

### 2.1 Introduction to CSR

Stating what CSR is, when it was born, and what are its fundamental principles can be a challenge. An all-inclusive definition of CSR is provided by the Financial Times. It is described as “a movement aimed at encouraging companies to be more aware of the impact of their business on the rest of society, including their own stakeholders and the environment”. It is easy to see how the definition can be vague and the criteria to judge this impact are left to the companies themselves.

The starting point of CSR can be traced back to 1953, with the publication of *Social Responsibilities of the Businessman*, by Howard R. Bowen, who asked for the first time: “what responsibilities to society may businessmen reasonably be expected to assume?” (Bowen, 1953 cited by Carroll, 2016). Since then, many interpretations of CSR, strategies, and tools have been developed. However, to give a broad explanation of CSR, it might be useful to analyze it with Carroll’s pyramid (Carroll, 2016) (Fig. 1), probably the most popular CSR model.



Figure 1: Carroll's Pyramid (Source: <https://jcsr.springeropen.com/>).

The model highlights four different areas of a company's CSR structure, and each is positioned on a distinct level. The four levels indicate the order and priorities of companies when implementing CSR. As stated by Carroll (1979, 1991, cited by Carroll, 2016), CSR "encompasses the economic, legal, ethical, and discretionary (philanthropic) expectations that society has of organizations at a given point in time". These four expectations make up the four levels of the pyramid (Carroll, 2016):

1. **Economic responsibilities:** At the bottom are the economic responsibilities which should be fulfilled to guarantee the company's existence and sustainability. This means that an enterprise is capable of paying back its stakeholders, such as the employees or suppliers, and of making profits. The profits are used to repay the shareholders as reward, or they are reinvested in the business.
2. **Legal responsibilities:** Legal responsibilities are all the rules and regulations of society. In other words, the companies must respect what in a society represents the *codified ethics* and the fundamental notions of fair business practices.

3. **Ethical responsibilities:** Law is essential but not sufficient. Carroll (2016) identifies the ethical responsibilities as the uncodified norms a company should respect and that society expects companies to fulfill. Therefore, behaving ethically means being “responsible for and responsive to the full range of norms, standards, values, principles, and expectations that reflect and honor what consumers, employees, owners and the community regard as consistent with respect to the protection of stakeholders’ moral rights” (Carroll, 2016).
4. **Philanthropic responsibilities:** At the top of the pyramid, Carroll (2016) places philanthropic responsibilities, which include all the voluntary activities, such as product or money donations and volunteerism by employees. In this way, the company provides proof of being involved overall in the enhancement of society.

CSR leads toward new consideration of companies as institutions capable of enhancing the whole of society through direct interventions, in addition to their economic business. However, CSR theory has been heavily criticized and several reinterpretations have been proposed in the last few years.

Reason for the possible failure of CSR lies both in its theoretical basis and practical implementation by firms. Theoretically, there exists intrinsic contradiction: how can CSR improve welfare if it supposed to obstruct the rules of free competition? Henderson (2001), in his paper entitled “Misguided Virtue - False Notions of Corporate Social Responsibility”, supports the idea, stating:

[...] the system effects of CSR, as well as the enterprise effects, will tend to make people in general worse off. [CSR] forms one element of new millennium collectivism. Its adoption would reduce competition and economic freedom and undermine the market economy (Henderson, 2001 cited by Brittan, 2003).

The second problem lies in the companies’ commitment to CSR. Indeed, too many companies rely on CSR and philanthropic activities only to enhance their public image without any real interest in social issues, or, even worse, they use it to conceal possible harmful activities (CLADEA, 2013). However, it would be

disingenuous to expect companies to reduce deliberately their own profit for a cause that does not belong to them. Moreover, the lack of clarity of the concept of CSR, and the absence of any common standards, makes it even harder to define what is “good CSR” and “wrong CSR” (ibid.).

### **2.1.1 From corporate social responsibility to creating shared value**

An interesting explanation of the evolution of CSR is provided by Porter and Kramer (2006). They point out that, although many companies are starting to consider the social and environmental consequences of their activities, their efforts are not sufficient to be viewed as impactful for the whole of society. This is because companies often ignore the interdependence between society and businesses, preferring a generic CSR that does not perfectly fit their specific context. This lack of connection between CSR strategy and business strategy prevents society from enjoying the possible benefits. At the same time, it prevents companies from turning the cost of CSR strategy into a real opportunity and a competitive advantage (2006).

What is more important is the reason behind the increasing number of companies adopting this type of strategy. Porter and Kramer argue that, in the last few decades, capitalist systems have been identified as the major cause of social, environmental, and economic problems, and so labeled modern society’s failures (2011). In response, companies started to implement CSR strategies. However, such a short-term strategy, adopted only to enhance the corporations’ public image, can never be a real benefit to society.

To analyze the problem, Porter and Kramer started from the assumption that social deficits create economic costs and social needs represent the largest market opportunities, while, at the same time, external conditions shape internal company productivity. As result, there is a growing congruence between economic value creation and societal objectives; therefore, a company aims to create economic value by creating societal value, i.e. *shared value* (ibid. 2011). Shared value is defined as “Corporate policies and practices that enhance the competitiveness of a company while simultaneously advancing social and economic conditions in the communities in which it operates” (2011). Profit involving shared value enables society to

advance and companies to grow faster (Moore, 2014). Only when companies incorporate local issues into their own strategies can economics reach a new stage of capitalism (ibid.).

Porter and Kramer (2011) stress the importance of corporations as main entities able to enhance social wealth and well-being. Indeed, although governments and NGOs are on the front line when it comes to solving social problems, in the long term only firms can create value and find solutions. In fact, by weakening business competitiveness through regulations, NGOs and governments diminish overall wealth and so the source of their financial aid (2006).

Studying the interdependence between corporations and society, Porter and Kramer (2011) point out the two types of linkage with society that companies should take into account (2006):

- **Inside-out linkages:** related to the business operations that could have an impact on society.
- **Outside-in linkages:** social conditions are part of the competitive context where a company operates. This means that they indirectly affect a company's ability to carry out its strategy.

Moreover, Porter and Kramer (2011) divide the social issues into three distinct categories (2006):

- **Generic social issues:** important to society but not significantly affected by a firm's operations. These issues, furthermore, do not influence a company's competitiveness in the long term.
- **Value chain social impacts:** the social issues affected by a company's activities in its ordinary course of business.
- **Social dimension of competitive context:** this category includes all those factors in the external environment, which influence the underlying drivers of competitiveness in the context where the company operates.

In order to implement a useful *creating shared value* (CSV) strategy or *strategic CSR* as solution to a problem, companies should analyze all of the aforementioned elements so that they can contribute to society. In other words,

companies should address those issues which are of direct interest, instead of pursuing brand enhancing through short-term CSR decisions, such as financial donations to no-profit organizations.

Porter and Kramer (2011) draw a line between the two CSR strategies – Responsive CSR and Strategic CSR – and highlight their different *modus operandi* (2006):

**Responsive CSR:** This is the classic CSR, which has two important objectives. The first is “acting as a good corporate citizen, attuned to the social concerns of stakeholders”. Companies undertaking responsive CSR are concerned about their image among stakeholders, such as employees, consumers, and NGOs. However, the kind of contributions that a “good corporate citizen” makes are often unrelated to the core business of the company; rather, they are merely the means to improve public opinion. The second objective is to “mitigate existing or anticipated adverse effect from business activities”. Since the possible value chain impact for each business unit is significant, many companies have adopted a checklist approach to CSR using standardized sets of social and environmental risks. However, companies need a customized internal process (2006).

**Strategic CSR:** In this case, a company should become aware of its own position within a competitive context by achieving competitive advantage and environmental benefit. This means enhancing every step in the value chain through a CSR approach so that “it would be hard to notice the difference with a non-CSR step improvement” (2006). The final objective is to create a social dimension to the value proposition, by making social impact integral to overall strategy and satisfying the needs of customers. For example, the food and beverage industry has experienced a boom in the sale of organic foods in the last few years. Indeed, there is an increasing number of companies competing to offer healthier products and striving to improve their quality by adopting more natural processes of production and cultivation.

Another important dimension of CSV can be found on a macro level: creating shared value means also considering those needs judged inconvenient to exploit until that moment. Porter and Kramer (2011) argue that serving lower income and

disadvantaged consumers could be an important way not only to access new markets, but also to enhance a local community. This is the reason why the bottom of pyramid (BOP) markets are drawing more attention from MNCs. Serving the BOP could be a possible solution to alleviate poverty and create more entrepreneurial opportunities (Prahalad, 2004, cited by Bagchi-Sen, Schunder and Bourellos, 2015).

In the table below (Fig. 2), the main differences between CSR and CSV are presented in a comprehensive manner:

Corporate Social Responsibility (CSR)	Creating Shared Value (CSV)
<ul style="list-style-type: none"> <li>• Corporate values and corporate citizenship</li> <li>• Corporate philanthropy: sharing money the company has already made</li> <li>• Contributions-in-kind, pro-bono service and volunteerism: sharing the company's products, expertise, talent and time</li> <li>• Corporate sustainability</li> <li>• Cause related marketing</li> <li>• Compliance with community, national and international standards</li> <li>• Reputation management</li> <li>• Employee recruitment &amp; retention</li> <li>• Risk management; changing business practices in response to external pressure</li> <li>• Typically led by CSR, Marketing, Corporate Communications, External/Public/Government Affairs, Community Relations, Sustainability and Foundation departments</li> </ul>	<ul style="list-style-type: none"> <li>• Design new products and services that meet social and environmental needs while simultaneously delivering a financial return</li> <li>• Access new markets</li> <li>• Reconfigure and secure the value chain by tapping new or better resources and partners to improve productivity</li> <li>• Improve the capabilities (skills, knowledge, productivity) of suppliers</li> <li>• Create local clusters to strengthen and capture economic and social benefits at the community level</li> <li>• Deploy corporate assets to achieve scale and spur investment</li> <li>• Typically led by CEO, senior executive team and individual champions across the company in close collaboration with corporate affairs and sustainability departments</li> </ul>

Figure 2: Comparison between CSR and CSV (Moore, 2014).

### 2.1.2 From corporate social responsibility to corporate sustainability and responsibility or CSR 2.0

Another interesting point of view is provided by Wayne Visser (2015), a South African academic working in the CSR field. In the same way as Porter and Kramer (2011), he criticizes the failure of CSR to date. Moreover, he identifies the CSR problem as the rationale of capitalism, which promotes “greed” instead of responsibility toward society. Visser (2015) raises questions about the nature of capitalism: Is it flawed? How can it be changed?

According to Visser (2015), the basic mechanism of capitalism is to create wealth and enhance society. However, it also creates instability and volatility, which

has a greater impact on the most disadvantaged in society. At the same time, Visser (2015) notes that capital usually flows to wherever the social or environmental standards are lower in order to exploit people, and emphasizes how the efficiency mechanism is perfect only in theory. This does not mean that capitalism is a failure, but that its current version is no longer the most efficient (Visser, 2015).

In agreement with Porter and Kramer (2011), Visser (2015) acknowledges the short-run positive effects produced by the implementation of CSR, in terms of company profitability. Furthermore, he recognizes that these effects do not improve overall social conditions or business efficiency (2015). The classic CSR strategy, which he calls CSR 1.0, although changed over time, presents some common traits in almost every company, which have led to its long-term failure. Visser (2015) identifies three factors:

- **Incremental CSR:** The first problem is related to the bottom-up approach of CSR implementation, which is evident in most companies. Indeed, its usual implementation, through continuous improvement in every little task, is very similar to the Total Quality Management achieved in the Operations Management field. However, this incremental approach fails to deal with the main problems facing the world; to handle them successfully, a top-down CSR would be a more effective solution. The incremental approach to CSR does not produce the scale and urgency of response that is required (Visser, 2012). Therefore, the ideal solution is to deal with problems at their source and not with micro-scale improvements.
- **Peripheral CSR:** A second problem concerning CSR 1.0 is lack of top management commitment. This means that it is a peripheral function in most companies, which tend to face the CSR issues by establishing a specific department, with a specific manager and with a limited budget to carry out their plans. The aim is to adapt to the national or international standards, in order to prove the commitment of the company, while the main business objective is still an outcome of shareholders' decisions to achieve the most profitability (Visser, 2012). Of course, this is the outcome of a competitive environment; given the choice between financial profitability and ethical standards, the decision will favor the former, and it would be irrational to

expect companies to act differently. This theory of CSV is similarly argued by Porter and Kramer (2011): instead of being a side department with its own goals, sustainability and responsibility should be part of the core business, or, at least, part of the main strategy.

- **Uneconomic CSR:** The third problem is related to the fact that CSR usually does not pay back. Indeed, even though “there is no definitive answer to the question of a financial link and it depends on an individual company’s circumstances” (Vogel, 2005, cited by Visser 2015), Visser argues that, overall, CSR is a cost rather than an investment (2012). In order to be effective, CSR requires long-term investment, both for the company and society. Nonetheless, as mentioned before, shareholders and managers usually set goals on a short-term basis.

These three factors are not contributing to the demise of CSR. In fact, they are pushing CSR toward what Visser (2015) defines as the *Age of Responsibility*. In order to understand the *Age of Responsibility*, it is important to present the chronological evolution of CSR (ibid., 2015):

- The first era, the *Age of Greed*, was characterized by Defensive CSR. The only use of CSR was to avoid possible sanctions and penalties, and to defend the shareholders’ value.
- The second era, the *Age of Philanthropy*, was characterized by Charitable CSR. To enhance their image, companies usually gave donations or other forms of sponsorship to no-profit organizations.
- The third era, the *Age of Marketing*, was characterized by Promotional CSR. The latter is a natural evolution of Charitable CSR: the main objective was to enhance the company’s brand and reputation by exploiting public relations opportunities.
- The fourth era, the *Age of Management*, was characterized by Strategic CSR, which affected the firm on a micro-level. Companies adapted their core business to CSR principles, for example, by respecting CSR codes or through the implementation of environmental management systems.

- The fifth era, the *Age of Responsibility*, was characterized by systemic CSR, which represented the culmination of its evolution. Through systemic CSR, companies, “focus their activities on identifying and tackling the root causes of our present unsustainability and irresponsibility” (Visser, 2015). This means finding a solution on a macro level by placing connection with the ecosystem and communities at the forefront (ibid, 2012).

Only when the Age of Responsibility is reached can society and businesses enjoy the benefits of CSR. There is further agreement here with the idea of CSV by Porter and Kramer (2011). Indeed, both the theory of CSV and CSR 2.0 require enterprises to find new business opportunities from the social problems affecting society. These can be defined as social opportunities.

The new CSR model provided by Visser (2015) is built on five different principles:

- **Creativity.** Innovation and creativity are necessary to realize change in CSR. In order to reach a new level, the idea of *creative destruction* must be accepted as conceived by Schumpeter. However, the change mentioned by Visser (2015) is not concerned with how companies do business, but the direction they usually take to find new business opportunities.
- **Scalability.** In the long term, problems such as poverty and climate change require strong investments and they need to be tackled in a coordinated way; undertaking fragmented CSR activities as a token effort is unprofitable for both companies and society.
- **Responsiveness.** In terms of responsiveness in CSR 2.0, Visser (2015) means responding to social needs, irrespective of the possible threats this could pose to the company’s core business. In other words, companies must prove not to be part of the problem by having the courage to be part of the solution, even if it could be unprofitable in the short term.
- **Glocality.** When undertaking CSR strategies, companies should take into account the peculiar characteristics and priorities of the local context where they compete, without forgetting universal principles and its global relationships.

- **Circularity.** Finally, Visser (2015) asserts that, as trees produce more energy than they consume, companies should make their business circular, in relation not only to the natural environment through the sustainable usage of resources, but also local communities, by taking into consideration community wellbeing in both the short and long term.

To conclude, we can assume that, along with Porter and Kramer’s vision about CSV, Visser proposes a new interpretation of CSR, no longer led by reputation enhancement research but by a deep change in the business orientations and in the relationship with society. CSR 2.0 does not require companies to adapt to standards and guidelines, but what it asks is to tackle the problem through a real research of solutions. In the table below (Fig. 3) a comparison between CSR 1.0 and CSR 2.0 cornerstones are presented.

<b>CSR 1.0</b>	<b>CSR 2.0</b>
Philanthropic	Collaborative
Risk-based	Reward-based
Image-driven	Performance-driven
Specialised	Integrated
Standardised	Diversified
Marginal	Scalable
Western	Global

Figure 3. Comparison between CSR 1.0 and CSR 2.0 according to Visser (2012).

## 2.2 CSR: A stakeholder perspective

Nowadays, it is quite common to consider CSR as a constraint in the strategical orientation of many companies. However, from its conception, its theoretical basis was far from widely accepted without criticism. One of the most important voices on the subject was American economist Milton Friedman, recipient of the Nobel Prize for economics in 1976, and one of the most influential exponents of the School of Chicago and liberalist position. He fiercely opposed the idea that business should be concerned with profit as well as social outcomes (Friedman, 1970): “Businessmen who talk this way [supporting that idea] are unwitting puppets of the intellectual forces that have been undermining the basis of a free society these past

decades [socialist forces]” His criticism was based on the idea that managers are merely employees of those who own the business, i.e. the shareholders. Therefore, they have a responsibility toward their employers, which should be fulfilled through respect for company rules set by the shareholders themselves. Assuming a “social responsibility” would also mean assuming that managers should steer away from shareholders’ goals in favor of their own; and shareholders’ goals generally increase economic returns for a company. Thus, spending resources on social activities would mean cutting the internal resources and, therefore, decreasing the employees’ wages or increasing the price to customers (1970).

Friedman’s shareholder theory can be linked to the failure of CSR 1.0. Indeed, separating business for philanthropic or social activities would only worsen the overall surplus in the long term, both for customers and suppliers, in a way that is not offset by the same philanthropic activities.

The urgency of environmental problems, and new understanding of stakeholders’ role as capable of enhancing business, led to a different vision, the so-called stakeholder theory. Milton Freeman (2001), one of the main exponents of stakeholder theory, points out how a company, to be successful, should take into account not only the profit interest of its shareholders, but also every interest of its stakeholders. Of course, every company is characterized by different typologies, depending on its business nature (Freeman, 2001).

Freeman defines a stakeholder as an individual (or a group), who benefits from or is harmed by corporations, and whose rights are violated or respected by corporate actions (Freeman, 2001). The shareholders are just one typology that a company should care for, even though they are often considered the most important: they directly invest resources in the business activity and risk their own money. In addition, Freeman defines the general stakeholders who usually maintain a relationship with the company (ibid.):

- **Suppliers:** By strengthening relationships with suppliers, companies can enhance the quality of their final product. This is because suppliers are responsible for the raw materials employed in the final product or services the company will sell, and so the final price to customers.

- **Customers:** The customers lead the company to success or failure by being the main source of revenue. As a consequence, they indirectly pay for the development of future products or services.
- **The local community:** Companies should also optimize their relationship with local communities, by behaving as “good citizens”. In return, they will be given permission to build facilities.
- **Employees:** Employees have different skills and the job market is usually not perfectly elastic, meaning that the company should treat them as a resource. Moreover, given that they are active players in the business activities, employees’ interests should be considered to optimize company performance.

In addition to the common stakeholders, another important player, who is usually mentioned in the literature, and usually has crucial influence on the strategic orientation, is the top manager (Fig. 4). Indeed, the top manager is the stakeholder who manages the relationships with others, and through references to his own cultural background, he can influence the social performance of the company (Thomas and Simerly, 1995, cited by Kakabadse and Rozouel, 2005).



Figure 4. The common stakeholders (adapted from <http://www.bbc.co.uk>).

However, behaving as a “good citizen” toward stakeholders is only a first step of genuine social responsibility. Indeed, only stakeholders who have usually a formal contract with the firm are included, and so are essential to its proper functioning. There is also a second group of stakeholders, who are not usually

involved in any formal contract with the firm, but can exercise influence on its business activity, such as citizens or government (Martinez, Fernandez, and Fernandez, 2015). These stakeholders respond to the firm's influence on the natural and social environment, by forcing the company to internalize its negative externalities and going beyond its simple competitive context; the implementation of CSR policies by corporations represents the reaction to new social needs.

### **2.2.1 The role of NGOs in the CSR**

Efficiently managing every stakeholder relationship is essential for a corporation which wants to adopt CSR orientation; in this sense, the role of NGOs can be crucial. The NGOs are defined by Martens (2002, cited by Poret, 2014) as "formal (professionalized) independent societal organizations whose primary aim is to promote common goals at the national or the international level" (p.2). Thus, the NGOs can have different missions and goals. Social purpose NGOs seek to deal with social issues, and thus they are of interest for a company undertaking a CSR strategy and wants to build a profitable partnership. Hereafter, when discussing NGOs in this study, the reference is to social purpose NGOs.

NGOs are increasingly the ideal partners to enter a specific community, and they are considered more beneficial when compared with public institutions (Ashman, 2001, cited by Aid and Sabella, 2014). Poret (2014) explains the basis of such a relationship as a mutual exploitation of resources. MNCs could obtain a competitive advantage by exploiting the knowledge, expertise, and legitimacy in the local community of an NGO, while the latter could take advantage of corporations' resources, global reach, and levers of action.

The reason why NGOs start partnerships with corporations can be usually explained by the lack of financial resources. The financial contribution from the Public Administration is usually scarce, driving NGOs to seek different entities with great financial resources. Moreover, private companies represent the best alternative for their economic resources and to increase their visibility and to promote the organization and its social mission (Poret, 2014). On the other hand, the specific reasons why a company should start a partnership with an NGO is

strictly related to the CSR policy and the strategic benefit of such a partnership (ibid, 2014).

Austin (2000) describes the relationship as a changing process, where the nature of collaboration depends on the different stages of the CSR. The first stage, the philanthropic, is characterized by a very simple relationship, based on charitable activities. The second stage, the transactional, is characterized by deeper interaction between the partners, chiefly, reciprocal resources-exchange activities, such as sponsorships. The third stage, the integrative, is the deepest kind of interaction between companies, which, in addition to an accentuated exchange of resources, is characterized by common missions, people, and activities (Poret, 2014, Aid and Sabella, 2014).

Another possible chronological division is proposed by Selsky and Parker (2005). They suggest three different chronological stages of an effective business organization-NGO partnership (Poret 2014). The first step, the *formation* stage, involves a confrontation of individual strategical objectives of counterparts (Jamali and Keshishian, 2009; Arya and Salk, 2006, cited by Poret, 2014). The second step, the *implementation* stage, involves partnership building and maintenance, governance mechanisms, and managerial requirements (Selsky, Parker, 2005, cited by Poret 2014). In the last step, the *outcome* stage, both parties reap the rewards of partnership. However, for the business partner, the outcome is relatively easy to quantify through economic or financial indicators, while the social outcomes sought by the NGO may take more time to become evident (ibid.).

However, this point reveals why trust between the two player is fundamental and why NGOs should understand the counterpart's intentions and how these cohere with their own social objectives. The issue becomes even more complicated since the exchange of advantages between NGOs and corporations is not always unbiased. It could happen that one counterpart, usually the NGO, becomes subjugated to the corporation, a de facto "puppet", financially dependent on the company and its financial resources. Moreover, any loss of independence would translate into a loss of legitimacy and credibility (Poret, 2014).

To summarize, it is important to connect the theory of CSV and CSR 2.0. Khanna (2006) points out how a company, which has roots in a developing country, could play the role of social purpose NGOs, by investing in public projects, such as roads and universities. The economic goal of these investments would be to create more efficiency, and thus, improve overall firm performance (Wilburn, 2008). Even though Khanna (2006) refers only to corporations investing in developing countries, it could be inferred that a company spending resources to improve the local environment may achieve the same outcomes. In the light of the argument presented by Khanna and Poret (2006, 2014), we can conclude that a partnership with NGOs could be profitable both in the short term and the long term, for both corporations and NGOs. Indeed, in addition to mutual exploitation of resources following a short-term approach, the partnership could provide even more benefits to the local environment and community, making NGOs crucial players in the creation of social value by companies.

### **2.2.2 The value of the territory**

Previous studies focused more on how corporations can enhance local communities and environments only to reap rewards in the long term. Maizza (2013) offers a different point of view about the link between companies and territory, pointing out how the local area can be a crucial asset in a firm's business. Indeed, especially in the case of small and medium-sized enterprises (SMEs), it is notable how competition between firms leads to competition between territories. The territory-product link assumes critical importance when provenience is what makes a product unique; this is particularly important in the food industry where place of origin can be the only way to transform the cost-based competition into a differentiation-based competition. In this context, the local community, regarded as a valuable resource, includes the multitude of SMEs often fulfilling complementary functions (*ibid.*).

Baccarani and Golinelli (2011) divide firms into two types based on the nature of their relationship with the local community where they operate. They define as corsair companies those which aim at exploiting the resource in a territory without making any relevant investment. Corsair companies link the economic

results they can achieve only to internal resources and investments, without becoming an active social player. The second type is the “locally-based company” (translation from the Italian “Imprese radicate”), which bases its core business on the local environment and its characteristics. Baccarani and Golinelli (2011) argue that the locally-based companies are part of the “cultural heritage” in which they developed. Therefore, work in the local community could be aimed at increasing the efficiency in the long term and maintaining and developing those characteristics that make them and their products different.

### **2.3 CSR in the food and beverage sector**

Although CSR is widely acknowledged as a relevant aspect of modern capitalism, its impact on companies and the environment depends on the specific industrial context and its dynamics. Due to its nature, the food and beverage industry can achieve impressive social benefits through implementation of a CSR strategy (Hartmann, 2011). This is for several reasons. First, it is a sector which deeply relies on human and animal resources (Genier et al., 2009; GfK et al., 2009, cited by Hartmann, 2011). Consequently, labor conditions and animal welfare assume even greater relevance. Secondly, there is a relevant employment of natural resources like water and energy (Hartmann, 2011). Therefore, even more attention is paid to possible waste and negative repercussions in the environment. Thirdly, the competitive context of companies operating in the food and beverage sector is quite diverse (ibid), with multinational companies (MNCs) and small and medium-sized enterprises (SMEs) presenting different structures and approaches to CSR. Fourthly, customers are particularly demanding about quality, usually asking for standards that ensure organic and natural products (Ferguson, 2017). Moreover, even more concerns over the availability of farming land and water have been raised, due to the increasing world population (IBLF, 2002).

As mentioned, the competitive nature of the food sector can be very fragmented, with the presence of SMEs and MNCs at the same or different level in the value chain. This translates into different bargaining power and resources depending on each company (Hartmann, 2011), and into different implementation strategies of CSR policies.

Large companies are subjected to greater pressure by the media, NGOs, activists, and public opinion, pushing them to adopt ethical behaviors especially when dealing with their suppliers, employees, and customers. Indeed, MNCs can face strong brand deterioration in case of scandals affecting their business activities (Hartmann, 2011). This is why adopting CSR can be the only choice to guarantee survival. However, its implementation goes beyond the simple internal firm level: large companies must now guarantee adherence to social and quality standards even among their suppliers and partners (*ibid.*). This has a notable consequence for maintaining business relationships with SMEs. Indeed, since MNCs usually have more bargaining power, SMEs are forced to adapt to their conditions; this can be a challenge due to their inferior budget and resources. However, it could also be an opportunity to develop a partnership based on sharing CSR knowledge; for example, launching educational programs through suppliers can be an effective means to disseminate better management practices and minimize environmental impacts on the farm (Illy, 2014).

Another aspect that should be taken into consideration when analyzing SMEs' approach to CSR is the differing relationship with local communities. They seem to be much more involved in social capital investments and in securing a license to operate in the local context. Moreover, SMEs tend not to communicate their CSR activities since they are less incentivized to enhance a brand or company image (Murillo and Lozano, 2006; Russo and Tencati, 2009; Walther et al., 2010, cited by Hartmann, 2011).

In summary, CSR strategy implementation can differ from large to small enterprises due to pressure from different stakeholders. The former have to deal with public opinion, NGOs, and media, while the latter work more with local authorities to enhance the local environment where they operate. However, social and environmental impacts are common to both typologies of companies and so the results expected.

### 2.3.1 Stakeholder analysis

According to the theoretical framework of this study, an impactful CSR strategy should be able to create real value for society. At the same time, however, a company is a business entity and it needs to be economically sustainable to survive and provide returns to its investors, in the short term and the long term. Moreover, according to Freeman, stakeholders play a crucial role in the creation of economic value as well as social value. For the above reasons, setting a CSR policy requires a systematic approach; a useful tool would be stakeholder analysis, which allows the company implementing the CSR strategy a view of every influential player in its business, the mutual benefits achieved from the relationship in the short term, and the shared social revenues achieved in the long term.

In detail:

- **Investors and shareholders.** Shareholders and investors are the stakeholders more directly concerned with the company's short-term performance, since they jeopardize their own finances by involving themselves in business activities (Friedman, 1970). However, a company aiming at undertaking a CSR strategy should take into account the short-term economic revenues and the long-term social returns.
- **Employees.** The success of any CSR policy also depends on the employees' perception of social business activities. Indeed, it is through their direct experiences that the local community's opinion of a company is shaped (IBLF, 2002). Moreover, a company implementing a CSR strategy should guarantee human resource development and respect in order to ensure social commitment. In the case of the food industry, this topic receives even more attention in the media and the public generally due to the high employment of immigrants, high job seasonality, and the low safety levels in the workplaces (Briamonte, 2010).
- **Suppliers.** As argued above, large companies usually undertake CSR strategies to increase internal efficiency or due to pressure from public opinion or other stakeholders. Therefore, they require CSR commitment

even from their suppliers, because of their influence on the final product. However, companies should consider that, especially in the food industry, suppliers include many SMEs incapable of affording CSR investments (Hartmann, 2011).

- **Community.** This large group of stakeholders includes NGOs, the local population, other regional firms, and whoever has an interest in developing and safeguarding the local environment (Ferguson, 2017). Special attention is given to companies in the agriculture and food industry due to the high impact on the natural and social environment (Briamonte, 2017).
- **Customers.** Customers are usually considered the most important stakeholders given that they are the main source of companies' revenue. In the food industry, they are gaining prominence because of the importance of product quality, such as organic or GM-free food products (IBLF, 2002).

### 2.3.2 The SOAR analysis

The SOAR (Strengths, Opportunities, Aspirations, Results) analysis (Fig. 5) represents a different approach to a company's business evaluation. It is defined by Capela and Brooks-Saunders (2012) as "A strategic planning framework with an approach that focuses on strengths and seeks to understand the entire system by including the voices of the relevant stakeholders". Indeed, even though it has some points in common with the SWOT analysis, SOAR presents a more optimistic approach focusing on a company's strengths and viewing all possible weaknesses and threats as potential opportunities. Aspirations are defined in answering the following questions: "Considering strengths and opportunities, who should we become?", and "How can we make a difference for our organization and its stakeholders?". Finally, the results represent the outcome of aspirations, strengths, and aspirations and an indicator of their effectiveness.

It is important to note that the SOAR analysis, which is used in the present case study of Ferrarelle, includes the strengths of having an efficient stakeholders' relationship management, as also examined in the stakeholder analysis, and internal competitive advantages such as technology innovations.



Fig 5.: SOAR analysis structure (developed by the author).

## **Chapter 3**

### **Research Methodology**

The research methodology is defined by Collis and Hussey (2009) as the “overall approach to the entire process of the research study”. Indeed, the purpose of this chapter is to discuss all the research methodologies employed to gather data and to address the research question.

In the first part of this chapter, the research strategy and research design, and the reasons for this choice are explained. Then, the methods for collecting and analyzing the data are described. Primary data are the empirical information collected through the interview to Mr. Pontecorvo Ricciardi. Secondary data are all the information collected from reports provided by the company.

#### **3.1 Research strategy**

According to Saunders et al. (2009), the research strategy can be defined as “the general plan of how the researcher will go about answering the research questions”. The general plan requires choosing from different strategies to address more effectively the research purpose. In this respect, Bryman and Bell (2011) focus on three different research approaches: the qualitative, the quantitative, and mixed research. Quantitative research stresses the importance of numerical data from which the researcher can draw conclusions and formulate theories, and uses structured questionnaires to gather a relatively large quantity of information. For this reason, a deductive approach, which uses empirical data to test a developed hypothesis, is more suitable to a quantitative strategy. In comparison, qualitative research emphasizes words rather than numbers; this is why the collection of data is usually achieved through interviews, allowing the researcher to gain deeper understanding of single cases. Therefore, the inductive approach, which entails theory generation through empirical analysis, is more suitable to a qualitative analysis.

This thesis adopts an inductive approach and, consequently, qualitative research has been preferred. Indeed, two different information sources were used:

academic studies to develop a theoretical framework, and the case study of Ferrarelle. The inductive approach was also chosen because of the novelty of the argument and the limited research focused on the evolution of CSR. As a result, the literature includes mostly opinions about possible solutions to different problems, though developed by different authors. On the other hand, the case study of long-term social value-based CSR strategy at Ferrarelle has been used to determine what empirical aspects are successful and to what extent they coincide with academic opinion.

### **3.2 Research design**

The research design provides “a framework for the collection and analysis of data” (Bryman, Bell, 2011). In this thesis, the single case study was selected as it allows in-depth examination of the Italian company Ferrarelle S.p.A. and its CSR strategy in the beverage sector. In fact, the main advantage of the above-mentioned design is the ability to scrutinize a particular case, and to understand the connection between the problems faced and the positive results achieved by the company. The thesis compares the information and the opinions of other researchers with regard to the empirical strategy of Ferrarelle, in order to highlight the practices which best fit a long-term social value-based CSR model.

According to Bryman and Bell (2011), even though the single case study permits deeper understanding, it often lacks *external validity* and *generalization*. In fact, even though the *internal validity* is high due to the specific focus on the case, the *external validity*, the degree to which the conclusions reached have the same validity in other cases, could be a problem. Therefore, a concern was choosing the right company to study. However, even in this case, the choice was optimal because of the ideal industry related to the case (the food and beverage industry is strongly linked to social and environmental issues as explained in Chapter 2). The economic results reached, the positive impacts in the local community, and, above all, the implementation of CSR principles as presented in the literature review.

### **3.3 Literature review**

The literature review can be defined as “the account of what has been published on a topic by accredited scholars and researchers” (Taylor, 2017). In this thesis, academic papers and reports in several academic databases and publications from accredited institutions were reviewed.

In this respect, the main source of data employed was derived from the academic databases of LUISS University and Gothenburg University, which meant that information could be collected mostly from papers and articles. Several international organizations’ websites were consulted to acquire data on specific topics. However, some of the academic papers examined only contain the opinions or untested theories of reliable authors. For this reason, in order to increase the reliability of the thesis, the same opinions were compared with each other and with the results of the case study.

### **3.4 Case study – Ferrarelle S.p.A.**

Ferrarelle S.p.A. is an Italian bottled water company founded in 1893 in Riardo, a little town in southern Italy. In this region, Ferrarelle extracts the natural sparkling groundwater to produce one of the most popular bottled-water brands in Italy. In the last year, the company started to implement a CSR strategy, which involved several changes in the internal structure and in the relationship with its stakeholders.

The different company characteristics of Ferrarelle make it ideal for a case study:

- The positive economic and social outcomes achieved through the CSR policy.
- The close link with the local environment due to the presence of groundwater.
- The strong commitment to CSR from top management.
- The close relationship between CSR and the food and beverage industry.
- The focus on creation of social value.

Two different internal sources were used to gather data about Ferrarelle: primary data consisting of information collected from the interview with Mr. Michele Pontecorvo Ricciardi, and secondary data, consisting of general information included in the company's sustainability (2015) and financial reports (2015).

- **Primary data.** The primary data consist of information gathered from the interview with Mr. Michele Pontecorvo Ricciardi, member of the Pontecorvo Ricciardi family and Communication and CSR Director of Ferrarelle. The interview was necessary to obtain information about the company, which was not present in its reports. The interview model was face-to-face and semi-structured. Mr. Pontecorvo Ricciardi answered every question without being interrupted, and he was free to add any information that he felt was relevant.
- **Secondary data.** The secondary data were gathered essentially from two different reports. The Sustainability Report (2015) provided the basic information about the company and its sustainability activities. This can be divided into four sections:
  - The first section provided information about the company's mission and values, the approaches toward stakeholders, its governance, and the various certifications of product quality.
  - In the second section about environmental sustainability, information was collected on Ferrarelle's sustainable management of the groundwater at Riardo, and all the internal activities aimed at reducing the environmental impact such as the operations undertaken to recycle and reuse waste and the effort to reduce the emissions of greenhouse gases.
  - The second section about social sustainability provided an overall vision of the relationships with local NGOs, the philanthropic activities and the relationship with employees.
  - Finally, the third section provided data about the economic sustainability with special focus on the relationship with customers and suppliers.

The financial report, though not containing any information directly related to CSR results, provided data about the economic and financial situation of Ferrarelle, and the success of the overall business in 2013–2015.

## Chapter 4

### Empirical Findings

The purpose of this chapter is to present the data about Ferrarelle S.p.A. and the CSR strategy they undertook in the last few years. The findings have been gathered from the financial and sustainability reports of the company and an interview with Mr. Michele Pontecorvo Ricciardi, Director of Communication and CSR in Ferrarelle and a member of the family that owns the company. After discussion of the company's history and structure, the empirical findings about the competitive advantages reached through internal innovation are presented. The family's aspirations and background are relevant factors in the business strategy orientation. Then, it is considered the company's relationship with its five categories of stakeholders and how it has managed to create social value with them. Finally, the financial results achieved by Ferrarelle are considered in order to prove, from an economic perspective, the CSR strategy efficacy in the short term. Discussion is concluded with assessment of the firm's future strategies and opportunities, which completes the SOAR structure introduced in Chapter 2.

#### 4.1 Introduction to Ferrarelle: Missions

Ferrarelle S.p.A. is an Italian joint-stock company producing mineral water; the company bears the name of its main brand and it is the fourth largest Italian mineral water producer in terms of market volume, with a quota of 7.9%. The brand was born in 1893, when the Italian Antonio De Ponte started bottling natural mineral water near the Italian town of Riardo, in the regional park of Roccamonfina-Foce Garigliano. The sparkling water proved to be healthy and tasty, and at the beginning of the twentieth century, its popularity started to increase. Since then, ownership of the business has changed several times and so too its strategical management. In 1987, the French group Danone and Ifil took over the business and they remained owners until 2007 when the Italian family Pontecorvo Ricciardi brought the ownership back to Italy. The company started to move toward a brand strengthening strategy aspiring to promote Ferrarelle as an Italian traditional

product and, at the same time, making the whole business a model of CSR in the food industry. The high commitment is evident in the company's mission:

- *Harmonious relations with the territory where our plants/offices are located and with the surrounding environment.* Ferrarelle's CSR policy takes into consideration the natural and social environment where it operates aiming to achieve shared value with local communities.
- *The utmost satisfaction of our customers' and consumers' needs, by maintaining very high quality and value in our products.*
- *A high level of involvement with all our partners, favouring professional growth and personal gratification.* Indeed, Ferrarelle claims to consider highly every stakeholder relationship, and is aware of the possibilities to enhance its overall business and create social value through them.

With respect to its products, according to Mr. Pontecorvo Ricciardi, Ferrarelle is considered a premium brand and its consumers have higher purchasing power and higher expectation in terms of product quality and health benefits.

Although this chapter mainly focuses on the main Ferrarelle brand, notably, the company commercializes bottled water under six other minor brands, namely, Vitasnella, Boario and Fonte Essenziale, bottled in Boario, in the province of Brescia in North Italy, Natia and Sant'Agata, which, like Ferrarelle, is bottled in Riardo, and Evian, a French brand exclusively sold by Ferrarelle in Italy.

With regard to the company's business, Mr. Pontecorvo Ricciardi stated that Ferrarelle can be considered an SME, with a strong link to its territory of origin. However, according to the European Commission (2015)

The category of micro, small and medium-sized enterprises (SMEs) is made up of enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding EUR 50 million, and/or an annual balance sheet total not exceeding EUR 43 million.

This means that Ferrarelle with more than 360 employees and more than 162 million euros of revenues should be considered a large enterprise.

## 4.2 Internal strengths: the environmental dimension

Ferrarelle is dedicated to resolving environmental problems. This is reflected in its commitment to the reduction of environmental impacts related to the product and operations activities. Moreover, the initiatives and policies undertaken to reduce potentially negative externalities do not merely translate into social benefit for society and the natural environment, but they also constitute a competitive advantage and a long-term strategical investment. Indeed, waste reduction and more efficient resources management are key factors in cost reduction.

The company has moved in different directions. First, the safeguarding of water resources, both in terms of aquifers and bodies of water on the surface and of the hydro-geological basin where the raw material is collected, is fundamental to guarantee product quality and to maintain it as renewable resource. Every week, Ferrarelle checks the underground water status and measures the piezometric levels of the aquifer to ensure an unaltered balance between mineral salts and natural effervescence, while it strives to carry out an efficient management of hydro-mineral resources, limiting the water waste and enhancing its reutilization. The latter is employed in several industrial activities such as glass bottle washing, and it is a main focus of Ferrarelle's environmental sustainability. In the plant at Riardo, the water is reutilized several times using modern apparatus capable of recycling through a filtration system before being partly returned to the surface water. Prior to this, thorough purification treatments are carried out within the plant itself. Even though the total water consumption from 2013 to 2015 increased, the water consumed per liter of bottled water registered a drop of 61% from 2014 to 2015 (Fig 6).

<b>WATER CONSUMPTION</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
<b>Total water consumption (l)</b>	341,881	407,722	452,856
<b>Specific consumption (l consumed/10,000 l bottled)</b>	6.91	8.13	3.20

Figure 6. Water consumption from 2013 to 2015 (Ferrarelle Sustainability Report, 2015).

Water is not the only element employed in Ferrarelle’s manufacturing processes to be recycled. More than 90% of the dumped material (plastic, paper, aluminum, glass, wood) are gathered separately and then compacted with a view to future reemployment (Fig. 7).

<b>WASTE AND WASTEWATER</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
<b>QUANTITY OF WASTE PRODUCED (T)</b>	1,922,958	2,126,645	2,146,166
<b>QUANTITY OF WASTE RECYCLED (T)</b>	1,702,512	2,070,005	1,977,506
<b>RECYCLED PERCENTAGE</b>	89%	97%	92%
<b>DISPOSED WATER (MC)</b>	430,217	472,131	539,444

Figure 7. Waste and wastewater from 2013 to 2015 (Ferrarelle Sustainability Report, 2015).

More optimization and less impact upon the natural environment is also achieved through an efficient pallet management. The Total Pallet Management (TPM) is a system which sorts, controls, and repairs pallets; the damaged ones are repaired and made ready to be reutilized in the value chain without any need to be transported to the service center. In this way, through the reduction of the number of vehicles employed for the transportation of pallets, Ferrarelle reduced costs and levels of air pollution. According to the company, thanks to the TPM, they reduced CO2 emissions (-50.3%), and lowered wood consumption (-71.4%) and the quantity of waste sent to the landfill (-76.5%) compared with EPAL pallet exchange system (Fig 8).



Figure 8. TPM outcomes. (Ferrarelle Sustainability Report, 2015).

Ferrarelle pays much attention to energy saving throughout the manufacturing processes. In this respect, in the plant at Riardo, energy comes from three sources, namely, electricity, natural gas, and diesel, while in the plant at Boario, only electricity and natural gas. Electricity is used to produce compressed air and to operate the lighting systems, while the natural gas and diesel are used to produce steam and hot water for domestic purposes and for heating. Diesel only represents 3% of total energy consumption. From 2013 to 2015, energy consumption was stable with a total energy consumption of 149,106,453 megajoules (MJ) reached in 2013 and 149,580,997 MJ reached in 2015 (Fig. 9).

ENERGY CONSUMPTION (MJ)	2013	2014	2015
ELECTRICAL ENERGY PURCHASED (MJ)	100,846,011	95,742,030	101,665,600
ELECTRICAL ENERGY FROM PHOTOVOLTAIC SYSTEM (MJ)	4,914,666	4,756,752	4,914,176
METHANE (MJ)	39,885,603	38,810,743	38,200,798
DIESEL (MJ)	3,460,174	3,067,849	4,800,423
<b>TOTAL ENERGY CONSUMPTION (MJ)</b>	<b>149,106,453</b>	<b>142,377,374</b>	<b>149,580,997</b>

Fig 9. Energy consumption between 2013 and 2015 (Ferrarelle Sustainability Report, 2015).

Higher efficiency in energy consumption has also been achieved through the substitution of old oil-fired thermic systems with low-impact methane ones, and the product line modernization. On this last point, new and more efficient engines and

a system to recover high-pressure air have been introduced, while the new PET – polyethylene terephthalate, raw material used in the bottles production – bottling lines have been modernized. Thanks to the new PET lines, the product safety and quality have been improved, and the amount of packaging material employed has been reduced. Moreover, since 2008, Ferrarelle has employed photovoltaic technology to produce at Riardo electrical energy, realized through an investment of 5 million euros. Almost all the energy produced (96%) is utilized to cover about 7% of the internal demand.

These investments and initiatives contributed to reducing the energy intensity index, which measures overall energy consumption for each liter of bottled water; in fact, the MJ\Liter was reduced from 2013 to 2015 (Fig. 10).

### **ENERGY INTENSITY INDEX (MJ/LITRE)**



Figure 10. Energy Intensity Index (Ferrarelle Sustainability Report, 2015).

Finally, it is important to mention as probable future strength the R-PET Project. The R-Project, financed with an investment of 34,1 million euros, consists of the implementation of a recycled PET facility, which, at the time of writing of this thesis, was scheduled to start working in spring 2017. The new plant allows the recycling of bottles from the separated waste collection, which will be transformed into new bottles after bottles selection and washing. In this way, on the one hand, Ferrarelle should increase its raw material efficiency, while, on the other hand, it will contribute to the reutilization of waste materials, thus reducing its environmental impact.

### **4.3 The Aspirations**

Family origin, cultural background, and the special link to the territory play a crucial role in Ferrarelle's business and CSR policy.

According to Mr. Pontecorvo Ricciardi, the family's commitment to their place of origin can be traced back to Cesare Ricciardi, Michele's great-grandfather. It was between the end of the nineteenth century and the beginning of the twentieth century that Cesare Ricciardi, native of Livorno in Tuscany, started working as a messenger for Giuseppe Emanuele Modigliani, Italian philosopher and founder of the Italian Social Party, when he was still a young boy. Cesare spent his childhood with Modigliani, who not only ensured the boy's education by teaching him how to write and read, but also "indoctrinated the child", in the words of the Communication and CSR Director. This influenced Cesare's path toward adulthood and it was fundamental in his entry into the business world. He decided to work with Modigliani to establish a co-operative in the glass industry, a typical form of business association owned, controlled, and operated by a group of laborers, and particularly popular among socialists. Today, as strongly affirmed by the Communication and CSR Director, the social mission endures, even though the Pontecorvo Ricciardi family is committed to a totally different business in the food and beverage industry. As asserted by Mr. Pontecorvo Ricciardi: "Our origin left us the idea that a company can work as a business entity as well as a social entity, by respecting the natural environment and every stakeholder". Moreover, this social mission "is also conveyed to partners and employees", suggesting a full commitment to the cause and the desire to involve each stakeholder.

Another important aspect which influenced the whole business and CSR orientation is the local connection. Indeed, the Pontecorvo Ricciardi family is from Naples, near Caserta and Riardo, in the same geographical and cultural area. In this respect, it is also important to highlight the firm's contribution to local development, which is lagging behind other Italian regions. According to Eurostat (2013), Naples and its province registered a GDP per capita of 17.700€, while Caserta and its province, which includes Roccamorfinia and Riardo, registered 15.200€. Compared with the Italian average in 2013 (26.500€), it is evident that Naples and Caserta, and

more generally the Campania region, represent one of the most economically underdeveloped regions in Italy.

Historically, the Pontecorvo Ricciardi family loyalty toward the local and regional community has been a crucial element in the transformation of Ferrarelle as a socially oriented company, a work ethic that is at the heart of the business. As stated by Mr. Michele Pontecorvo, “It is a part of our culture, at the core of our business: giving something back to the community, the territory, the stakeholders, through the creation of healthy and fair management systems”.

#### **4.4 Direct commitment to the local community**

In its Sustainability report (2015), and in line with the idea that CSR should maximize the value created for its stakeholders, Ferrarelle declares that it “aspires to maintain and develop positive ethical relations with them”. In the report, the stakeholders are divided into 16 categories; however, these can be reorganized into five categories to address more effectively the research question and to create a link to the theoretical framework:

- **NGOs** with which the company works to enhance directly the local community, both in terms of the natural environment and social support.
- **Customers**, who include the consumers, small and large retailers, and the hotel, restaurant, and café sector (Ho.Re.Ca.).
- **Suppliers**, who include the services and transport as well as raw material and systems suppliers.
- **Employees.**
- **Shareholders**, who in this case are the Pontecorvo Ricciardi family.

Ferrarelle is strongly committed to the implementation of projects that contribute to enriching the financial, intellectual, and social heritage of communities. This includes not only the area around Riardo and Roccamonfina, where the bottling plant and the water source are located respectively, but also the provinces of Naples and Caserta, which together form the ecosystem where the company operates (Fig. 11).

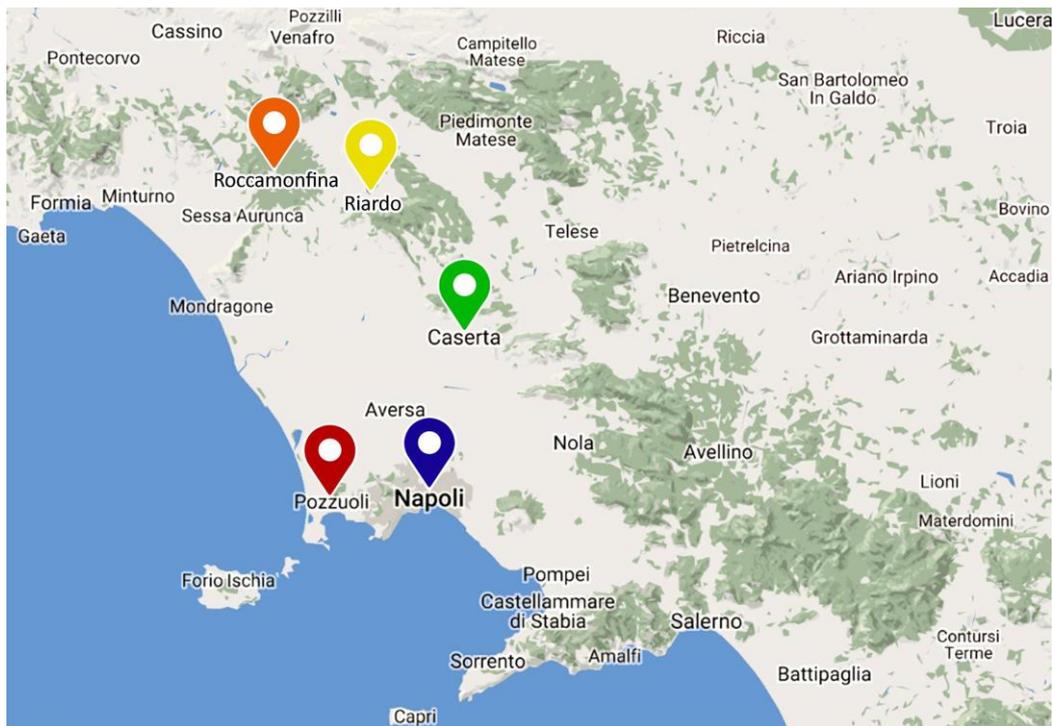


Figure 11. Map of Campania: areas of interest.

Ferrarelle's initiatives result in a broad spectrum of partnerships and sponsorships with NGOs and associations in accordance with its mission and values, both in terms of philanthropic contributions and mutually beneficial exchanges. According to Mr. Pontecorvo Ricciardi, though relationships differ, each is managed in a functional manner based on the "physiological strategic needs" of the company and the local community. The purpose is to create social value over time, and to obtain a return for the company in the short term and the long term. Indeed, the relationship with external organizations acquires a strategic importance in the light of the long-term planning. As stated by Mr. Pontecorvo Ricciardi, since Ferrarelle is a premium water brand, it has customers who appreciate partnerships with, for example, cultural associations. In addition to that, the entire CSR campaign seeks to enhance the company's image as a fundamental building block in the region's development, and not as some *greenwashing* liability.

Mr. Pontecorvo Ricciardi noted that Ferrarelle spends every year about 10% of the whole budget on social based partnerships and sponsorships; in 2015, the total expense was 1.372.260€. These outlays are of three types. The first is connected to safeguarding the natural environment in the provinces of Caserta, where Ferrarelle carries out its business activities and is involved in long-term

partnership with the FAI (Fondo Ambiente Italiano) trust. The second is mainly related to long-term partnerships with philanthropic associations and humanitarian missions, for example, Telethon, which is involved in research on genetically rare diseases, and the humanitarian activities of FOQUS (Fondazione Quartieri Spagnoli), in the *Quartieri Spagnoli*, one of the most deprived areas in Naples. The final outlay mostly goes toward sponsorship of events and partnerships with several cultural entities such as theatres and art exhibitions.

Thanks to these partnerships and sponsorships, Ferrarelle has managed to improve its sales and whole business health without substantially increasing the product cost.

#### **4.4.1 The partnership with FAI**

FAI is a nationally recognized nonprofit trust (Ferrarelle Sustainability Report, 2015). It was founded in 1975 with the mission “to promote a tangible culture of respect for Italy's natural heritage, art, history and traditions; and to protect a legacy that forms a fundamental part of the roots and identity of the Italian people” (Fondoambiente website, accessed on March 2017). The partnership with Ferrarelle dates back to 2007, when FAI proposed to the company sponsorship for a fundraising concert. However, even though the company agreed to the request, it proposed instead collaboration on a project based on long-term partnership policy. The project was initiated in 2010, and it ensured the patronage by FAI of a 135-hectare area where Ferrarelle’s water sources are located, that is the Ferrarelle Sources Park. The company, for its part, ensured community access to its park and heritage. For the first time, FAI entered a partnership with a private company. The NGO and Ferrarelle started to make improvements to the local area in the following way:

- The plantation of crops that are considered native to the area, such as hazelnut, wheat, and durum wheat.
- The plantation of new trees and olive trees, and setting up beehives.
- The restoration of the original architectural profile of Masseria Mozzi, which dates back to the end of the eighteenth century. In the Masseria, many

educational and recreational activities allow children “to spend a day in contact with nature, as apprentice farmers, following the lifecycle of plants from sowing seeds, to planting and watering plants in the garden, or discovering honey production and family life in beehives” (Ferrarelle Sustainability Report, 2015). Moreover, the Masseria is where the Accademia Ferrarelle is located and where many workshops and courses are organized by the Ho.Re.Ca sector for the general public.

- The creation of Masseria delle Sorgenti Ferrarelle S.R.L., an organic farming company that takes care of the crops and produces extra virgin olive oil, organic honey, and handmade pasta.

The partnership is of great benefit to the community and natural heritage in Italy. However, this has also advantage to the overall Ferrarelle business.

As stated by Mr. Pontecorvo Ricciardi, opening the park to the public allowed the company to improve its image among its customers as well as the product quality perception. Indeed, Ferrarelle allows guided tours within the park, giving visitors the opportunity to enjoy nature, to visit its cutting-edge bottling plant, and to discover how the water source is managed. In this way, customers can directly test the transparency of production and the product’s natural origin. Moreover, the development of the park and the Masseria enables Ferrarelle to establish a side business and to exploit its internal resources and know-how. For example, in addition to the above-mentioned Accademia Ferrarelle where the company plans to run courses in addition to those for its Ho.Re.Ca customers, the Masseria hosts a traditional trattoria where clients can enjoy traditional products farmed in the local area. In this way, Ferrarelle aspires to become a “champion” of Italian tradition and culture in every respect, as “in Italy, customers expect from family-run businesses”, asserted by Mr. Pontecorvo Ricciardi.

The strategical value of the partnership with FAI was also revealed after the scandal of the “Terra dei Fuochi”. Between 2008 and 2011, in a large area between the province of Caserta and Naples, vast quantities of buried toxic waste were found and blamed on organized crime. The water source of Ferrarelle is situated in Caserta province, but in a different location. Nevertheless, this was not enough to reassure

customers, who were no longer certain that the bottled water was safe to drink. As stated by the Communication and CSR Director, a key role was played by FAI and by the presence of Ferrarelle Sources Park. When customers demanded from the company further reassurances, thanks to FAI's credibility, they had no problem convincing them of the product's safety. As a result, the company avoided the spread of public uncertainty, which could have been hugely damaging to its business.

#### **4.4.2 Partnership with Telethon and FOQUS**

Telethon was born in 1966 as a TV fundraising event for muscular dystrophy research, and since then, it has gained popularity all around the world (Telethon website, accessed on February 2017). In 1990, it reached Italy, and today, it represents one of the leading charitable foundations in genetically rare diseases research. The partnership between Ferrarelle and Telethon was officially established on 2011, when the President of Ferrarelle, and father of Mr. Michele Pontecorvo Ricciardi, Mr. Carlo Pontecorvo, became part of the foundation's Board of Administrators. This was evidence of the personal commitment of the Pontecorvo family to social objectives. In this case too, the cooperation with a non-profit organization included a long-term plan to create local social values. Indeed, even though Telethon operates on a national basis, Ferrarelle's financial contributions go specifically to TIGEM, Telethon's Genetics and Medical Institute, which is in Pozzuoli, in the Province of Naples. The development of TIGEM is fundamental to economic growth in the area. First, it contributes to the redevelopment of what was once the industrial heart of the Italian company Olivetti. Secondly, thanks to Telethon, TIGEM has become a prestigious center of research in Campania region and today plays a key role in attracting researchers from Italy and all over Europe.

The nature of the partnership with Telethon is different from that with FAI. Indeed, the partnership with the latter is a strategic factor capable of directly enhancing Ferrarelle's business both in the short term and the long term, through a mutual exchange of resources and knowledge. In comparison, the relationship with Telethon is based mainly on philanthropic donations. However, according to Mr. Pontecorvo Ricciardi, it is far from being a "one-shot greenwashing donation"; rather, it entails long-term planning. Moreover, it has been profitable even in the

short term, by enhancing the company's image. In this regard, it is important to emphasize that Ferrarelle is a premium brand and its customers tend to be more "sensitive" to social causes, as stated by Mr. Pontecorvo Ricciardi.

FOQUS was established in 2014 with the aim of creating urban regeneration in the Spanish Quarters in Naples. It aims to

promote, at the same time and in an integrated way: the creation of new business activities and personal services; testing new methods of consecutive and integrated training; testing new models of welfare for communities; aiming to initiate processes of transformation of reality; and contributing to development, freedom, and social mobility (FOQUS website, accessed on March 2017).

Ferrarelle contributes to FOQUS through the project ARGO, which helped establish a center for children and young people with disabilities and their families. Here again, Ferrarelle strives to enhance the local community by contributing to a social cause, and by relaunching local development projects. As in the case of Telethon, the partnership with FOQUS is another piece of the puzzle in the transformation of Ferrarelle into a social entity and business enterprise.

#### **4.4.3 Other partnerships and sponsorships**

Ferrarelle has sponsored many other cultural organizations and events. The guiding principle behind the choice of charity is again dependent upon target customers of the Ferrarelle brand. Indeed, as stated by Mr. Pontecorvo Ricciardi, through its involvement in cultural events, the company manages to distinguish itself from direct competitors. For instance, Lete, another southern Italian bottled water company, opted for a marketing partnership with the soccer team S.S.C. Naples, which enabled it to reach a wider audience, though with minor purchasing power and with different interests to Ferrarelle's clients. "We managed to carve a niche in the bottled water market, where companies usually fight aiming at reaching price leadership due to the product's simplicity" (Mr. Pontecorvo Ricciardi).

To conclude, it is important to note how the sponsorship of cultural events becomes even more significant as a mean to contribute to local tourism and thus to

local welfare. An example is the local tourism encouraged by Ferrarelle through sponsorship of the Royal Palace of Caserta and of theatres in Naples, such as the Teatro Bellini and Teatro Diana.

#### 4.5 The other stakeholders

The section below discusses the other four fundamental stakeholders of Ferrarelle.

##### 4.5.1 The employees

Ferrarelle’s contribution to economic development is accomplished through direct actions in the local area and the social environment. In fact, as a business organization, the company plays a decisive role in job creation. As shown in figure 12, in 2015, more than 200 employees worked in Riardo alone, while the total number of company employees in the same year was 362.

EMPLOYEES BY PLANTS AND OFFICES	2015			2014		
	MEN	WOMEN	TOTAL	MEN	WOMEN	TOTAL
RIARDO PLANT	154	6	160	155	6	161
RIARDO OFFICES	39	10	49	38	10	48
BOARIO PLANT	91	8	99	84	9	93
MILAN OFFICES	9	11	20	7	10	17
SALES NETWORK	28	6	34	19	5	24
<b>TOTAL</b>	<b>321</b>	<b>41</b>	<b>362</b>	<b>303</b>	<b>40</b>	<b>343</b>

Figure 12. Employees by Plants and Offices (Ferrarelle Sustainability Report, 2015)

The company values of Ferrarelle are also reflected in its employees’ management and in efforts to enhance the work environment. First, in the last three years, the problem of work, health, and safety has been addressed with considerable investments. As shown in figure 13, between 2013 and 2015, more than 250.000€ were invested in employees’ training, while in order to analyze the relation between accidents and bad behavior, Ferrarelle organized monthly safety meetings with the participation of all plant supervisors. Specifically, resources have been employed to

arrange emergency simulations, training courses for office workers and salesmen as well as truck operators, aerial platform workers, and electricians.

	2013	2014	2015
<b>EXPENSE IN TRAINING (Euro)</b>	46,709	95,826	118,877

Figure 13. Expense in training between 2013 and 2015 (Ferrarelle Sustainability Report, 2015).

The solutions adopted in Riardo and Boario have proved to be effective: the injury frequency and severity indices developed by Ferrarelle are close to zero, as shown in figure 14.



Figure 14. Injury frequency index and Injury severity index (Ferrarelle Financial Report, 2015).

The efforts to improve the work environment includes also the autonomy granted by the Pontecorvo Ricciardi family to different managers. Indeed, as stated by the Communication and CSR Director, the family is strongly involved in company initiatives and it is open to having a direct relationship with every manager. At the same time, however, even though the company is a family-run business, decisional autonomy is guaranteed to the top managers. Of course, this trust-based relationship has been made possible thanks to the relatively small size of the company.

Finally, it is important to underline the positive impacts that Ferrarelle's commitment to CSR and philanthropy have on its own employees. According to Mr. Pontecorvo Ricciardi, employees seem to share and approve of the owner's passion for social causes, while investment in the local environment at Riardo significantly improved the working conditions and atmosphere.

#### **4.5.2 The customers**

Customers and consumers are at the center of our work: they allow us to develop our business and this is where our growth comes from. [...] Our customers and consumers must choose us based on clear, transparent, and objective information, and in acknowledgement of our approach to work and to the end product that always aims for excellence (Ferrarelle Sustainability Report, 2015).

It is easy to recognize the value Ferrarelle places on its customers. Although the company is highly committed to social and environmental issues, the value creation remains a priority. In fact, its sustainability policy is part of that value, while transparency, correctness, and quality are what distinguish the final product from its competitors' products. In this regard, Ferrarelle emphasizes product quality to customers through several certifications attesting to the company's commitment to safety, high quality, and *environmentally-friendly* industrial processes. While product certifications are concerned with water quality and materials for packaging, process certifications, for instance, guarantee the product traceability or efforts to minimize air pollution as a result of the manufacturing processes.

With regard to its retailers and Ho.Re.Ca., Ferrarelle's high commitment to quality management is reflected in the decreasing number of complaints and reports of dissatisfaction in 2014 and 2015 (Fig. 15). Moreover, as mentioned by Mr. Pontecorvo Ricciardi, thanks to its commitment to quality, Ferrarelle has managed to obtain access to retailers with higher product quality requirements.

	2015	2014
Number of complaints	422	452
Complaints from consumers (n° complaints/1,000,000 pcs sold)	0.32	0.35
Complaints from customers (n° complaints/1,000,000 pcs sold)	0.27	0.35
Generic reports of dissatisfaction	59	80

Figure 15. Number of complaints and reports of dissatisfaction between 2014 and 2015 (Ferrarelle Sustainability Report, 2015).

With regard to the Ho.Re.Ca customer segment, Ferrarelle aimed at creating trust-based relationships. An example is the establishment of the Accademia Ferrarelle, located in Masseria delle Sorgenti. The Accademia aims to strengthen the relationship with Ho.Re.Ca. customers through several initiatives, which range from workshops and meetings with chefs, to lessons on food and wine catering, as well as management topics. As proof of the company's transparency, customers can also visit the facilities at Riardo. What might appear as unrelated activities are a way to enhance relationships with suppliers, and reinforce Ferrarelle's commitment to promoting its brands as part of the Italian food industry and tradition. Moreover, according to the Communication and CSR Director, the Accademia Ferrarelle could be opened in the future to whoever wants to attend fee-paying training courses. The Ho.Re.Ca segment is also an important means to enhance Ferrarelle's image in the local community. Indeed, the Communication and CSR Director pointed out how the company intends to improve its image through sponsorships of the most popular restaurants in Naples and Caserta as well as smaller restaurants and pizzerias. Moreover, the company organizes culinary festivals and competitions, thus proving the presence of Ferrarelle as an active player in the food sector and not merely as a water supplier.

#### 4.5.3 The suppliers

The strategic management of supply chain is considered crucial for Ferrarelle's business. However, the number and type of suppliers is quite fragmented (1253 in 2015), and their CSR policy is limited to suppliers with whom they share certain

values. In 2015, there was even distribution between raw materials, services, transport, and systems (Fig. 16).

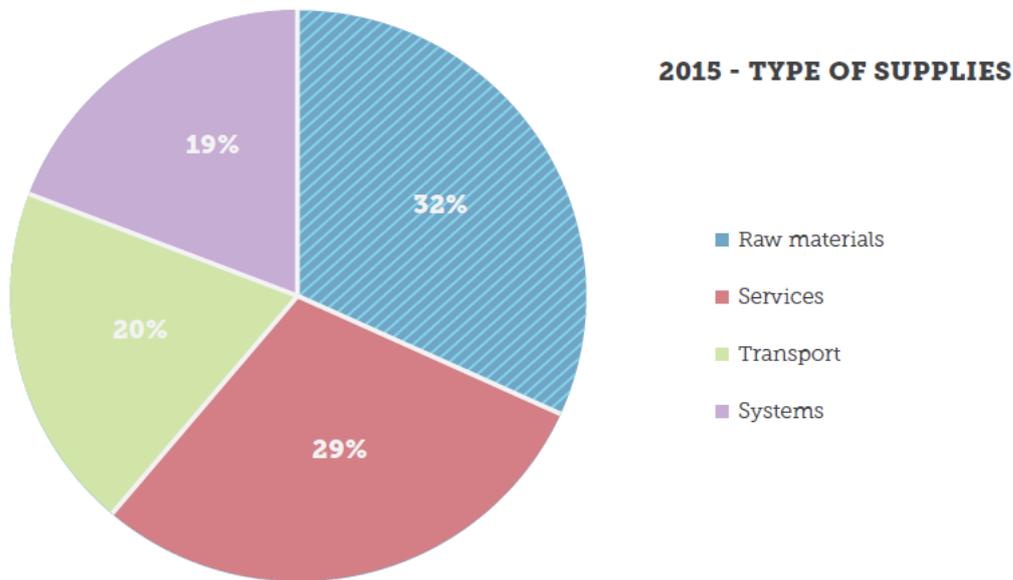


Figure 16. Type of Supplies 2015 (Ferrarelle Sustainability Report, 2015).

As regards the selection process of suppliers, the company claims to choose them based on “fairness, professionalism, efficiency, seriousness, and reliability” (Ferrarelle sustainability Report, 2015), while ensuring equal opportunities to those possessing the necessary requisites. Among the main suppliers in 2015, 26 gave proof of their commitment to CSR by publishing their own Sustainability Report. Moreover, with suppliers from countries considered “at risk” (e.g. terrorism, etc.), Ferrarelle introduces specific contractual clauses on obligations of a social nature (e.g. guaranteeing respect for the fundamental rights of the individual, protection against child labour, etc.), and the possibility of carrying out inspections in the productive units and offices of the supplier company.

#### 4.5.4 The shareholders

According to AIDAF (Italian Family Business Network, 2017), the family business is the most common business model in Italy. It is characterized by the presence of one or more families, which hold the majority of business ownership and exercise direct control. In Italy, this type of firm often has close ties with the area where it was established, and Ferrarelle represents a perfect example. As explained previously,

and as remarked by Mr. Pontecorvo Ricciardi, the social development of the local environment is part of the company's mission. In fact, the power concentrated in one family allows the social commitment of its members to be identified with the company's values, and it gives precise guidelines in terms of strategic activities.

Moreover, the strong family commitment toward social missions is clear evidence of the economic results CSR can provide in the short term and mid-term. "We would never undertake such an intense CSR campaign if that did not translate into a sustainable economic value capable of guaranteeing the whole business health" (Mr Pontecorvo Ricciardi, 2017).

#### **4.6 The results**

An efficient CSR strategy should be capable of enhancing the company's competitiveness in both the short term and long term. However, as Ferrarelle's CSR strategy has been in place for a relatively short period, the financial reports only provide information about the last few years and of the benefits achieved in the short term. In this regard, the data extrapolated from the financial reports are useful to understand the effectiveness of CSR activities aimed at having a direct impact on product quality and the business environment. Moreover, since the investments in new technologies and CSR strategy are relatively new, the years 2013, 2014, and 2015 are studied, so that it is possible to evaluate the most recent economic outcomes.

In the financial report analyzed, for the year 2015, the effectiveness of the Ferrarelle business is underscored by the excellent economic results, which were up from the previous year. Net Income for 2015 (5.854.340€) increased by 4.304.537€ compared with 2014 (1.549.803€), while the total production value increased 15% from 144.548.179€ to 166.189.292€. According to Ferrarelle, the positive result was due to the launch of the new brand *Fonte Essenziale*, and to increasing sales of preexisting brands. The operating income increased too compared with 2014: in 2015, it was 7.914.521€, with a growth of 274% compared with the previous year. Again, according to the corporation, the positive outcome was due especially to higher efficiency in the PET employment, due to a reduction in energy waste and fixed costs.

Company health is also evident in the return on equity (ROE), return on investments (ROI), and return on sales (ROS) economic indicators (Fig. 17). The ROE (Net Income\Shareholder’s Equity), which reveals how much a company can turn the money shareholders have invested into profits, registered a negative value in 2013 (-19,9%), while in 2014, it registered the better result of 9,5% and 23,3% in 2015. The ROI (net gain from investments/investments), a ratio useful to understand the return of the investments undertaken, was -1,9% in 2013; Ferrarelle, however, registered 3,4% in 2014 and 8,1% in 2015, showing a constant improvement. Finally, the ROS (Net Income\Sales), which is useful to understand how much profit the company can obtain from its sales, changed from -1,3% in 2013, to 2,0% in 2014 and 4,9% in 2015.

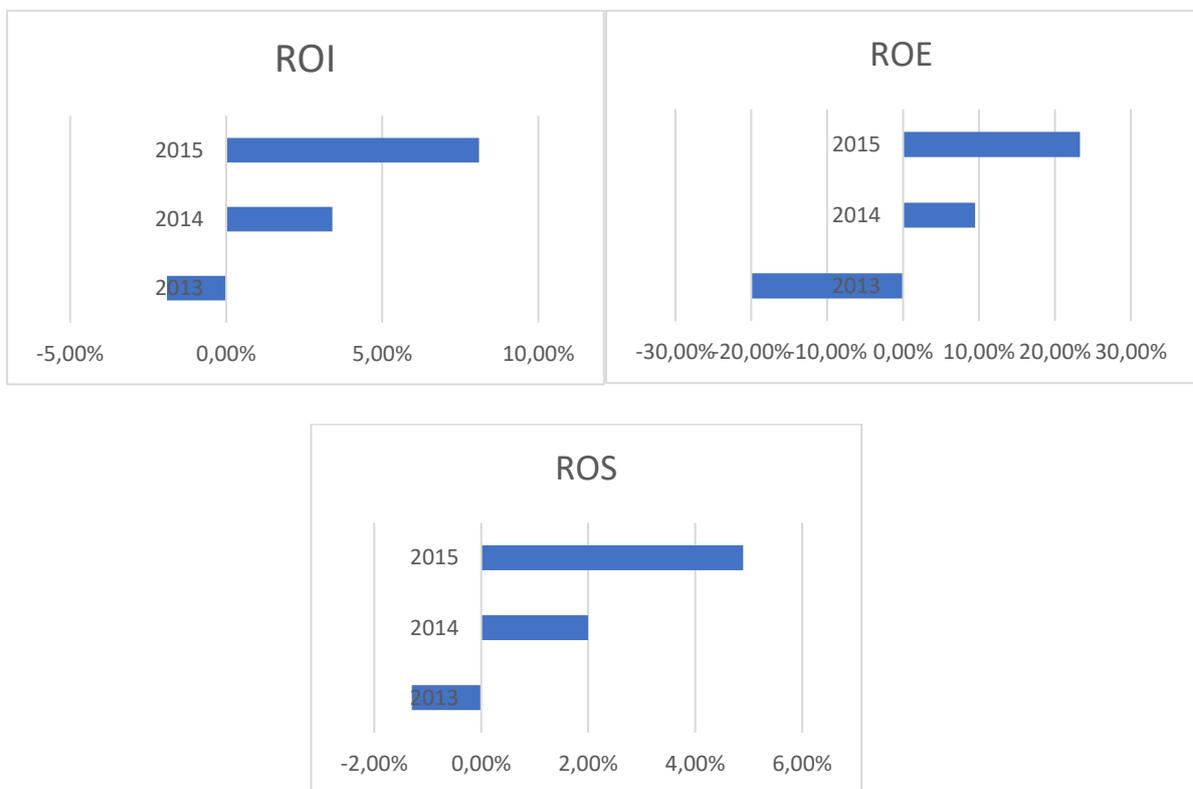


Figure 17. ROI, ROE, and ROS (Ferrarelle Financial Report, 2015).

The company also had excellent results in its financial performances and short-term debt management (Fig. 18). The long- and medium-term debt and equity to fixed assets ratio improved from 2013 to 2015, with 0,71 registered in 2013, 0,75 in 2014, and 0,82 in 2015. Additionally, the equity to fixed assets ratio showed an improvement from 2013 to 2015, with 0,24 registered in 2013, followed by 0,30 in 2014, and 0,42 in 2015.

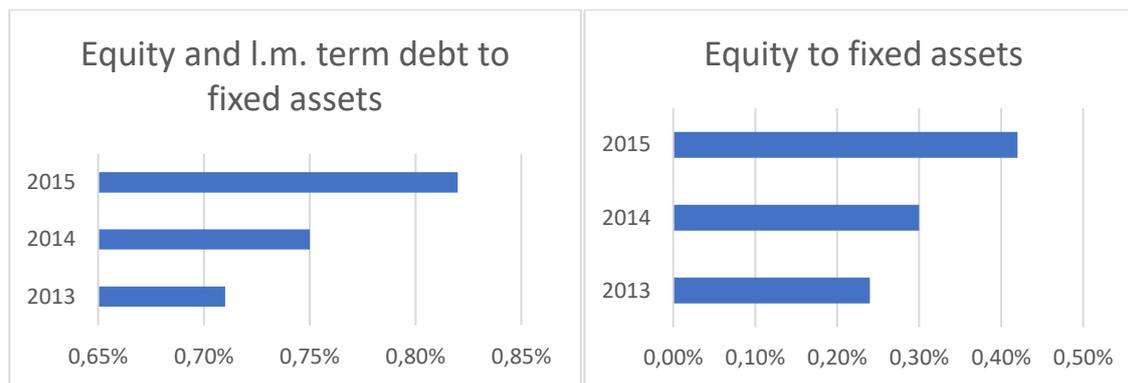


Figure 18. Debt ratios (Ferrarelle Financial Report, 2015).

However, Ferrarelle’s economic performance should be considered in light of the general mineral water sector growth. According to Beverfood’s Report (2016), and as shown in figure 19, in 2014, bottled water consumption registered a positive variation of 2,1%, compared with 2013, and 7,9% in 2015, compared with 2014. At the same time, in 2014, the net exports increased by 5,2%, compared with the previous year, and by 10,7% in 2015, compared with 2014. In 2015, the total turnover was 2.750 million euros, up from 2500 in 2014.

Year	Total production		Net exports		Consumption	
	Mln. litres	Var. %	Mln. litres	Var. %	Mln. litres	Var. %
2013	12500		1150		11350	
2014	12800	+2,4	1210	+5,2	11590	+2,1
2015	13840	+8,1	1340	+10,7	12500	+7,9

Figure 19. Bottled water market growth between 2013 and 2015, Arranged from Beverfood data, 2016.

#### 4.7 Conclusion and future opportunities

The two key words which best describe Ferrarelle’s strategy to reach competitive advantage are “CSR” and “innovation”. CSR proves that complete stakeholders’ management can be a way to strengthen the company’s image as a socially-conscious business, and, at the same time, the close relationship with every stakeholder can enhance its competitiveness. In terms of innovation, through continuous technological modernization of its systems, Ferrarelle has managed to reduce waste and cost, while achieving a higher degree of efficiency.

With respect to the competitive environment where Ferrarelle operates, Mr. Pontecorvo Ricciardi remarked that the company “managed to create a new niche within the bottled water industry”. This is known as a mature market where firms compete mainly on price in order to increase their market share. The new niche market mainly consists of customers with higher purchasing power, who have greater awareness of social issues and place more importance on product quality. Moreover, the comprehensive CSR approach of Ferrarelle has made it possible to enhance the company image and brand, to reduce costs, to improve product quality, and to safeguard its main resource, i.e. the spring water. With regard to the direct intervention of Ferrarelle in the local environment, Mr. Pontecorvo Ricciardi referred to three fundamental laws. Every CSR activity

- must be undertaken in areas related to the business of Ferrarelle.
- must be undertaken by carefully choosing the NGOs to work with, since in Italy the third sector is fragmented.
- must follow a strategic plan and should not be reduced to mere financial disbursements to NGOs.

Questioned on the future of Ferrarelle and its CSR strategy, the Communication and CSR Director restated the intention of the family to continue along this path. In addition to ongoing investment in technological innovation, the CSR manager asserted that the company intends to strengthen relations with its customers, especially clients in the Ho.Re.Ca. sector. In this respect, the Accademia Ferrarelle represents a valuable resource to create a business relationship involving sale from the Ho.Re.Ca. customers of Ferrarelle’s products. In turn, Ferrarelle provides courses and workshop in the Accademia. This initiative especially targets the owners of little restaurants and trattorias with fewer economic resources, but who need training or specific knowledge about the food industry. Moreover, Mr. Pontecorvo Ricciardi expressed the intention to open the course even to the general public as a side business. Finally, in addition to the Accademia Ferrarelle, the Masseria Mozzi trattoria and Masseria delle Sorgenti Ferrarelle S.R.L. represent areas for future expansion.

# Chapter 5

## Analysis

In this chapter, the empirical findings presented in Chapter 4 are analyzed and compared with the theoretical framework developed in Chapter 2, in order to find discrepancies and similitudes. The focus is on the internal CSR policy undertaken by Ferrarelle, followed by discussion of the company's CSR strategies toward NGOs, and how it manages to create value for the local community. Finally, the other main stakeholders are analyzed, considering how the company creates value for them and its own business.

### 5.1 Internal strengths

According to Visser (2012), a frequent problem for companies implementing a CSR strategy is adherence to the *Incremental CSR* concept. Companies usually undertake a bottom-up approach in adopting CSR, which guarantees benefits through continuous improvement in every task. However, this incremental approach fails to deal with the main problems the world is facing: a top-down CSR would be a more effective solution. Moreover, Visser (2012) points out that CSR evolves over five distinct stages: the Age of Greed, when firms seek to prevent possible sanctions or penalties; the Age of Philanthropy, characterized by companies wishing only to improve their image through philanthropic donations; the Age of Marketing, when they enhance their brand and reputation by exploiting public relations opportunities; the Age of Management, when firms adapt their core business to CSR principles; and the Age of Responsibility, which sees companies focus their activities on identifying and resolving problems affecting society on a macro level, and taking into account connections with the ecosystem and local communities.

From the information gathered about Ferrarelle, it is possible to note that the company exhibits some aspects typical of the incremental CSR concept. In fact, cost reduction occurred in the manufacturing processes through several initiatives, which cut overall internal spending, while achieving positive environmental benefits. The following objectives have been realized:

- Water consumption has been reduced through recycling systems, which allow its reuse in the industrial processes.
- More than 90% of dumped material, the outcome of manufacturing processes, are gathered separately and then compacted to reuse in future.
- Through the TPM, the damaged pallets are repaired and made ready to reutilize in the value chain without any need to transport to the service center. As fewer vehicles are employed for the transportation of pallets, Ferrarelle has managed to reduce costs and the level of air pollution.
- Considerable investments have been carried out to modernize the thermic systems and, therefore, to reduce the amount of energy employed, while producing internally clean energy through new solar plants.
- The PET lines have been modernized, while the new R-PET project will further reduce waste through recycling of PET.

Ferrarelle is clearly a company which relies on innovation as well as reduction of waste to become more competitive. However, the various activities undertaken could be interpreted as incremental CSR due to the bottom-up approach to reduce waste through CSR policy. Nevertheless, it is also true that Ferrarelle's CSR philosophy advocates a manufacturing bottom-up approach with regard to the manufacturing processes, and a top-down approach in relation to improving the local environment through partnerships with NGOs. The internal innovation boosts the company's competitiveness and this is reflected in the availability of resources for local development. Therefore, it is possible to view internal CSR activities as indirect enablers of a top-down CSR policy capable of promoting social values.

For the above reasons, Ferrarelle seems to operate in two different "CSR ages", namely, the Age of Management and the Age of Responsibility. Moreover, the effectiveness of the overall CSR strategy is proven by the positive economic results achieved from 2013 to 2015. The economic returns were analyzed in the Empirical Findings chapter. Suffice to say, in the period between 2013 and 2015, Ferrarelle registered very positive performance results with ROI, ROE, and ROS increasing over time as well as the quality debt management ratios. Therefore, it is possible to

conclude that Ferrarelle is not affected by the *Uneconomic CSR* problem as defined by Visser (2012), i.e. the fact that CSR usually does not pay back.

A further relevant question concerns who leads the CSR strategy in a company. According to Porter and Kramer (2011), a widespread problem of CSR implementation in corporations is its perception as the competence of someone other than the CEO and, consequently, as policy not fully implemented in the overall company's strategy. A similar criticism is addressed by Visser (2012): the lack of top management commitment reduces CSR to a peripheral function in most companies, detached from the core business strategy. In other words, most companies prefer to create a department with specific responsibilities and, usually, with a prefixed budget. The final objective would be to defend the corporation's image as a "good citizen" and to protect its business. This idea of good citizenship is also part of the CSV concept of responsive CSR presented by Porter and Kramer (2011), as the core reason to implement a CSR policy, in opposition to strategic CSR. The case of Ferrarelle is rather peculiar; indeed, Michele Pontecorvo Ricciardi is not only in charge of communication and CSR strategies management, he is also a member of the family which owns the company – the President of Ferrarelle's son, Carlo Pontecorvo – and he has a strong influence on the business. The close ties with the rest of the family means that CSR strategies can be implemented that are coherent with the core company values. However, the "CSR department" concept prevails as evidenced in the words of Mr. Pontecorvo Ricciardi, who noted that the prefixed budget for CSR activities was around 10% of the total budget.

## 5.2 Relationships with NGOs and local community

Porter and Kramer (2011) level criticism at CSR by identifying two main problems. The first is related to the lack of meaningful impact of CSR policy. This is usually due to the lack of connection between the core business strategy and an inefficient CSR strategy. The second problem is related to the aim of companies undertaking CSR merely to enhance their image among the general public. Therefore, Porter and Kramer (2011) propose the CSV concept that companies should embrace policies and practices to enhance social and economic conditions in the communities in which they operate, while improving their performance.

Ferrarelle CSR policy follows in large part the CSV approach. Local ties in Naples and Caserta played a decisive role in its business objectives. The Pontecorvo Ricciardi family planned and carried out several activities aimed at producing a positive outcome for the local community through partnerships with NGOs and sponsorships:

- In addition to the benefits to the company, the partnership with FAI ensured the safeguarding of a vast natural area around the plant of Riardo for future generations. This is an example of what Porter and Kramer (2011) define as inside-out linkage. On the one hand, protecting this natural area allowed Ferrarelle to safeguard the water springs from pollution and, therefore, ensured quality of the end product, and helped to improve the work environment and to develop a side business in the food sector. On the other hand, the positive impact on society becomes even more important in light of the soil contamination in the province of Caserta. Therefore, in terms of the link between CSR investment and local contribution, the company's economic return and community interests are fulfilled at the same time. Moreover, the relationship can be interpreted as an example of what Porter and Kramer (2011) define as strategic CSR, that is "to create a social dimension to the value proposition, by making the social impact integral to the overall strategy and satisfying unmet customers' needs" (p. 12). Indeed, the partnership between Ferrarelle and FAI is crucial to guarantee the commercialization of a premium product.

- The partnership with Telethon and FOQUS enabled Ferrarelle to achieve another important outcome for its local community. In the case of Telethon, through the support provided to the organization and by playing an active role in steering their monetary contribution to the TIGEM region, Ferrarelle helped improve significantly an undeveloped area in Naples and to provide jobs to many university graduates. The societal benefits achieved through this partnership were doubled. The first refers to the contribution to the research into genetic diseases carried out by Telethon thanks to Ferrarelle's contribution. This is what Porter and Kramer (2011) define as *generic social issues*: the company through its handouts offers substantial support to a worthy cause, though irrelevant to Ferrarelle's competitiveness in the long term and the short term. The second refers to the direct aid to the TIGEM region development, what Porter and Kramer (2011) define as *social dimension of competitive context*. Indeed, the development of the local area may help improve the environment and, indirectly, enhance Ferrarelle's competitiveness. In this latter case, the partnership with Telethon is only partially in line with the CSV concept. Planning for local development is far from being the classical philanthropic donation carried out only to improve a company's image; Carlo Pontecorvo as a member of the Telethon Foundation's Board of Administrators is clear proof of commitment to its cause. This also applies to the partnership with FOQUS; in this case, Ferrarelle contributed to the creation of a center for children and young people with disabilities and for their families in the *Quartieri Spagnoli* area in Naples. The center is part of FOQUS' project to rejuvenate the area, which is now considered among the city's "forgotten" districts. Nevertheless, the two relationships lack a connection to the company's core business strategy, making long-term economic benefit for Ferrarelle unclear.

The partnership with Telethon and FOQUS is certainly led by a real commitment to the cause and it does not seem to hide any *greenwashing* purpose. However, even though this justifies the personal commitment of the family Pontecorvo Ricciardi, the same cannot be said in the case of Ferrarelle. Why, therefore, is the Pontecorvo family employing economic resources for social responsibility – as pointed out by Friedman (1970) – outside the

company's business context? Questioned on the topic, Mr. Pontecorvo Ricciardi indicated that company and brand image promotion was a factor positively affecting the economic performance, which is contrary to the idea of CSV. However, this seems to be economically sustainable and Ferrarelle is likely to move in this direction even in the future.

A final point to be considered is the discrepancy between the TIGEM area development objectives of Ferrarelle and the reasons stated by Khanna (2006) as underlying a company's choice to invest in public projects, such as roads and universities. The economic goal of those investments would be to create more efficiency, and thus, increase the overall firm performance. Nevertheless, the southern Italian company demonstrates that the promotion of public investment, such as a research center, can be supported through a philanthropic program, and it does not necessarily have to be driven by direct business advantage.

- The sponsorship of cultural events and the short-term partnerships with cultural organizations are the third type of relationship with NGOs Ferrarelle maintains. In this case, the strategic advantage is linked to the premium brand Ferrarelle sells and the customers who purchase its product. Indeed, according to Mr. Pontecorvo Ricciardi, Ferrarelle's customers are upper-class people in the older age group, who on average are interested in cultural topics. Unlike the above-mentioned social initiatives, this kind of relationship does not entail long-term planning for local development, neither is it intended to solve a societal problem. However, there are cultural events and organizations which take place in the provinces of Naples and Caserta and, according to the company, these initiatives bear witness to the excellence of art and culture in Campania, and they can help support local tourism.

With regard to the three main NGOs, it is also interesting to consider the reason behind their choice to partner with Ferrarelle. According to Poret (2014), NGOs' choice of MNC is usually determined by the need to increase visibility and, above all, to acquire financial resources that would be otherwise difficult to obtain. In the case of Ferrarelle, the reasons for choosing Telethon and FOQUS as partners are very different from those of FAI. Indeed, the former benefits from the

partnership through financial aid; the increase in visibility may also be a reason. Moreover, if the company's enhanced image is not considered, there are no direct benefits provided by the two NGOs to Ferrarelle's business. In comparison, the partnership with FAI is different. FAI managed to obtain double benefits: the NGO receives every year a financial contribution from Ferrarelle, and the relationship with the company allows the organization to fulfill its mission, which is to protect the natural heritage. Finally, it is interesting to note that both NGOs benefit from this collaboration in terms of visibility. In fact, in Parco delle Sorgenti visitors can learn more about the organization, while Ferrarelle enjoys the NGO's popularity among the consumers, and which serves as proof of the spring water quality.

Furthermore, with regard to the relationship between Ferrarelle and the three NGOs, a distinction should be made. According to Austin (2000), the relationship between NGOs and companies is a changing process, where the partnership depends on the different stages of the CSR. The first stage, the philanthropic one, is based on charitable activities. The second, the transactional stage, is characterized by reciprocal resources-exchange activities, such as sponsorships. The third stage, the integrative, has the deepest kind of interaction between companies, that is the sharing of objectives, people, and activities, in addition to the exchange of resources. In relation to Ferrarelle, the three relationships with NGOs present distinct features:

- The partnership with FOQUS is at the philanthropic stage and it is probably not the youngest partnership of Ferrarelle with an NGO. In fact, the southern Italian company confines itself to financial donations to the project ARGO in the FOQUS program. However, the collaboration may change over time.
- The partnership with Telethon can also be placed at the philanthropic stage, even though the trust is high and it is proved by the presence of Carlo Pontecorvo on the Foundation's Board of Administrators. The interest of Ferrarelle in the Telethon mission goes beyond the charitable activities and it is demonstrated also by the fact that the firm takes part in the direct financial resources management.

- The partnership with FAI can be placed at the integrative stage. As previously mentioned, while Ferrarelle contributes to FAI activities through financial donations and by opening the Parco delle Sorgenti to the public, the NGO helps the company in area development. Moreover, FAI and Ferrarelle share the desire to protect the environment where the company operates; the former because the Parco delle Sorgenti is included in the broad mission to protect natural heritage, the latter because it aims to contribute to local community development and the safeguarding of the water springs.

Finally, it is interesting to note how the CSR strategy has been developed consistent with the scalability principle of Visser (2015). That is, in the long term, social problems require strong investments to be tackled in a coordinated way. Ferrarelle resorted to a long-term planning involving several NGOs and addressing societal problems on distinct levels.

The following table (Fig. 21) summarizes the characteristics of the three types of Ferrarelle partnership with NGOs.

	<b>FAI</b>	<b>Telethon and Foqus</b>	<b>Cultural and other sponsorships</b>
<b>Connected to the core business (Strategic CSR)</b>	Yes	No	Yes
<b>Company and brand image enhancement</b>	Medium	High	High
<b>Philanthropic activity</b>	No	Yes	No
<b>Local shared value created</b>	High	High	Medium
<b>Generic social value created</b>	No	Yes	No
<b>CSR stage</b>	Integrative stage	Philanthropic stage	Philanthropic stage

Figure 20. Ferrarelle partnerships comparison.

### 5.2.1 The value of the territory

Ferrarelle represents a perfect case of a company capable of enhancing a territory's value as well as being enhanced by the territory itself, in line with what was stated by Maizza and Baccarani and Golinelli (2013). They point out that a local territory can be a crucial asset in a firm's business, especially for SMEs. In fact, rivalry may end up being competition over territories. The territory-product link assumes critical importance when provenience is what makes a product unique. The concept becomes more significant within the food industry, as the place of origin can be the only way to transform a cost-based competition into a differentiation-based competition. Baccarani and Golinelli (2011) divide firms into two categories based on their relationship with the local community where they were founded and operate. The first category includes the corsair companies, whose link to the local territory is limited to local resources exploitation, without undertaking any investment in the environment. The second category includes the locally-based companies. The latter exploit the "cultural heritage" of the local context where they developed their product, by making this the characteristic that distinguishes them from their competitors. Therefore, it is in the interest of the company to protect the local environment to safeguard those product features. Notably, Ferrarelle represents a typical case of a *locally-based company*. Indeed, as a company active in the food industry, it has integrated the protection of the natural environment in Riardo and Roccamonfina as a crucial element in its business. The company acknowledges the importance of spring water safety in the short term and the long term. Moreover, Ferrarelle can be seen as a *locally-based company* not only from a regional perspective, but also from a national one. Indeed, the recent creation of Masseria delle Sorgenti Ferrarelle S.R.L. and Masseria Mozzi Trattoria, and the promotion of Ferrarelle as a traditional Italian brand aim to transform the company into a leader in the Italian food industry nationally and internationally.

It is also interesting to note that Ferrarelle as a "small large" enterprise presents some characteristics of MNCs and SMEs. Indeed, the latter seem to be much more involved in social capital investments and in securing a license to operate in a local context, while MNCs seem more focused on brand or company image enhancement. However, the southern Italian company opted for a combination of

the two strategies, thus improving its image, while using the philanthropic donations to invest directly in local environment enhancements.

However, it should be emphasized also the personal aspirations, the cultural background, and history of the Pontecorvo Ricciardi family as enablers in the CSR implementation. As explained in the empirical findings chapter, the reasons for this close relationship between the family and the local community, and the strong commitment toward social causes, are also due to the family origin. In fact, Cesare Ricciardi, Michele's great-grandfather was raised in a "socialist environment", which influenced his ideals. This had an impact not only on his future decisions – he worked with Modigliani, his mentor, to establish a co-operative in the glass industry – but also his descendants, who inherited the same social values.

### **5.3 Stakeholders analysis**

NGOs and the local community can play a key role in a company's long-term business development. Above all, this is the means by which a company can create social value. However, when considering a company's competitiveness and ability to create social value, it is apparent that every stakeholder gains strategic importance. Freeman (2001), exponent of the so-called stakeholder theory, points out that for a company to be successful, it should take into account the profit interest of its shareholders, and all interests of its stakeholders. This theory is usually opposed to the shareholder theory of Friedman (1970): the shareholders are the primary stakeholders the company should be responsible to, since they risk their own resources for the business. It is managers' duty to ensure an economic return in order to reward the shareholders. Moreover, spending on social activities would mean cutting internal resources and thus, decreasing the employees' wages or increasing the price to customers.

Ferrarelle, in line with the stakeholder theory of Freeman (1970), emphasizes the role of all stakeholders, and considers their interests as among the highest priorities. Ferrarelle identifies 16 stakeholders in its Sustainability Report, who in the empirical findings chapter were divided into five main categories, thus conforming to the classical stakeholder division proposed by Freeman. The

stakeholders were included by Freeman in six categories, namely suppliers, customers, employees, the local community, top managers, and shareholders. However, in the case of Ferrarelle, there are only five categories since the company is a family-run business and top managers are also shareholders.

By analyzing the company's commitment to every stakeholder, it is possible to study the benefits to the firm and CSR philosophy.

- **Consumers.** According to Freeman, the customers determine whether the company will survive. In fact, they indirectly pay for development or future products or services. In the case of Ferrarelle, there are three different types of customers: the retailers (small, medium, and large), the Ho.Re.Ca. customers, and the consumers. With regard to the latter, Ferrarelle seeks to accommodate the needs of consumers by giving proof of product quality and safety through certification, and improving overall the company's image through several CSR initiatives. Indeed, as stated by Mr. Pontecorvo Ricciardi, Ferrarelle's consumers most appreciate social contributions. In terms of retailers and the Ho.Re.Ca., the company endeavors to reduce the number of complaints. On the one hand, the firm manages to reduce costs, and, on the other hand, it is more reliable in the eyes of its customers. Finally, the Accademia Ferrarelle is part of the CSR strategy and it aims to strengthen the relationship with the Ho.Re.Ca. clients. In exchange for contractual obligations to buy only bottled water from Ferrarelle, they have the opportunity to attend workshops and events held in Masseria Mozzi to increase their skills in catering.

Every initiative has a direct influence on Ferrarelle's core business. The high quality of its product achieved through natural resources upkeep allowed Ferrarelle to reach its customer target, while the decreasing number of complaints has contributed to the company's increasing efficiency. The Accademia Ferrarelle has also enabled the company to retain its Ho.Re.Ca. clients.

- **Employees:** According to Freeman, employees are an internal resource and active players in the business activities. For these reasons, the employees'

interests should be considered in order to optimize the whole business. Moreover, the success of any CSR policy depends on the employees' perception of social business activities (IBLF, 2002). As described in the empirical findings chapter, Ferrarelle's focus on its employees is evident from its efforts to increase workplace safety and to reduce the number of accidents by arranging several courses and specific training for all workers. Indeed, the problem of safety in the workplace in the food industry is quite common (Briamonte, 2010). Moreover, according to the Communication and CSR Director, the Pontecorvo Ricciardi family gave its managers a high level of freedom and avoided a situation of too much centralized authority.

Again, the bottled water company managed to increase its efficiency thanks to optimized stakeholders' management. The reduced number of accidents in the workplace increased internal efficiency, while, according to Mr. Pontecorvo Ricciardi, the company's overall commitment to CSR even increases the employees' loyalty toward their firm.

- **Suppliers.** Compared with the previously mentioned stakeholders, the suppliers of CSR policy do not seem to be of direct benefit to Ferrarelle's core business. In fact, even though the processes, the final product quality, and the company's competitiveness depend on the resources provided by suppliers, in this specific case, the CSR strategy is limited to the choice of companies that share the same values as Ferrarelle without obtaining any direct competitive advantage.
- **Shareholders.** According to Friedman (1970), the shareholders are the only stakeholders whose interests should be taken into account. Although this view does not seem to be shared by the owners of Ferrarelle, it is important to stress that without satisfactory economic returns, the business would not be sustainable in the long term. This is why Friedman (1970) suggests that the principal duty of managers is to safeguard the economic interests of investors. In the case of Ferrarelle, the reason behind adopting CSR philosophy is linked to the Pontecorvo Ricciardi family's cultural background, history, and the sense of belonging to the local community. However, as stated by Michele Pontecorvo Ricciardi, they continue to invest

in CSR activities because it is proving to be profitable; otherwise, they would steer the business in a different direction.

## Chapter 6

### Conclusion

Capitalism is constantly evolving and CSR, which revolutionized the classical way of doing business, constitutes evidence of this process. Nevertheless, it seems that CSR, or, more accurately, society, needs radical change. Large companies as well as small firms have become key players in society, environmental issues, and economy, worldwide. Indeed, their significant impact on the local and global environment, and the high number and diversity of stakeholders they have influence on, has given rise to responsibilities that transcend mere profit concerns.

At the same time, the economic returns connected to concerns not strictly related to the business, are now seen as fundamental factors. However, although the company has started to show higher commitment toward social issues due to increasing public pressure, there is no evidence that it can provide long-term social value. For this reason, current research on companies implementing CSR strategies considers “how” they can effectively contribute to global wealth. In the same way, the intention of this thesis was to answer the following research question:

*What CSR strategy is capable of creating social value in the long term as well as guaranteeing the company's economic sustainability?*

To provide an answer, the opinions of economists and experts were examined and then compared with the empirical information on the CSR policy of Ferrarelle, a southern Italian company competing in the bottled-water industry. Subsequently, it was possible to elaborate a new strategy framework for effective CSR in light of differences between the actions taken by the company and those proposed by researchers in the field.

The first assumption is that *philanthropy can be an effective way to create social value, if part of planning*. As noted in the theoretical framework chapter, philanthropic activities are often carried out by companies interested only in self-promotion without providing any type of long-term social value and often lacking real commitment to the cause. However, although it may be difficult to prove or quantify a company's commitment, it may be easier to evaluate how its

philanthropic donations are made. Indeed, what compromises the company's capacity to contribute to real social improvement is the lack of long-term planning. This leads to a second important assumption: *NGOs are fundamental players in social enhancement planning*. In fact, the main objectives of companies, as profit-seeking organizations, are economic sustainability and economic returns. Anything that opposes these objectives would only reduce the company's competitiveness. NGOs, which have goals other than simply making profit, are important partners in achieving social aims. Therefore, it is easy to see how philanthropic handouts from business organizations can be transformed into "long-term social value", when strategically facilitated by NGOs. In this respect, the following may be summarized:

- NGOs pursuing objectives of strategic interests to the company. The partnership between Ferrarelle and FAI is an example. In this case, the two entities share a goal related to the company's core business and the NGO's social mission. The firm is naturally inclined to collaborate to strengthen its competitiveness.
- NGOs promoting local development. The partnership between Ferrarelle and FOQUS is a relevant example. In this case, the NGO is engaged in an activity unrelated to the core business of the firm, whose short-term advantage from the partnership is enhanced company image. However, the long-term outcomes will constitute an advantage for both the local community and the company.
- NGOs pursuing generic social goals. The partnership between Ferrarelle and Telethon is a good example. The risk that philanthropic donations would end up being irrelevant for real long-term social improvement is high. However, a possible solution is proposed by the Ferrarelle, which offers monetary incentive to the organization, on condition that this is invested to promote the local area.

The three types of partnership between Ferrarelle and NGOs (FAI, Telethon and FOQUS, and cultural organizations) have a common characteristic: every one of them acts locally. Indeed, the third assumption of the Ferrarelle case study, in accordance with the shared values concept of Porter and Kramer, is that *through a*

*locally-based CSR strategy, a company can effectively enhance its competitiveness as well as create long-term social value.* The possibility cannot be excluded that a non-local CSR policy may prove to be effective as well. Nevertheless, there are some factors to suggest the higher efficiency of the former.

First, aiming to enhance the local area through investments involving long-term planning could prove to be an economic boost for the local economy and, therefore, enhance the company's competitiveness.

Secondly, the association of Ferrarelle's product with its place of origin, and the firm's close ties with the community, have a profound influence on its business and the role that it plays locally. Ferrarelle's success is based on safeguarding the water spring, which ensures water premium quality. Moreover, the new side business in the food sector, such as the Trattoria Mozzi, highlights how a company can transform its ties with the local community, and which distinguishes it from its competitors, as emphasized by Maizza (2013).

Thirdly, this family-run business and SMEs seem to be appropriate players in the enhancement of the local area, due to the fact that its top management are also the owners. In fact, as shown in the Ferrarelle case, its commitment toward the local area may be strengthened by a sense of belonging, which, therefore, could influence the overall CSR strategy. In addition, the personal background and values of the owners-top managers seem to be critical factors in the choice of strategy. Obviously, Ferrarelle's pursuit of profits remains the priority, but the shareholders' values and close ties with "home" could lead to one strategical choice rather than another.

The commitment toward the local community and the investments through NGOs seems to be a fundamental factor when undertaking an effective long-term CSR. However, Freeman's classic vision of the importance of every stakeholder should not be overlooked. In the case of Ferrarelle, a transparent and correct relationship with every stakeholder would improve the company's image, and it could also be turned into a strategical advantage, in order to promote local development. For example, greater attention to employees' needs may reduce internal costs, while developing new business relationships with suppliers may create new business opportunities or even boost the local community. For instance,

Ferrarelle improved customers' loyalty by setting up its Accademia; in exchange for contractual obligation requiring them to sell only the company's bottled water, they had the opportunity to attend free workshops to improve their skills in catering. In this way, the company not only managed to increase its competitiveness, but also supported the local catering sector and thus the overall local economy.

## **6.1 Future research proposal**

To develop this thesis and to answer the research question, several studies were considered and empirical information related to the Ferrarelle case was gathered. However, it would be interesting to analyze further the degree to which the conclusions reached are reflected in cases other than those in Italy, and how they are shaped by different local contexts. Indeed, as explained in the previous chapters, the personal aspirations of the family owning Ferrarelle and their cultural background have been crucial elements in the overall strategy and success. Understanding the link between cultural identities and strategical choices, as well as the effect of a locally-based CSR on different environments, would provide better understanding of how much a company can create social value.

Another subject which should be further studied is the applicability of the findings presented in this thesis to companies competing in industries other than the food and beverage sector. In fact, as explained in the theoretical framework chapter, the food and beverage industry has significant impact on social factors such as the environment and working conditions. Nevertheless, it would be valuable to understand whether firms operating in different sectors manage to create local value and how they link this to their business.

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# Appendix

*Summary of interview questions for Mr. Pontecorvo Ricciardi*

## **Questions about the relationship with stakeholders.**

1. About potential problems occurred during the CSR implementation and the way the company dealt with them.
2. About the employees: any improvement in the work performance or in their perception of the company?
3. Short term and long term advantages of the partnership with local NGOs and the local events sponsorships.
4. About the relationship with local NGOs: collaborative partnerships or has the company just been compliant to NGOs requests?

**Questions about Owners' aspirations** (the top manager is part of family Pontecorvo, the main owner of Ferrarelle). The following questions will be asked to understand the role of aspirations in the CSR implementation.

1. Top manager's opinion about the influence of his background and personal aspiration to his strategical decisions.
2. If the lack of power fragmentation has made easier the change of direction towards CSR.
3. How aspirations influenced the choice of NGOs to collaborate with.

## **About the present and future strategy.**

1. About a possible differentiation in different section of food industry exploiting the CSR knowledge.
2. About other possible strategies to exploit their superior CSR know-how and experience.
3. More details about the relationship nature with NGOs.
4. More details about the Accademia Ferrarelle.

## **About the bottled water industry.**

1. About the increase in the sparkling water market share compared to the overall sector growth.
2. About other possible challenges they may have to face.

## **Questions about the financial and economic situation.**

1. Precise amount of resources invested in CSR
2. Main costs due to the CSR implementation