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Social Responsibility and Competitiveness Strategies of Agri-food Enterprises: A Theoretical and Methodological Approach

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Abstract

In recent years a number of ongoing social, economical and institutional changes have progressively led, on the one hand, to the emergence of intricate competitive scenarios, and, on the other, to a more extensive role of the food industry in modern society. Two fundamental issues – the question of the environment and that of food safety – have prevailed upon the political and institutional scene, setting the conditions which have successively brought about significant changes in consumer demands and expectations, in policies, and in the strategies of enterprises and food processing systems.

Initially, in order to confront the environmental and social issues, steps were taken mainly in the institutional ambit. Norms and standards were introduced which the industries internalised as a added cost or bind that served to weaken their competitive potential. This took place in a scenario characterized by the emergence of new competitors who based their competitive edge on those very costs. Subsequently, in part due to the driving force of the European Union, a new phase began. The European Commission's *Green Paper* for corporate social responsibility (2001), gave rise to an interesting political and scientific debate, which then led to the growth of a new collective conscience regarding the need for all the stakeholders in the economic system to adopt behaviour which was both socially aware and responsible. A new ethos of doing business has now been established. By introducing models of technological innovation which partake of the *green economy*, the food industries have voluntarily integrated concerns for the environment and food safety within their economic and productive activities, from the viewpoint of new, high-value methods of production.

Along these lines, in this paper, the food industry is (re)interpreted as a network of value-producing governance structures (multi-value enterprise) introducing ethical market opportunities, which represent a strategic competitive factor in advanced economies.

This paper aims to contribute to the theoretical debate agricultural economics by focusing the attention on the theme of corporate social responsibility. Although traditionally this was the object of business studies, the present-day evolution of society and of the markets places it at the very centre of the analysis of competitive re-positioning strategies, even in modern farms and food industries. This objective has allowed us to define new interpretive models for the food industry and to extend the paradigm of 'value portfolio' (Marotta, Nazzaro, 2010, 2011) to this sector.

The paradigm proposed represent a significant advancement of theoretical and application knowledge in the analysis of models of value production in the food system.

Keywords: *corporate social responsibility, value chains, agri-food enterprises*

Jel Classification: M14, Q13, Q16, D46

1 Introduction

The international institutional, economic and social changes of the last few years have led to the development of complex competitive scenarios with the agri-food sector playing a more structured role in modern society. The environmental and food safety issues have dominated the political-institutional arena by setting the scene for substantial changes in consumer demands, the regulatory system and the institutional policies as well as business strategy.

In order to overcome these social and environmental issues, new rules and regulations have first been introduced and later internalized by the enterprises as a cost/obligation. This

condition, however, has weakened the enterprises' competitive potential as new competitors have sprung up basing their own competitive advantage just on these costs. The European agri-food sector responded to this situation by improving its own distinctive products and quality starting from the new and fast changing demands of consumers and society as a whole.

As a result, the first decade of the new millennium marked the beginning of a new phase driven by the European Union and running parallel to the dynamics above. In 2001, the European Commission published a Green Paper on "Corporate Social Responsibility" launching a wide political and scientific debate on a new common sense or a collective conscience which called for responsible and conscious behaviour by all economic stakeholders. This has gradually shaped a new business vision by which an enterprise voluntarily chooses to integrate the social and environmental concerns of consumers into its own productive and commercial strategies. Consequently, the commitment to socially responsible policies by enterprises has opened up new competitive horizons in which ethical values play a key strategic role.

The multidimensional profile of sustainability and the new social demands have caused, on one hand, consumers to make their purchasing decisions in a conscious and responsible manner; on the other, it has encouraged enterprises to commit to socially responsible behaviour, by voluntarily integrating food safety, environmental and social concerns into their own production system using innovation schemes which are more and more related to a *green economy*.

This new ethical profile provides an original vision of agri-food enterprises by introducing an ethical dimension to the market resulting in the perception of an enterprise as a set of governance structures creating value (multi-value enterprise).

In light of these new analytical perspectives, the aim of the paper is to focus on corporate social responsibility which, following the evolution of society and markets, has become a central theme in the analysis of competitive repositioning strategies and value creation of agri-food enterprises. In particular, the paper analyses the strategic behavioural changes of actors operating in the agri-food system, the interactions and interdependencies between agri-food enterprises and the economic, socio-cultural, political and natural environment and to shape a new theoretical model of socially responsible agri-food enterprises and new competitiveness strategies for value creation.

Through the proposed theoretical scheme we have defined new models for the interpretation of a socially-oriented sustainable agri-food enterprise to which the paradigm of "value portfolio" has been applied (Marotta, Nazzaro, 2010, 2011).

The results have shown a remarkable development in the theoretical and applicative knowledge applied to the analysis of value creation models in the agri-food system.

2 Social and economic scenarios and new strategic orientation in the agri-food system

Over the last decades a number of processes have been established leading to substantial changes in the institutional, economic and social spheres as well as in the behaviour of agri-food stakeholders as a result of a series of failures. These processes have also contributed to redesigning the role of the European agri-food sector in society at large. At the European level, focusing on the phenomena that have had a direct impact on the sector over the last two decades, three major failures have come to light, namely: the failure of the Common Agricultural Policy (CAP); the failure of the economic model and the failure of the market.

These have raised three issues: sustainability (of development and economic growth patterns); (unfair) competition and consumer protection.

The above processes and various failures have led to the development of new dynamics which have deeply changed the priorities/perceptions in society. As a matter of fact, for a long time citizens/tax-payers looked at the economic development and the CAP rather suspiciously due to domestic and market imbalances that had been generated. Consequently, as new demands and perceptions were emerging, citizens/tax-payers called for a new role of the agri-food sector in society at large.

From the end of the 80s onwards, the market failures described above have sparked a debate at the international and European level leading to the development of the solutions to the issues highlighted above. A first response to the market diseconomies was commonly recognized as *civil law*. This aims at governing the use of the environment and natural resources as well as guaranteeing food safety by means of both the enforcement of strict rules and compliance with economic and productive standards and the introduction of incentive policies. During this phase, the environment, consumer protection and wider social issues are dealt with by the economic stakeholders as a cost/obligation following an economically-oriented logic which does not take the ethical and qualitative aspects of development into serious account, thereby placing economics before ethics.

This behaviour was very constraining all the more because the enterprises had been facing even more complex challenges due to the market liberalization and the arrival of new competitors. As a result, the competitiveness strategies applied by Italian enterprises were more and more oriented towards a qualitative differentiation of their products in response to the low cost-based competitiveness of the emerging economies.

After the failure of the CAP model and consequent market failure including the enterprises' first reactions during the *civil law* phase, special emphasis has been given to the environmental and food issues. These have become the (new) top priority for a developed society whereby consumers express original intangible needs which may be summarized in a demand for social, economic and environmental (multidimensional) sustainability (Bernetti, Casini, 1995).

In this light, policy makers have given full attention to natural and environmental resources as well as to food safety. This has led to a new institutional framework in which a wide range of mandatory regulatory instruments and a renewed offer of policies have been incorporated. These include trade policies, which have been launched by the World Trade Organization (WTO), sustainability as well as agricultural policies, such as the EU Fifth and Sixth Framework Programmes for the Environment, the Resolutions of the European Council of Nice (2000), the Lisbon Strategy (2000), the Goteborg Strategy (2001), the Life Programme, the "Europe 2020" Strategy).

These instruments have recorded a change in the way the environment and food safety questions are approached also due to a globalization of these issues. Consequently, a new phase for addressing these issues was identified and referred to as *common law*. During that stage, new concepts of environment and food safety were being developed as these were no longer regarded only as obligations (rules to abide by) but also as strategic resources to promote economic and competitive growth of enterprises which share a common sense of responsibility towards social questions (if ethics are put before economics, it produces value). This has dictated new conscious and responsible consumer behaviour coupled with entrepreneurial behaviour by which stakeholders internalize the

natural and environmental “resources” in the production process on the basis of new sustainable production models. These models are socially-oriented and take consumer protection into consideration by reckoning the natural and environmental resources (NER) and the health-oriented production processes as levers/factors of competition.

As a result, agri-food systems’ dynamics of the last few years should be incorporated and re-interpreted within the theoretical and conceptual framework outlined above. The issues of competitiveness, sustainability and consumer protection should be addressed with a new synergistic perspective (Ghelfi, 2007; Parolini, 1996; Pretolani, 1999). The aforementioned strategic references described determine new competitiveness conditions in agri-food systems and they require new behaviour patterns of institutional and economic stakeholders. This implies going beyond the classical theoretical interpretation of competitiveness as proposed by the relevant wide literature (Backaitis, Balakrishnon, Harrigan, 1984; Porter, 1985; Arthur, 1989; Kotler, Scott, 1992; Porter, 1997; Barney, 2006) since competitiveness is primarily linked to such variables as productivity, innovation and quality which appear to be no longer suitable to account for the behaviour patterns of agri-food actors.

Therefore, the resulting theoretical-political framework systemization has allowed for a reinterpretation of competitiveness which is no longer exclusively bound to economic variables but also to strategic levers such as sustainability and consumer protection with enterprises more oriented towards social responsibility.

Consequently, modern consumers have become stakeholders in the enterprises and as such they are in position to guide these enterprises towards socially responsible choices. In fact, critical and responsible consumers have gone beyond simple utilitarian goals as they evaluate other factors such as, the impact of production upon the environment and people, in addition to price and quality of goods/products (Gorz, 2004; Jaeger, 2006). This new scenario has caused enterprises to take onboard environmental and social factors in their business activities bringing about a shift from low-impact to green economy production models whilst adopting new value creation pathways which are more suitable to meet the new demands of consumers. In this respect, the environment becomes a resource as well as an opportunity for enterprises as the former acts as a true competitive lever¹. As a matter of fact, once the environment is internalized in the production process through sustainable innovations, it allows for a reduction of enterprises’ running costs whilst producing positive externalities. Therefore, social responsibility (SR) and sustainable innovations (SI) have a direct impact on the business performance and they serve as strategic factors for agri-food enterprises willing to display “socially conscious characteristics”. Consequently, Corporate Social Responsibility (CSR) is a lever for differentiating such entrepreneurs who are willing to take into account several market demands and are ready to implement production models which can guarantee adequate social and environmental protection levels always bearing in mind sustainability and consumer protection. In this way, a new form of competition among enterprises is established which is no longer focused on price competition but, above all, on the non-price competition. Enterprises take eco-friendly and socially responsible decisions not only to help differentiate their own products but also to turn them into socially-conscious products.

¹ Producers and consumers are called for interpreting the concept of sustainability by taking their decisions in a responsible manner. On the other hand, the opening of markets has changed the competition levers and has increased the relevance of value distinction.

In view of this, social responsibility is perceived by enterprises as a key element to new forms of governance as it can support these to tackle the ongoing changing processes described earlier.

The concept of corporate social responsibility was described by the European Commission in the Green Paper of 2001 as “companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis” (European Commission, 2001: 6). Consequently, “being socially responsible means not only fulfilling legal expectations, but also going beyond compliance and investing “more” into human capital, the environment and the relations with stakeholders” (European Commission, 2001: 6). The European Commission has therefore sparked a debate at International and European level addressing social responsibility and defining a new theoretical, political framework of reference involving the entire entrepreneurial system. In a communication of October 2011 on a renewed EU strategy for 2011-14, the European Commission re-launched Corporate Social Responsibility as “the responsibility of enterprises for their impacts on society”. In order to fully meet their social responsibility, enterprises “should have in place a process to integrate social, environmental, ethical, human rights and consumer concerns into their business operations and core strategy in close collaboration with their stakeholders” (European Commission, 2011: 6).

The theoretical debate over corporate social responsibility dates as far back as the 1950s (Bowen 1953; Ackerman, Bauer, 1976; Carroll 1979; Frederick, 1987; Carroll, 1991; Zamagni, 2003; WBCSD, 2000; Maignan and Ralston 2002; Beda, Bodo, 2004; Bhattacharaya and Sen, 2004; Gallino, 2005; Greenfield, 2004; Molteni, 2003, 2004; Viviani, 2005; McWilliams, Siegel, Wright, 2006; Maon, Lindgreen and Swaen, 2009; Carroll and Shabana, 2010; Du, Bhattacharya and Sen, 2010; Maon, Lindgreen and Swaen, 2010; Noland and Philips, 2010; Wood, 2010). In particular, CSR has been centered around a theoretical debate over the last decade. This is reflected in the discussions that argue “not only doing good is the right thing to do, but it also leads to doing better” (Bhattacharaya and Sen, 2004: 9). Therefore CSR has moved from theory to reality: it is widely argued that also agri-food enterprises need to define their roles in society and apply social and ethical standards to their business. Different angles of CSR have therefore been investigated. Despite the considerable amount of literature on the topic, we have only just begun to understand what is meant by CSR. There are still open questions and new fields needing to be explored. In particular, there is a need for a comprehensive framework for cutting-edge theories and research on CSR related to food and agriculture.

Over the last years, the Italian economic-agricultural conceptual debate has also addressed this subject-matter (Di Iacovo, Senni, 2005; Di Iacovo, 2007; Pulina, 2010; Briamonte, Hinna, 2010; Marotta, Nazzaro, 2012). National and international literature have dealt with the issue providing several interpretations. This paper² has taken into consideration various stances and, in particular, the standpoints which were more functional to the aims of this research which analyzes the new CRS behaviour patterns in agri-food systems, the competitiveness strategies as well as value creation models in agri-food enterprises.

The theoretical debate has faced CRS in a more systematic manner spurred by the European Union Green Paper and a Resolution of the European Parliament (13 March 2007) over the creation of a new CRS partnership by positioning the latter “in a sphere of behaviour not imposed by legislation” (Hinna, 2010, p. 47). Consequently, the core

² For the sake of conciseness only a few main theoretical aspects shall be recalled in the paper. For further reading all references are provided.

functions of an enterprise are to create value through the production of goods and services required by society as well as produce internal and external profits (collective benefits) in a socially conscious manner to be increasingly associated with durable social welfare (shareholder value).

Since the beginning of this century enterprises have changed their perception of social responsibility (SR) as new strategic behaviour around which their entire corporate innovation process should revolve. SR is, indeed, a strategy for competitive development which pivots around the idea that enterprises are in a position to be able to take onboard all contemporary social needs, whether economic or not. Within value accumulation strategies SR marks, therefore, the switching away from *civil law* models which are oriented towards private benefits (private value) to *common law* schemes which are committed to collective benefits (collective value).

Based on the considerations above and the *triple bottom line* (European Commission, 2001; 2006), social responsibility may be assessed from the social, environmental and economic perspective. Enterprises see themselves attached to a new set of values which guide them in their decision-making process and business activity. Hence social responsibility is rooted into the sustainability issue in search of a virtuous balance between economic development, environmental protection and social promotion. There are three factors which account for SR, namely:

- Sustainability (focusing on environmental, social and economic long-term effects);
- Voluntariness (originating from within the enterprise and requiring credibility, monitoring and evaluation);
- Consciousness (relating to the consequences of entrepreneurial action on the social, environmental and economic context), (Molteni, 2004).

As a result of the internalization of social and environmental factors in the decision-making process, entrepreneurial stakeholders have developed the conviction that competitiveness is no longer a question of cost reduction but, rather, a promotion of distinctive factors. Indeed, SR creates distinctive values and when they are acknowledged, they can improve the enterprise's reputation.

In light of a widely reviewed concept of competitiveness, SR acts as a kind of cultural foundation -a vision- through which new competitiveness strategies and value creation policies may be implemented which have led our research to identify new paradigms for the interpretation of agri-food enterprises. Being competitive in the globalized era means producing value which, in the meantime, has become the core factor of modern business strategies. This paradigm of corporate social responsibility opens new value creation spaces, in that it generates an economic value (private profits and goods as tangible values) and a social value (public ethics and goods as intangible values).

In view of the strategic references and theoretical approaches as briefly outlined above, we have investigated the functional adaption processes and technological and organizational models which agri-food systems are developing for a new enterprise model (agricultural and agri-industrial enterprises) which should be capable of both addressing the renewed competitiveness-bound challenges and creating value.

3 Corporate social responsibility and value creation models: a new theoretical approach

In the *civil law* phase, enterprises tackled the environmental and social questions following primarily an economicist approach by considering only the issue of costs and the negative impact on the competitive potential.

The Italian food industry, which is mainly characterized by small and medium enterprises (SMEs), has marked the economicist trend of business management by which SMEs dealt with social and environmental issues showing a negative impact on the competitiveness of their productions. However, this technical-economic approach, which was still dominant at the end of last century, was surpassed thanks to the European Union which favoured new entrepreneurial visions that were bound to deeply change the perspectives of the social, health and environmental issues in relation to the competitiveness strategies of enterprises. Therefore, the European Union has promoted a new business culture based on social responsibility which integrates consumers' and society's expectations in matters of social and environmental policies. A number of Research and Development (R&D) tools have therefore been launched by the EU in order to experiment with new *green economy*-oriented production models. Consequently, the new European R&D policy trend has deeply changed the approach to the social and environmental issues at the business level.

In this light, the competitiveness and value creation mechanisms of a socially responsible agri-food enterprise can be summarized as follows:

An agri-food enterprise which:

1. employs new food processing technologies can produce healthy, safe and functional products. By implementing "Sustainable Technologies (innovations)" it can treat its production waste and internalize the production of its own energy (obtained from renewable sources), water and recycling material for packaging purposes;
2. has socially responsible public relations inside its organization, can improve its productivity and thus enhance its profits; outside it can reduce transaction costs as well as service and policy costs;
3. is socially responsible, produces not only food goods and other products and services (market outputs) but also public goods (non-market outputs) such as environment, natural resources, health and ethical values thereby generating a positive self-image in society while doing business. As a result, consumers would rather buy goods and services from a socially responsible enterprise (paying a "premium price") than buy the same goods and services from an agri-food company that is not socially responsible. This demonstrates a positive influence on the enterprise's economic performance which may be described as "external social economy" (fig.1).

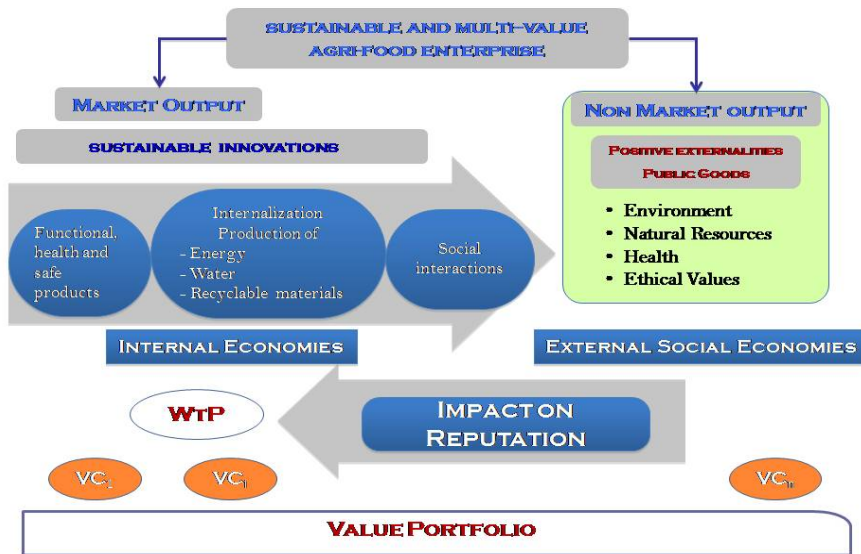


Figure 1. The sustainable and multi-value agri-food enterprise
Source: Marotta, Nazzaro, 2012

As shown in fig. 1, a socially responsible agri-food enterprise initiates diverse tangible and intangible value chains, with related governance structure, which create value either directly (market output) or indirectly (non market output) and shape a specific “value portfolio”. The latter, in fact, is *a set of all tangible and intangible values, which are activated by the enterprise in order to build its market positioning and social role*. This definition of the value portfolio is based on three fundamental concepts:

- value creation which depends on tangible and intangible activities;
- intangible activities which act as a new "competitive lever";
- a new "social role of the enterprise" which shall take into consideration the social responsibility and implementation of tangible and intangible value chains which can meet the economic, environmental and social expectations of consumers.

As a result, a sustainable agri-food enterprise presents itself as a set of governance structures which create a multi-dimensional value whilst its socially responsible behaviour patterns become competitive strategies which are oriented towards building “distinctive social qualities” and reputational capital.

Social and environmental aspects are therefore key components of a competitive strategy which revolves not only in the distinctive qualities of goods but also in the distinctive features of the processes and the distinctive ethical values of the enterprise. These quality marks allow to create, capture and disseminate value in the diverse value chains (Raynaud e Valceschini, 2007). This has led to a new concept of competitiveness whereby sustainability and consumer protection are key strategic levers representing a shift away from economic and commercial challenges towards opportunities for growth and development. In this view, the market positioning of a socially responsible agri-food enterprise depends on the following factors:

- its economic power which is correlated with traditional competitive factors such as costs, production and market differentiation (market value chain) which produces benefits to the enterprise;

- its social power which is linked to its capacity to meet consumer expectations and society expectations in terms of social and environmental demands (society value chain) which produce benefits to society at large. It should be noted that, in any case, these benefits improve both business performance and, indirectly, the market value chain.

As a result, not only does this socially responsible enterprise model opens new developmental horizons but it also offers new value creation opportunities.

4 The strategic determinants of value portfolio of agri-food enterprises

The need to empirically verify how functional this theoretical model *is has led us to investigate the variables which determine the optimal value portfolio*. To this end, we have reviewed the literature of the field and have applied both the “traditional” approach of the *value chain analysis* (VCA), (Porter, 1985; Cormick, Schmitz, 2002; Schmitz, 2003; Gereffi, Humphrey and Sturgeon, 2005), it being a useful tool to reconstruct the various strategic processes which followed the choices of boundary shift, and the *governance value analysis* (GVA) approach (Ghosh e John, 1999, 2005).

This paper proposes a new interpretation of agri-food enterprises by which any enterprises’ behavioural choices, organization reconfiguration and value creation pathways are conceived as an interaction of a set of variables which not only do affect the enterprises’ internal but also the territorial resources, the market as well as the enterprises’ access to policies. Therefore, this conceptual framework includes significant variables which, by belonging to four large families of enterprise, market, territory and policies³ at hierarchically differentiated levels, contribute to the creation of a value portfolio.

The hierarchically more influential variables are certainly the ones which fall into the family of enterprises’ internal resources (human capital, financial resources and relational networks). By interacting with the new socially responsible and conscious demands of consumers (the market), the territorial resources (know-how, services, social fixed capital, quality of local institutions) as well as the opportunities offered by policies (the latter serving as an incentive to create and use positive externalities and to implement sustainable technologies and R&D), these variables set the conditions upon which entrepreneurs make decisions on the structure and size of the value portfolio.

The latter is composed of a market value chain (MVC) and a society value chain (SVC) which are implemented within the economic, environmental and social framework of corporate social responsibility. The intangible factor (SVC) of the value portfolio is directly proportional to the degree of commitment to social responsibility of an enterprise. In other words, since social responsibility is strictly connected to the enterprise’s internal resources, its stakeholders and the place and time in which it operates, the former is acknowledged as dynamic behaviour with different configurations according to the different enterprises and business sectors. Hence, the structure and quality of a value portfolio depend on the phase of the CSR life cycle at that given moment and the specific resources (whether internal or external) which become part of the value creation process. The crucial factors which determine the enterprise’s commitment to social responsibility including structure and size of the value portfolio and the business performance may be

³ For a synoptic evaluation see Marotta, Nazzaro, 2010, 2011.

related to the four variable families described above, the configuration of which is reported below (table 1).

Table 1.
Driving determinants of Value Portfolio

ENTREPRENEURSHIP			
AGRI-FOOD ENTERPRISE INTERNAL RESOURCES (IR)	MARKET (M)	TERRITORY (T)	POLICIES (P)
Human Capital (the entrepreneur and the family, generational turnover, available skills, management)	Health and safe food	Local knowledge and know how	Policy for R&S
Financial resources (capacity to self-funding and to have access to policies)	Demand for functional products	Quality indications (territorial labels)	Agro-Industrial Policy
Technological resources (sustainable innovations)	Demand for public goods	Fixed social capital (access to the territory, internal mobility, services for companies and individuals)	Environmental Policy
Intangible assets associated with non market output (environmental and natural resources ecc.)	Demand for ethical values	Social capital (co-operations, associations, voluntary and civic networks)	
Relational networks (networking)	Respect for the rights of the person (employees)	Local economy diversification	
		Institutional sphere (quality of local government)	

Source: Marotta, Nazzaro, 2012

5 Final considerations

The theoretical model and the methodological approach proposed show significant potential and scientific and political implications given that they appear able to interpret the transformation processes implemented by sustainable agri-food enterprises in order to meet socially conscious and responsible demands of advanced societies.

The competitiveness strategies which the enterprise under review has implemented have dramatically changed from the civil law phase to that of the common law.

During the first stage, sustainability and consumer protection are conceived as economic challenges while competitiveness is based solely on product differentiation strategies. In this context, the economic value (returns) is placed before the ethical value (social good). The shift towards the common law stage allows for a re-interpretation of the concept of sustainability and consumer protection. They are viewed as competitive levers within renewed strategic behaviour of entrepreneurial stakeholders in response to consumer and society demands. In this light, the new competitiveness strategies based on production process differentiation and oriented towards ethical values offer new models for a distinctive enterprise.

In conclusion, the above findings indicate that further theoretical and methodological research is called for in order to define indicators for measuring CSR whilst shifting from a business approach to territorial approach (VP and SR in agri-food and territorial systems). This should also incorporate an innovative multidisciplinary view of optimal SR models and integrated social quality (socio-economic, political and natural supply chain and the environment) of agri-food enterprises.

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