

# SUSTAINABILITY REPORTING IN SMALL ENTERPRISES: AN ITALIAN PERSPECTIVE

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## ABSTRACT

The recent evolution of the economic and social context has led enterprises to consider and assess new aspects integrated with the traditional economic operating parameters.

From this point, the international debate on the advantages derived by the adoption of socially and environmentally responsible behaviour has developed; the increasing consciousness of the importance of relationship with stakeholders in enterprises' activities has enlarged the interest in communication culture and approaches of sustainability.

## 1. INTRODUCTION

Over the past five years many authors have introduced guidelines and principles for manage and communicate socially and environmentally responsible actions, focusing the attention especially on medium and multinational enterprises. What can be argued is that the position of small enterprises inside the international discussion on Sustainability Principles and Corporate Social Responsibility has been less examined.

Due to the relevance of the SMEs in the Italian economics, the study addresses these issues to make a further step in this direction and answering: are these topics considered significant for them? Is the Sustainability Report a tool that could be used by small enterprises for exploiting their approach towards stakeholders?

This paper aims at:

- analysing critically the documents proposed in literature at European level (considering sustainability reporting, either social and environmental reporting, clarifying in the paragraph 2.3 their relationships), concerning guidelines and best practices for sustainability performances reporting, highlighting strengths and lacks for the purposes of the research;
- investigating which peculiarities of Italian small enterprises could be set off in a socially responsible approach;
- understanding if and how sustainability reporting could be used in a competitive way for small enterprises;
- proposing a new framework (developed from the analysis of existing guidelines) adjusted for the specific characteristics of small enterprises.

## 2. LITERATURE REVIEW

In order to define punctually the SMEs requirements about reporting contents, both academic and practitioners literature have been investigated in depth. Moreover several reports and recent, public and private, experiences have been analysed, including all European Commission's documents above this topic.

### 2.1 The state of the art of sustainability reporting focused on SMEs

The growing interest about the voluntary statements, available for the enterprise to communicate more than their economical and financial performances, has been demonstrated by the evident attention given by several authors, to this issue. This is a fairly recent but growing phenomenon. Even if the aim of this study isn't to give a wide and comprehensive overview of the literature, the starting points for our analysis are the following authors whose have, in the recent years, discussed about the environmental and social contents of these statements.

The statements that appeared at first were the Environmental Reports, as presented in the study of Hedberg and Malmborg (2003), the literature has largely discussed the reasons why a growing number of firms invests resources into the realisation and publication of specific and distinct Environmental Reports (among the others: Cormier and Gordon, 2001; Cerin, 2002) or the realisation of environmental exposures incorporated into the economical and financial statements, issued on a

regular basis by publicly owned companies: stakeholders (as shareholders, the capital marketplace, non-governmental organizations, national and regional governing bodies and consumers) all expect information about how corporations' activities affect the environment. Even if considered as an important communication tools these have been criticised for their partiality, related to the vision of the company limited to the positive environmental aspects where all problems were neglected (Azzone *et al.*, 1997; Cerin 2002). Furthermore, the methods for conveying the content of Corporate Environmental Reports (CERs), rather than their mere existence, pose vital questions about the ability of CERs to meet the expectations of various stakeholders.

To answer to these emerged requests and to new pressures, which demand to demonstrate the Corporate Social Responsibility of many firms, a new document emerged on the scene: the Social Report (Joseph, 2000). It focalises its attention on social, ethical and economic issues, focusing on the environment as a stakeholder.

Considering the growing number of issues which various stakeholders are interested in, companies have moved from distinct CERs and Social Reports to Corporate Sustainability Reports (CSRs) which enlarge the scope and the contents, including environmental accounting, social and economic topics (Hedberg and Malmborg, 2003), meeting all stakeholders' expectations. It represents a sort of linkage of the two different subsets: it is specifically directed to convey information about the organization's effects both on the natural environment and society.

Analysing deeply the reasons pushing this kind of effort, Marshall and Brown (2003) argued that external reporting by organizations has a variety of functions. The most obvious function is to inform external stakeholders whose decisions are predicated on some understanding of the operations and status of the organization. Other possible functions of external reports include legitimating (Bansal and Roth, 2000), reputational enhancement (O'Donovan, 1997) and marketing (Miles and Covin, 2000). Several authors agreed that companies are interested in reporting their environmental/ethical/social information:

- a) to improve relations with financiers first, general public and potential employees secondary, stakeholders in general and to promote a way of dialogue with them;
- b) to legitimise in some way their business and/or the way to do it;
- c) as an internal tool of education for the employees;
- d) as a way of building trust and loyalty and gain competitive advantage.

Moreover, if the communication efforts are linked with an effective increment of the environmental performances, some other advantages have been highlighted:

- (i) to act in accordance with regulation and to reduce costs of future compliance;
- (ii) to comply with industry environmental codes;
- (iii) to decrease with operation costs.

From a diffusion point of view, several data are available for the CERs, as separate from compliance-related reporting, which are a growing phenomenon (see Marshall and Brown 2003; EEA, 2001; GRI, 2000; KPMG, 1999; White and Zinkl, 1998). Kolk (2003) confirmed this trend in the multination companies; in fact he highlighted and demonstrated as, in Fortune Global 250 enterprises, Environmental, Social and Sustainability Reports (or the same information included into financial statements) have *increased considerably*. These emerged necessities explained the diffusion of number of guidelines (some of them have been analysed in depth in the paragraph 2.2).

But, even if voluntary reports are diffusing, what can be argued is that, as previously seen for environmental issues, the biggest corporations have moved themselves on the way of the environmental and social communication before the SMEs<sup>1</sup>, which follow in a succeeding time. Trying to understand the reason of this tendency, the contribute of Bianchi and Noci (1998) has highlighted that pro-active green strategy meets two different problems: (i) it requires level of resources and skills that may be not available in SMEs; (ii) the financial investments without returns in short/medium period. These considerations have been confirmed by Friedman and Miles (2002) whose found that there is a problem of sensitisation: a lack of resources and know-how in the SMEs; the green initiatives, to be accepted by SMEs, have to be interesting in terms of short period payback. Simpson *et al.*, (2004) have described as the perceptions of SMEs and their approach to environmental improvements suggest that there are some fundamental difficulties to achieve these practises and to gain a competitive advantage trough environmental improvements.

Moving from environmental to sustainability tools, an Italian research, by "Italian Union of Chambers of Commerce, Industry, Craft and Agriculture" (2003) shows similar results: the diffusion of sustainable behaviours depends directly on the company's dimension: higher the dimensions, more

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<sup>1</sup> In this study, this category of firms has been considered according to the European Commission recommendation (6 May 2003) concerning the definition of micro, small and medium-sized enterprises.

diffused are sustainable behaviours in all their forms (this is true in all considered aspects). As regards the knowledge of Corporate Social Responsibility issues and tools (Green paper, code of conduct, environmental statement, social statement, SA8000, EMAS/ISO 14001), percentages related to smaller and small enterprises occupy a position considerably lower compared to the others: *it is interesting to observe that 55.0% of enterprises with fewer than 20 employees does not know any of the above tools, whereas these percentages go down as size increases, concerning only 31.6% of medium enterprises and 15.2% of large enterprises.* In the meantime the survey outlined many initiatives which smaller and small enterprises are active in (money donation, quality certification, practices in favour of employees). In the same research, the limited commitment of small and very small enterprises has been explained by a number of reasons:

- (i) the initiatives in favour of co-workers and the community, often carried out by persons in charge in these enterprises, are usually executed on a personal basis and according to **unstructured means**, thus making impossible an objective observation;
- (ii) all life expressions of these enterprises are characterised by a **low degree of formalization**: the corporate culture does not entail any sophisticated use, which is immediately perceived as bureaucratic thus representing an obstacle for the management;
- (iii) **financial resources** that can be invested in Corporate Social Responsibility activities are limited, therefore the range of noticeable actions is reduced;
- (iv) the **impossibility of assigning staff with specific expertises** and the shortage of time of people carrying out control privileges, taken up by operational management, do not enable a due consideration of Corporate Social Responsibility topics.

Moreover, in the event the channel of trade is made up of few companies for which a sub-supplier activity is carried out, initiatives devoted to the promotion of corporate image are not so relevant.

This means, as consequence, that even if Corporate Social Responsibility initiatives have been adopted, the level of diffusion of communication tools into SMEs is less relevant than biggest corporations. This trend has been confirmed by the European Commission which, in the Green Paper declares *“Furthermore, there is a need to provide companies, and in particular SMEs, with guidance and tools that enable them to report on their corporate social responsibility policies, processes and performance in an effective manner. By sharing their expertise and offering capacity building skills, large pioneering companies can support SMEs in this area”*. So, it has emerged another barrier, for the smallest enterprises, that is linked to the lack of codified rules - a model of guidelines - appropriated and contextualised to their features, to the easy drafting of the Sustainability Report.

These trends are confirmed in Lombardy (a region in the northern part of Italy) by another research by “Chambers of Commerce, Industry, Craft and Agriculture of Milan” (2003) about behaviours and awareness of the firms on Corporate Social Responsibility. This study underlines specific features - in terms of environment, ethic, social balance and SA8000 - which firms are interested in, giving this information subdivided in three different classes of employees (between 5 and 9, 10-49 and 50-99 employees). This research has been considered as milestone in defining the information necessity of the small firms, object of our study into their CSRs. Between others emerged that about 60% of the firms have been unwittingly engaged into Corporate Social Responsibility actions, as well as when the focus has been moved to any sort of communication tool or certification the same firms declared they are not interested (about 80,7% in the firms between 5 and 9 employees and 69,5% between 10-49 employees). In particular, from literature analysis and features of the Italian SMEs, emerged opportunity to highlight, in their Sustainability Reports, especially the social side of their existing activities and initiatives, stressing them opportunely. The guidelines analysis has been conducted according to these emerged necessities.

## 2.2 Guidelines Analysis

As seen before, sustainability reporting is a voluntary activity. Anyway, the possibility to define a common standard for the drawing up of such documents has various advantages. From authors' point of view, it would facilitate the preparation of the document, driving the process for data identification, collection and reporting. From readers' point of view, a common structure would make reports more readable, comparable and verifiable, and would increase transparency.

For these reasons, various initiatives have been promoted worldwide in the last few years aiming at producing common standards and guidelines for sustainability, social and environmental reporting. Some of them are specific in one sector or for a particular country, or have a very limited visibility at national and international level. Excluding these cases, six different guidelines have been identified as relevant for the purpose of the present study, which represent today state-of-the-art for sustainability, environmental and social reporting at Italian and international level:

- Sustainability Reporting Guidelines from the Global Reporting Initiative (GRI),

- “GBS model” from the (Italian) Group for studies on Social Reporting,
- “Guidance on the EMAS Environment Statement”, Annex I, Commission Recommendation of 7 September 2001 on guidance for the implementation of Regulation (EC) No 761/2001 (EMAS)
- “SME Key model”, proposed by the SME key initiative of CSR Europe,
- “Q-Res model”, proposed by a project coordinated by Cattaneo University,
- Social Accountability 8000 (SA8000).

Considering the abovementioned guidelines, two of them are specific for sustainability reporting, two for social reporting and one for environmental reporting.

Depending on their objectives and contents, these guidelines can be divided into two main groups:

- “content” guidelines aiming at providing a common structure for Sustainability, Environmental or Social Reports. They normally clearly indicate a structure for the document, which kind of information (detailing, in some cases, indicators) has to be included, but they provide limited instruction about sources where to find required data;
- “process” guidelines, on the other hand, that focus mainly on how to implement a social management system inside the company. In that case, the reporting activity is just a part of the whole process, thus these guidelines provide few information about the structure of such documents, without precise details.

For what concern small enterprises, one of the considered model (SME Key) is specifically dedicated to them, while the other two “content” models (GRI and GBS) include notes and suggestions to make the proposed scheme as adaptable as possible also to SMEs’ needs. As mentioned in EMAS Regulation (n.761/2001), the participation of small and medium enterprises should be promoted by facilitating access to information, to existing support funds and to public institutions and by establishing or promoting technical assistance measures. Other details on the applicability to SMEs are not included in EMAS. The underlying idea is that small enterprises don’t really need different reporting rules in comparison to larger ones, but rather more simple and clear guidelines to balance the lack of skilled personnel. Another aspect is related to the need of more aggregate topics or indicators in response to a less complex structure.

The main characteristics of the identified guidelines are summarised in table 1.

	GRI	GBS	EMAS <sup>5</sup>	SME Key	Q-RES	SA8000
<b>Starting date</b>	1997	1998	1993	2000	1999	1997
<b>Diffusion</b>	International	Italian	European	International	National	International
<b>Focus</b>	Sustainability	Social	Environment	Sustainability	Social	-
<b>Typology</b>						
“content”	●	●	●	●	○	○ <sup>1</sup>
“process”		○ <sup>2</sup>			●	●
<b>Considered topics areas</b>						
economic	●	○		●	○	
social	●	●		●	●	○ <sup>1</sup>
environmental	●	○	●	●	○	
<b>Considered stakeholder</b>						
not specified			●		●	
shareholders	○ <sup>3</sup>	●		○	○	
employees	●	●		●	○	●
clients/users	●	●		●	○	
local community	●	●		●	○	
suppliers	○ <sup>3</sup>	●		●	○	○
public administration	○ <sup>3</sup>	●		●	○	
environment	●	○	●	●	○	
<b>Characteristics</b>						
stakeholders involvement		○	○	○	●	
external audit foreseen	●		●		●	●
certification foreseen			●		○ <sup>4</sup>	●
applicable to SMEs	○	○	●	●		
<b>Main contents (related to reporting)</b>						
reporting principles	●	●	●		○	
reporting methodology		○ <sup>2</sup>	●		●	
document’s content list	●	●	○	●	○	○ <sup>1</sup>
(possible) indicators	●	●	○	○		

● = yes ○ = partially

**Notes:** <sup>1</sup> limited to human resources management

<sup>3</sup> only economical aspects

<sup>5</sup> Commission Recommendation of 7 September 2001

<sup>2</sup> Pro.G.Re.S.S model (from the same group).

<sup>4</sup> certification standard is under development

Table 1: comparison between sustainability, environmental and social reporting guidelines

### 2.3 The relationship between environmental, social and sustainability reporting

After the before mentioned analysis, what can be argued is that CERs contain, predominantly, environmental information; the Social Report is, for the most part, focalised over social aspects, but it usually includes economical aspects and, marginally, the environment (that is considered as one of the stakeholders). The Sustainability Reports have to be considered as commonly balanced among three aspects. In figure 1 it is represented, in a qualitative way, the relationship between these kind of reports.

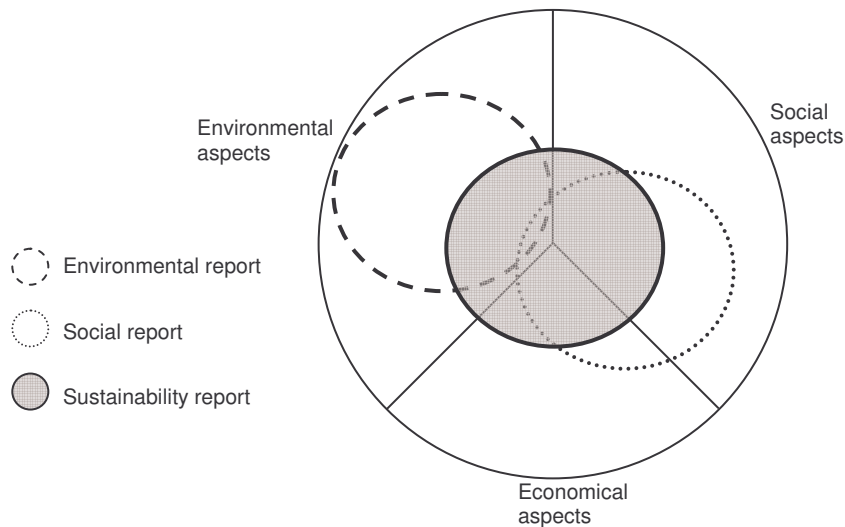


Figure 1: the qualitative relationship between Environmental, Social and Sustainability Reports

### 3. Methodology

The study aims at realizing the guidelines specifically designed for the SMEs. As far as this intention is concerned, the research objective needs to deepen the most relevant managerial and organisational problems faced by small companies; in order to achieve it, the study needs to be supported by several detailed case studies, where managerial and organisational issues can be discussed and analysed in depth.

This empirical research focuses over a sample composed by Italian small firms. The multiple case studies have been carried out over seven firms that gave their availability to test the new framework, emerged from the analysis of literature, international guidelines and current experiences, existing at national and international level.

These involved enterprises are reported in table 2, all these firms are located in the northern part of Italy and belong to the Brianza furniture district.

Before the direct interviews, the following steps of the empirical research have been conducted:

- an introducing meeting involving the main stakeholders (operating in the territory) to explain objectives and topics of the research in order to investigate the characteristics and the requirements of small firms in the territory and to find which is the best way to involve the small enterprises;
- the decision (from local industrial associations) on which enterprises could be involved in the project, choosing the most sensitive to the topic (see table 2);
- a workshop with all the enterprises involved in order to explain the main issues of the research and to discuss their overview of the topic applied to the territory.

The interviews to the enterprises have been completed from September 2003 to December 2003; these interviews consisted in a 2-hours meeting aiming at:

- (i) evaluating the role on enterprises' stakeholders relating to social behaviours and the consequences of adopting a Corporate Social Responsibility tool;
- (ii) analysing the reasons that could induce enterprises in adopting a Sustainability Report (exploring if and how the report could be used in a competitive way for small enterprises);
- (iii) estimating the possibility of applying a Sustainable Report at territorial level (industrial district);
- (iv) validating the rough framework (composed by a list of indicators) achieved from the previously discussed analysis.

The results and information emerged from the interviews have been confronted, whenever possible, with all documents, projects or public information available.

FIRM	LOCATION	EMPLOYEES	PRODUCT SPECIALIZATION
<i>Bruno Longoni</i>	Cantù	8	Furniture
<i>F.lli Berto</i>	Meda	6	Sofa
<i>F.lli Crippa</i>	Mariano Comense	9	Chairs
<i>FRAMA di Marelli Domenico &amp; C.</i>	Cantù	15	Furniture
<i>Gaffuri Eligio e F.</i>	Cantù	13	Furniture
<i>MIDA di Di Monaco M &amp; C.</i>	Cabiate	6	Old style furniture
<i>Passepartout</i>	Cantù	25	Furniture

Table 2: the firms involved into empirical research

The development of the findings was done through an iterative process of ongoing comparison between the existing data (results of the interviews) and the emerging constructs (the rough framework to draw effectively a Sustainability Report) (Eisenhardt, 1989). Initially, emphasis was on making rough frameworks that would guide later interviews. As an intermediate step, the emerging data was related to the information received from enterprises and the focus on the questions and the framework was sharpened. In the figure 2 the logical process followed has been represented.

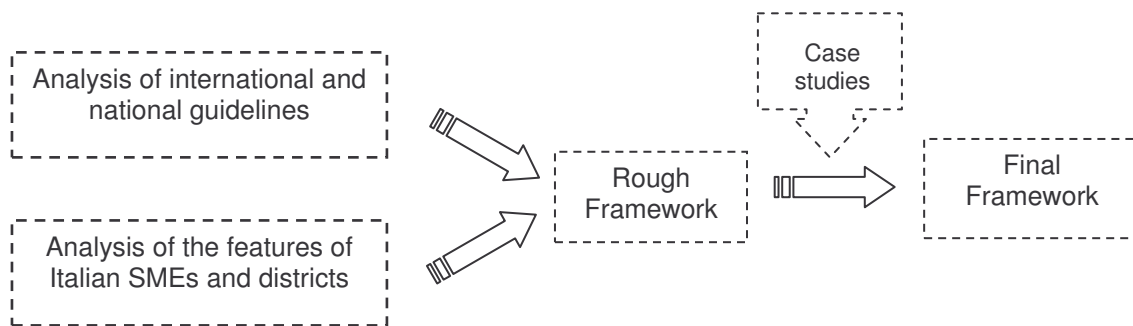


Figure 2: the logical process followed

#### 4. THE NEW FRAMEWORK

The abovementioned lack of a univocal directive in the drafting of the Sustainability Report is coherent with the voluntary features of the document and with the necessity of adapting the form at the specific characteristics of each organization. On the other hand, this point makes difficult and less clear the drafting of the document, causing confusion both in the editor and in the reader.

The existing guidelines have been created from the demands of big enterprises characterised by organisational structure considerably different from a smaller-sized one.

The new framework presented in this paper is the result of an in-depth analysis of all the existing guidelines at national and international level and from the peculiarities underlined from the literature regarding Corporate Social Responsibility in SMEs. The framework, comparing to the existing guidelines, consists in a new list of indicators extremely simple and adjusted for small-sized firms, that usually cannot have a specific figure working exclusively to realize the document.

The original aim of the project was to realize guidelines for social reporting, but analysing recent experiences and meeting SMEs requirements, it was decided to focus more attention also on environmental aspects, moving towards Sustainability Report.

This framework, confirming the typical issues of existing guidelines, differs for a simplification in the language and in the structure (only first-level and second-level indicators, grouping issues of the same area).

Following the structure of the main sustainability reporting guidelines, the present framework is divided into four main sections (company identity; economic impact; social impact, environmental impact); that includes a first level of indicators (see table 3), that could be made explicit through a deeper level of indicators (second-level indicators).

The first section (**company identity**) aims at introducing the company and the reasons for realizing a Sustainability Report. It has to include information regarding company's products and services, reference customers, expended resources and notes about principles that inspire the enterprises' activities.

The second section (**economic impact**) represents the connection between the data included into the balance sheet and into the Sustainability Report. It is necessary to provide information about the economic performances of the company, so that it is easy to quantify the social impact in terms of generated wealth and its allocation to the stakeholders. In this section, it is of fundamental importance to reach the suitable arrangement between the correctness of data and their legibility to a wide (but probably not skilled) audience.

In the third section (**social impact**), all the major stakeholders are presented in terms of relationship, integration, satisfaction, produced and obtained benefits. The company does not work in an isolate world, but inside a community (i) which it interacts in a continual way with and (ii) which firm's choices and actions have significant effects on. For each stakeholder, the characteristics, the type of relationship with the company, the consequent impact and potential elements for improving the relation have to be considered.

The company influences (and is influenced by) the surrounding territory in terms of natural resources' consumption and pollution' dump. The fourth section (**environmental impact**) contains information about the company's environmental impact, considering the significant aspect for industrial process' typology and territory's vulnerability. The section is typically divided into three parts: (i) environmental policy, (ii) environmental aspects and impacts (points 2 to 9 in the following schema), and (iii) future programs for environmental protection.

<b>Section 1 – Company identity</b>
1. <b>Company structure:</b> the enterprise presents all the information regarding its activities and resources. Since the document is addressed to all the stakeholders, the description has to be complete and formally correct, using a language comprehensible to all the readers. The form could be different, depending on the company's requirements. A number of specific indicators is suggested in this section.
2. <b>Values and social commitment:</b> the enterprise describes its value system and ethical orientation to support strategic decisions and its role inside the community. Also certifications or code of ethics adopted by the company have to be included
3. <b>Sustainability Report - the document:</b> this part contains all the information regarding the document: the basic reasons and the methods followed in its realization, specifying which guidelines have been taken as references. Differences in form and contents compared to the previous version have to be included as well. It is important to put some contact-information of who has realized the document, for any further details.
<b>Section 2 – Economic Impact</b>
1. <b>Economic performance indicators:</b> in this part the connection between the balance sheet and the Sustainability Report has to be underlined, including information on available financial resources and economic performances.
2. <b>Impact: purchases, investments and value added:</b> the economic dimension mainly concerns the enterprise's impacts on the economic circumstances of its stakeholders. All the data could be summarised into two main indicators: the amount of purchases and the allocation of value added. The indication of future plans (objectives and commitments) regarding the economic impacts is also encouraged.
<b>Section 3 – Social Impact</b>
1. <b>Identification and selection of major stakeholders:</b> this part of the document aims at identifying the stakeholders which the report is addressed to and at evaluating which ones are relevant for the enterprise's activities.
2. <b>Relations with employees:</b> this section encloses all the agreements the company has introduced (or is going to introduce) in order to improve the relation with employees, increasing their satisfaction and the workplace conditions.
3. <b>Relations with customers:</b> the customers are largely considered the main stakeholders; the importance is related to their choices in acquiring products and services, that influence in a direct way the company's profit. Not only the direct clients, but also the final customers have to be considered, including information on company's efforts and plans to improve customers' satisfaction and protection.
4. <b>Relations with suppliers:</b> the company could exert pressures and control on its suppliers, that influence its outputs. Suppliers have to guarantee products and services respecting qualitative standards and established schedules.
5. <b>Relations with the local community:</b> the social context where the company is integrated has to be considered in the realization of the document. This section includes all the actions undertaken for the increasing of the territory's affluence and citizens' living and all the plans the company intends to accomplish in order to improve that.
6. <b>Relations with Public Authorities:</b> all the initiatives to improve the dialogue with the Public Authorities that go further the management of regulations and controls have to be enclosed, specifying choice's criteria and rule held by the company, evaluating results and effects of these actions.
7. <b>Other stakeholders:</b> this section is dedicated to introduce the relations between the company and all the other stakeholders not included in the previous parts, such as banks, insurance companies, ecologist associations... (only if relevant for company's activities).
<b>Section 4 – Environmental Impact</b>
1. <b>Environmental policy:</b> the author has to insert the perception of environmental aspects and the intention for a sustainable management, detailing policy's principles, level of criticism related to company's activities and existing environmental certifications.

2. <b>Raw materials use:</b> the use of raw materials is a significant aspect of production process; not only data concerning utilization and rejects, but also company' strategies in order to improve the management of this aspect, reducing amount and potential impact after the use, have to be included.
3. <b>Energy use:</b> energy consumption has to be considered in the company's environmental frame, for encouraging its optimisation through the introduction of alternative sources (hydroelectricity, wind-energy, solar-energy...).
4. <b>Water use and wastewater:</b> of great importance in the sustainable management of the production process are programs for the rational use of water and for improving the wastewater quality, based on data and qualitative analysis. The re-use of industrial wastewater (after an appropriate treatment) should be encouraged.
5. <b>Air emissions:</b> air emissions from the production process contribute to the damage in the surrounding environment; the author has to insert in the document the list of critical emissions, illustrating, if available, pollutants and their quantitative progress during the last years and underlining all the actions undertaken for minimize their production and diffusion in the atmosphere.
6. <b>Outdoor and indoor noise:</b> all the information related to both type of noise has to be enclosed, and particularly the use of tools or the realization of actions for lessen the impact on employees' health and neighbours' living.
7. <b>Waste management:</b> another topic to be taken into account in the realization of the document is related to the production, stocking, treatment and disposal of waste. The data collection is made easy by the obligatory annual environmental declaration (Italian law). It should be emphasised plans for reducing the production, promoting differentiated collection and managing a sustainable disposal.
8. <b>Transport:</b> traffic jamming with the consequent increase of air pollution is a current issue, that has to be included, focusing the attention on actions implemented by the company, in order to reduce impacts of both goods and employees' traffic.
9. <b>Environmental impact of products:</b> company's products, ended their life cycle, have an environmental impact. In this section, if existing, responsibilities and measures taken by the company regarding costumers, when the product is sold, have to be included.
10. <b>Future programs for environmental protection:</b> this section includes the intentions (public commitment) regarding the continual improvement of company's environmental performances, minimizing the impact of its production process and contributing at the progress of the territory where the company operates.

Table 3: the 1<sup>st</sup> level-structure of the Sustainability Report in small enterprises (Politecnico di Milano)

The guidelines for small enterprises have an extremely careful description of all the indicators, answering to the requests and needs of small enterprises; for each one, a concise table is realized, in order to assist, step by step, who wants to draw up a Sustainability Report; in the table, for each indicators, the following issues are explained:

- *Typology:* descriptive or numerical (quantitative) nature of the indicator
- *Relevance:* level of importance for the completeness of the document
- *Description and purpose:* detailed information about the specific indicator and its aims
- *Explanatory notes:* description of the procedures to be followed for determining the indicator, the sources where to find all the required information and suggestions for the layout and the graphic display
- *Examples:* part of existing or expressly realized Sustainability Report regarding the specific indicator in order to facilitate the text 's comprehension and the draft of the contents.

At this time, all the subjects involved in the project are discussing which is the best (and most efficacious) way to spread and increase the value of this tool, also for increasing the sensitiveness of entrepreneurs, exploiting the competitive advantages of sustainability reporting as tool for communicate and manage Corporate Social Responsibility.

## 5. CASE STUDIES

The territory chosen for the application and validation of the methodology is the Brianza district, located in the northern part of Italy in the Provinces of Como and Milan. It covers 300 sq km and 45 towns: 19 in the province of Como (main centre is Cantù) and 26 in Milan (in particular Desio and Seregno). There are 38,750 companies with 160,000 employees in the area including three different production systems in synergy (furniture, mechanical, and textile): 48,2%, equal to 6,500 units and 30,600 employees, operate alone in the wood-furniture sector. Brianza is the oldest Italian furniture district and today holds 18.5% domestic production and 5.2% European.

The district's business is concentrated in manufacturing furniture and wood objects, metal furniture. The Cantù artisan sector originated in mid XIX century, initially as a business connected to agriculture, later limited by land aridness and excessive rural concentration in the hands of few noble families. Today, Brianza has a fragmented economy dominated by small (artisan) companies; the success of its furniture industry, placed in a high market segment, derived from the opportunity to customize thus meeting clients' needs. Customisation goes from a sophisticated project of a great design name to anonymous furniture of a small workshop distinguishing itself by solidity and price

competition. Certain importance comes also from various other businesses, developed in the last decades to link furniture production: cutting, lacquering, gold plating, padding, metal works, marble, glass and crystal, as well as marketing raw material, hardware, brassware, and fabrics. However, quality finishing, design, and style are always fundamental.

One of the peculiarities of the district is that the enterprises have a direct relationship with the final customer, extremely flexible in getting the requirements of the market.

The problems of the district are related to the reduced attention in the relationship with customers and in the valorisation of high technical competencies inside the firms' border.

Another relevant aspect is the education of new generation that is not adjusted to the evolving requirements of the market, so that competences are not aligned with the specific demand of enterprises. The handing over from fathers to sons is a critical aspect, because new generation prefers to embark on new kind of activities than stay in the family craftsman's studio. This topic has delicate consequences from both the economical and social points of view.

Regarding the aspects discussed during the interviews, small companies consider the Sustainability Report as a tool for communicating working methods and behaviours commonly already adopted, in order to take consequent advantages of improved image and better relations with all the stakeholders (reinforcing their role in the territory).

Considering Corporate Social Responsibility principles, the main **stakeholders** could be divided into three different levels, based on potential advantages deriving by the introduction of a Sustainability Report: (i) Customers; (ii) Public Authorities; Community; Employees; (iii) Suppliers; Banks.

Towards customers (located in the middle-high market ranking), the Sustainability Report could be exploited as a competitive tool, even if the consequent benefits will be clearly defined in the middle-long period.

In the relationship between Public Authorities and the community, this tool could be a manner to inform and involve much more, establishing an extremely transparent dialogue.

Concerning the relation with employees, this document is a good way to making them aware of their responsibilities and involve them even more in the company's activities, improving the quality of the workplace.

The suppliers' choice is linked exclusively to the quality of raw materials; towards them the Sustainability Report could be considered "only" as a tool for spreading the culture on the Corporate Social Responsibility issues.

The interviewed entrepreneurs appeared sceptical in considering an advantage the realization of this document towards the credit institutions; the only benefit could be the transparency in the communication.

The **reasons** for leading small enterprises in the implementation of a Sustainability Report are totally different from the stakeholders' pressures which big firms are often subjected to. The intention is related to an improvement of image and competitiveness, that replies to the growing demand of environmental and social responsible actions from some of the interlocutors. On the other hand, it could be a method for bettering the relations as a starting point for a constructive dialogue both inside and outside the company.

During the interviews, it has been noticed a doubtful attitude in considering the applicability of the Sustainability Report at **territorial level** (considering the whole industrial district). This issue has been investigated because of the growing experiences in Italy of Social and Environmental Reports applied at industrial areas (e.g. Livorno and Marghera). The mentioned territories have chosen these tools for the high pressures (in terms of information' needs) from stakeholders (specially Public Authorities and local community), due to the typology of production activities (chemical and petrochemical) and the consequent impacts on the surrounding environment. The reasons for the perception of the unsuccessful application at Brianza district are related to:

- the different typology of the production activities (inside the district);
- the huge amount of data, difficult to manage (6,500 enterprises);
- the not-positive results of previous experiences of team work.

The last issue investigated in the interview aimed at **validating** the list of indicators realised from the analysis of all the existing guidelines, whose directions have been included in the final version of the framework.

The practical support given by all the Enterprises' Association played a fundamental role in the success of the project, so that a lot of initiatives are spreading in order to promote the outcome of the project and to spread the culture towards Corporate Social Responsibility issues. This approach will bring positive effects, encouraging the enterprises that first will exploit social and environmental responsible behaviours.

## 6. CONCLUSIONS AND FUTURE DEVELOPMENTS

The central role of entrepreneurs and the limited availability of human and financial resources influence the choices in Corporate Social Responsibility themes. On the other hand, the strong connection within the territory and the main stakeholders and the familiar relationship with employees facilitate the socially responsible behaviours, but restrict the use of formal tools for increasing their value.

The reasons that could induce small enterprises in realizing a method of CSR are obviously different from ones characterized by a large-scale, often subjected to heavy pressures by stakeholders.

The main problem is connected to the little awareness of artisan entrepreneurs in exploiting as a competitive driver the social dimension based on an effective communication strategy.

The adoption of proactive approach has to be considered especially in traditional markets where the price-oriented competition is becoming more and more keen.

In a medium-term perspective, it has been highlighted the need of a thorough policy for manage and communicate which initiatives concerning social and environmental aspects enterprises usually carry out.

In order to promote the diffusion of competences for understand and increase the value of competitive advantages of social commitment, the Enterprises Associations and Chambers of Commerce play a fundamental role.

They could motivate companies in accomplishing this kind of tools, sharing successful experiences and increasing towards the costumers the knowledge and the awareness of what Corporate Social Responsibility behaviours imply.

One of the consideration emerged in the analysis could be an interesting starting point for further investigation: that is the role, in a long time perspective, of sustainability reporting in the relationship between firms and banks, according to the request of transparency and correctness in the communication. The bank could take part in the definition of company strategies and in the perspective of growth in the middle-period, regarding investments and business; on the other viewpoint companies through sustainability reporting could give clear and precise data regarding the three dimensions of sustainability.

## 7. NOTE AND REFERENCES

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