

Chapter #: The Evolution of CSR in Gucci: From Risk Management to Stakeholder Engagement*

I tell you that virtue is not given by money, but that from virtue comes money and every other good of man, public as well as private.

Plato, "The Apology of Socrates"

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Abstract

This chapter presents a case study of corporate social responsibility (CSR) development in one of the world's leading luxury fashion brands. We rely on the stage model by Maon, Lindgreen, and Swaen (2010) to describe how CSR-related initiatives recently unfolded in Gucci across key stages. For each stage we analyze how pressures, conflicts, and resolutions among different stakeholders dynamically affected specific dimensions of CSR development, with an emphasis on formal elements of Gucci's managerial control systems.

The case analysis suggests that Gucci experienced a major shift in CSR development and currently shows a new awareness of the importance of incorporating CSR into the strategic corporate agenda. Regarding the role of reconciliation among stakeholders, the case illustrates how top management commitment, stakeholder engagement, and stakeholder accountability are the main drivers to reconcile stakeholder interests. We document the shift from a stage focused on reputation, adaptation to stakeholder pressures, and risk management ('value protection' phase) to an emerging stage in which the emphasis is increasingly on innovation and reconciliation of different stakeholder needs ('value creation' phase).

Although Gucci presents idiosyncratic characteristics (e.g., a luxury brand with a high exposure to reputational risks and stakeholder pressures), our findings are relevant to a wider audience, namely: academics wanting to empirically corroborate CSR stage development models; managers facing pressures and conflicts from different stakeholders that look for potential solutions to reconcile them; trade unions, NGOs, and other stakeholder groups involved in practical applications of stakeholder engagement.

Introduction

In an increasingly resource-constrained and unequal world, luxury brands are normally expected to be more accountable in justifying the value of their products. Despite strong societal drivers for greater sustainability, the majority of luxury labels have been traditionally slow to recognize their responsibilities.¹ This chapter explores how one of the world's leading luxury brands exposed to CSR-related risks proactively responded to internal and external stakeholder expectations. In this respect, Gucci decided to introduce CSR activities without being confronted by a CSR crisis or a request from its parent company. This voluntary move therefore anticipated many competitors in the fashion industry that were caught into CSR conflicts, such as unfair treatment of workers, lack of safety conditions, or use of child labour.⁴

Relying upon the model of CSR stage development proposed by Maon, Lindgreen, and Swaen (2010, hereafter MLS)ⁱⁱ, we document the shift from a stage focused on adaptation to stakeholder pressures and risk management ('value protection' phase) to an emerging stage in which the emphasis is increasingly on innovation and reconciliation of different stakeholder needs ('value creation' phase). The case analysis suggests that Gucci experienced a major change in knowledge, attitudes, structures, and practices surrounding CSR issues, and emphasizes the importance of embedding a stakeholder engagement program in a firm's strategy.

The order of discussion is as follows. In the next section, we outline the theoretical background and the methodology used for this study. We then describe the key phases underlying the evolution of CSR activities in Gucci, with an emphasis on events that recently unfolded to reconcile the interests of the various stakeholders. The final section concludes with a summary of findings, theoretical and managerial implications, and some suggestions for further research.

Theoretical background and methodology

In this study, we refer to the stream of literature that draws upon core concepts from stakeholder theory to operationalize CSR principles. In particular, we refer to the definition of CSR provided by MLS (p. 23), i.e. “[CSR is] *a stakeholder oriented construct which concerns the voluntary commitments of an organization pertaining to issues extending inside and beyond the boundaries of that organization and that are driven by the organization's understanding and acknowledgement of its moral responsibilities regarding the impacts of its activities and processes on society.*” This definition has the advantage of combining the two dimensions of CSR: one oriented toward the interaction between the firm and its stakeholders, and the other focused on the internal change processes required to integrate CSR principles into the firm's strategy and operations. We build upon the extant CSR development literature which proposes CSR as an evolutionary process in which several forces (such as cultural factors, industry dynamics, leadership, and company culture) shape the CSR path within firms across stages.ⁱⁱⁱ Among the frameworks available, we apply the MLS model which revolves around three cultural *phases*: CSR reluctance, CSR grasp, and

⁴ The Sunday Times 12 August 2007 revealed: Topshop clothes made with 'slave labour', Claire Newell in Port Louis, Mauritius and Robert Winnett. Retrieved from: http://women.timesonline.co.uk/tol/life_and_style/women/fashion/article2241665.ece; Thomas, D. (2007), *Deluxe: how luxury lost its lustre*, Allen Lane, London.

CSR embedment. These phases further encompass development *stages* characterized by distinctive strategic and organizational dimensions. The CSR reluctance phase comprises only a so-called (1) dismissing stage; the CSR cultural grasp phase includes (2) a self-protecting stage, (3) a compliance-seeking stage, and (4) a capability-seeking stage; and the CSR cultural embedment phase consists of (5) a caring stage, (6) a strategizing stage, and (7) a transforming stage.

In this study, we specifically examine how Gucci responded and reconciled stakeholder pressures highlighting tangible changes in the *formal* dimensions of CSR development drawing on organizational economics (e.g. Brickley et al., 2004) and management control systems (e.g. Merchant and Van der Stede, 2007) literature.^{iv} Table 1 shows the link between the dimensions originally formulated in the MLS model and the variables investigated in this case: Corporate identity, Strategy, Structure, Performance measurement, and Disclosure.

Table 1: Variables affecting CSR development

MLS Dimensions	Variables examined in this study
Knowledge and attitude	<ul style="list-style-type: none"> ▪ Corporate identity: a firm’s mission, vision, values, or code of conduct
Strategic	<ul style="list-style-type: none"> ▪ Corporate strategy: a firm’s rationale behind CSR initiatives ▪ Disclosure: extent and level of social and environmental voluntary disclosure across time
Tactical and operational	<ul style="list-style-type: none"> ▪ Organizational structure: formalization of CSR-related activities ▪ Performance measurement system: inclusion of CSR-related performance measures in management control systems

Case Study: Gucci

Founded in Florence in 1921, Gucci is one of the world's leading luxury brands.⁵ With a worldwide renowned reputation for quality and Italian craftsmanship, Gucci designs, manufactures, and distributes highly fashionable products, such as leather goods (handbags, small leather goods, and luggage), shoes, ready-to-wear, silks, timepieces, and fine jewelry. In addition, Gucci manufactures and distributes under license eyewear and fragrances. Gucci is situated 44th in the ‘Top Global 100 Brands’ ranking created by Interbrand, and the company’s products sell exclusively through a network of approximately 327 (as of March 2011) directly operated boutiques and a small number of selected departments and specialty stores.⁶ In 2010 Gucci reported €2.7 billion worldwide revenues. With a total of over 7,000 employees (of which more than 1,000 in Italy), Gucci products are manufactured in Italy

⁵ This paper refers to Gucci brand. Since 2001, the brand has been part of PPR, a group nurturing high-growth global brands distributed in more than 120 countries. Other luxury brands of PPR are, among others, Bottega Veneta, Yves Saint Laurent, and Alexander McQueen.

⁶ Retrieved from: <http://www.interbrand.com/de/knowledge/best-global-brands/best-global-brands-2008/best-global-brands-2010.aspx>.

(with the only exception of watches, manufactured in Switzerland) by more than 750 artisanal enterprises and their subcontractors, most of them family-owned companies that have worked for Gucci for more than a decade. The entire Gucci's supply-chain involves roughly 45,000 indirect workers.

We build our analysis on standard case study methodology^v by collecting empirical evidence from several sources. Primary data stemmed from internal documents, archival records, Web pages, press releases, and promotional material at the corporate level. The discussion with the CSR manager of Gucci (co-author of this chapter and former SA8000 external auditor of Gucci for Bureau Veritas) helps us to integrate the primary data with a behind-the-scene view of the evolution of CSR programs in the past decades. Lastly, to improve methodological rigor and enrich the case history, we additionally rely upon interviews with stakeholders such as representatives of trade unions and social-environmental NGOs. By taking into account their opinions we were able to critically describe stakeholders' tensions, conflicts, and relative resolution.

Given the specific characteristics of Gucci, the MLS model has been properly adapted. In particular, the *dismissing* and the *self-protecting* stage, from one extreme of the continuum, and the *strategic* and the *transforming* stage on the other end cannot be applied to our case study. However, this will not constitute a limit of the analysis because it still allows tracking the evolution as a continuum. We initially focus our attention on the transition from a *compliance-seeking* to a *capability-seeking* stage. We assume the compliance seeking stage as the first stage in the *CSR grasp phase* because, since its foundation, Gucci has continuously showed a commitment to high quality and ethical values in all aspects of the business (i.e. product quality, made in Italy, passion of people). As Patrizio di Marco (President and CEO of Gucci) emphasizes, CSR principles, although implicitly, have always been part of Gucci's heritage and values: "*Today, as in the days of the firm's founder Guccio Gucci, the critical success factors of our company remain the craftsmanship [of our products], their absolute quality, that they are made in Italy, and the passion of people who work for this company.*"⁷ Further, we assume the *caring stage* as the current achieved stage. In fact, both the *strategic* and the *transforming* stage are still unfolding and represent a potential achievement for the future. For a summary of our main findings refer to Table 2.

⁷ Press release for the signature of the "Agreement on the Sustainability of our Supply Chain", 16 September 2009.

Table 2: CSR development in Gucci

CSR Cultural PHASE	Stage of CSR development	CSR Formal Dimensions				
		Corporate identity	Strategy	Structure	Performance measurement	Disclosure
Cult. Reluctance	1) Dismissing	Cannot be applied at Gucci's case study				
	2) Self protecting					
CSR cultural Grasp (2004–2009)	3) Compliance-seeking	No formal reference to CSR. Social concerns in the supply chain addressed	Occasional activities for: Communities, Employees, Environment	No formal appointment of a specific organizational unit	No need to measure CSR performance	No need to disclose CSR performance
	4) Capability-seeking	Formalization of the "Code of Business Practices" in the parent company Social and environmental concerns addressed	CSR is part of the corporate strategy	Formal appointment of Corporate Social and Environmental Responsibility Manager	Measures are collected, but a 'plan-do-check-act' approach is not systematic	CSR activities are communicated in a non-systematic way
CSR cultural Embedment (2009–current)	5) Caring	Formalization of the 'CSR policies' in Gucci. 'Sustainability value' is the new mission	Embedding CSR as everybody's business: a cultural change	Enhance stakeholders dialogue with a formal committee on relevant CSR issues	Associate key metrics to each stakeholder in order to monitor stakeholders' engagement and satisfaction	Sustainability report
	6) Strategising	Potential achievement for Gucci				
	7) Transforming					

Table 3: Stakeholder pressures and conflicts

INTERNAL STAKEHOLDERS	PRESSURES AND CONFLICTS
Trade unions	Increase compliance to EHS and migrant workers regulation and at the same time preserve local employment
Suppliers/Sub-contractors	Increase compliance to EHS regulation while at the same time not compressing margins and preserving competitive advantage against cheaper illegal or delocalized productions
EXTERNAL STAKEHOLDERS	PRESSURES AND CONFLICTS
Customers	Increase compliance to ethical production standard
NGOs (national and international)	Pressure to make the luxury brands more transparent and accountable through stakeholder engagement initiatives
Artisan and industrial associations	Preserve know-how of the Florentine leather districts (financial crisis as background)

The Evolution of CSR in Gucci

In a world where *leading brands are judged not just on the quality of their products and services, but also on the way they act in the community and towards the environment*,⁸ Gucci is bringing a new business model of luxury to life. A business model where a central role is given to stakeholders' engagement and CSR is institutionalized as a day-to-day activity.

Table 3 summarizes the challenges the company faces in reconciling stakeholder pressure and conflicts. The CSR initiatives and the relationships Gucci built with various stakeholders are explained in detail in the remaining sections and summarized in Table 4.

CSR Cultural Grasp phase (2004–2009): Risk management

In the past decade, human rights and environmental NGOs had targeted premium brand companies (such as Nike and Gap) for having infringed ethical or labor standards and for their high-profile visibility. This was not the case for Gucci, whose decision to pursue a CSR process was not spurred by a need to recover a damaged corporate image because of a company scandal. It was more the sense of responsibility and sense of purpose and a reputational risk concern, on one hand, and the pressure of the trade unions, on the other. In fact, trade unions were looking for increased compliance to Environmental Health and Safety (EHS) regulation, while at the same time not compressing margins and preserving competitive advantage against cheaper illegal or delocalized productions.

In this context, Gucci established its formal commitment to CSR in June 2004, when the company signed an agreement with the trade unions to adopt the SA8000 standard across the supply chain. SA8000 is an international standard from Social Accountability International aiming to help companies to develop and manage social accountability systems, with the objective of improving such CSR-related issues as child labor, health and safety conditions, compensation, and working hours. This model is coherent with the requirements of the International Labor Organization conventions, The Universal Declaration of Human Rights, and the UN Convention on the Rights of the Child.⁹ The innovation of the agreement lies in the creation of a 'Joint Committee,' which aims to ensure that practices at every point on the leather goods and jewelry supply chains comply with SA8000. Gucci's decision to pursue the SA8000 certification was prompted by its objective to develop a practical and certifiable CSR practice that could increase the monitoring activities of its supply chain, recognized as the largest source of reputational risk. In the period preceding the agreement, a significant interest around this theme was spurred by various institutional parties in Tuscany, the region that hosts most of Gucci's production. Among them, the trade unions were particularly keen on measures aiming to enhance labor and environmental standards in the leather and textile supply chains.

The early involvement of the trade unions in the SA8000 certification process (formally obtained in August 2007 for the leather and jewelry sectors and subsequently for other sectors; see Table 4) proved to be successful. It prompted a workable approach to realize CSR shared goals in consultation of employees, contractors and sub-contractors. Just as Gucci secures commitment from its direct contractors to adhere to SA8000 requirements, the firm's suppliers commit to the same stringent agreement with their sub-contractors. Such a

⁸ Retrieved from a recent press release by Patrizio di Marco: <http://www.interbrand.com/en/best-global-brands/Best-Global-Brands-2010/Gucci-Patrizio-di-Marco.aspx>

⁹ For more information see: <http://www.sa-intl.org/>

strict monitoring system across the whole supply chain allows Gucci to identify areas of non-compliance, prioritize actions for improvement, and eventually prevent future risks.

Corporate identity

Gucci initially shows an orientation towards CRS related issues, but with no formal definition of corporate values or mission (compliance-seeking stage). In fact, since its foundation in 1921, Gucci has been known for products of outstanding craftsmanship and quality. Even before seeking SA8000 certification, Gucci promoted sustainable values across the company through the adoption of nine key principles, namely business ethics, professional skills, environment, health and safety, cooperation, stakeholders, human rights, diversity, and equal opportunities. While these principles formed the core of corporate identity, SA8000 certification provided the initial framework to make Gucci's standards around total quality fully actionable.

In the second stage (capability-seeking), the CSR identity becomes explicitly part of the corporate identity of Gucci's parent company PPR. In fact, the PPR group formalized the approach to CSR with seven key priorities.¹⁰ They act as a common framework of reference for each brand and company in the group by distilling them into measurable objectives that suit their business, namely:

1. Enhance employability through skills management and training
2. Train each manager on diversity issues
3. Integrate CSR criteria into the contractors' selection process
4. Monitor and limit transport-related CO₂ emissions
5. Reduce the environmental impact of stores and infrastructures
6. Promote responsible products and usages
7. Implement solidarity programs related to company's business activity

The definition of these PPR principles has been the framework for the "Gucci CSR policies" approved in 2010.

Strategy

During the cultural grasp phase, CSR-related issues evolve from compliance with a regulatory framework (i.e., SA8000, ISO14001) to commitment toward new categories of stakeholders with new CSR initiatives in place.

Gucci works in close partnerships with its suppliers to improve their CSR processes by emphasizing:

- contractors and sub-contractors mapping: Gucci classifies in a database the characteristics of all the contractors using two dimensions: contractor heterogeneity (e.g. per industrial process and sector) and the importance of the relation with Gucci. Using this database, Gucci classifies contractors as either high, medium, or low priority. High-priority contractors are monitored with a higher frequency;
- monitoring: third-party audits of contractors and sub-contractors are regularly conducted. Internal audits of sub-contractors occur as well, often without announcing them in advance. Monitoring of raw materials audits do not yet take place, even though they might raise significant risks. Contractors are nevertheless actively involved, since they have to abide to Gucci's CSR principles. In total, 1,000 audits are normally carried out each year;

¹⁰ Retrieved from: <http://www.ppr.com/en/commitments/7-csr-priorities#>.

- training initiatives (through workshops, information kits, and explanatory materials): approximately 400 contractors and sub-contractors are trained in CSR through 20 half-day sessions.

It is worthwhile to emphasize that Gucci chose to abide by SA8000 because the social accountability standard was functional to Gucci's specific CSR strategy and not because of a company scandal. Eventually, SA8000 became a powerful risk-assessment tool in which CSR factors started to be recognized as business-as-usual threats. In this phase, risk management is therefore an initial approach in which CSR is framed as a tool to create controls and countermeasures that minimize or eliminate disruption or damage to business operations.

Among the CSR initiatives taken with a long-term, strategic impact, the firm also became active in corporate philanthropic programs. For instance, it established a partnership with UNICEF that generated more than US\$ 9 million in the past six years for its projects supporting disadvantaged children and women in sub-Saharan Africa.

Structure

During this phase, the formal event that indicates the evolution from the compliance-seeking to the capability-seeking stage can be identified with the appointment of a CSR manager. Prior to 2007, the responsibility for handling CSR activities was delegated to the Human Resources (HR) function, since this was traditionally the unit in charge of the contractual relationships with the firm's contractors. At that time, CSR in Gucci meant to ensure compliance with SA8000 at every point on the leather goods and jewelry supply chain. To help employees and contractors understand and adopt SA8000, the HR function developed a series of training seminars to instruct about regulation, occupational health and safety, maintenance procedures, and so on.

In 2007 the responsibility of the CSR implementation shifted from the HR function to an officially appointed Corporate Social and Environmental Responsibility Manager. At the beginning, the CSR manager was a single person reporting to the HR function, but later, when CSR activities became more holistic than managing the implementation of SA8000, the CSR manager needed a major managerial role in the organization. Such a change was instrumental to improving communication across hierarchical levels with all other functions and processes of the organization, as well as to the creation of networks within the company. To reach this goal, a proper organizational function in staff to the CEO has been created.

Since the appointment of the CSR manager, CSR activities have begun to be perceived as strategic drivers able to differentiate Gucci from its competitors. Previously, a defensive approach characterized the first reaction towards CSR instances and requirements by stakeholders and NGOs in particular. The response '*let's consult our corporate lawyers first*' was typical of the underlying attitude around stakeholder engagement. After the appointment of a CSR manager, Gucci has become more prone to listen to and dialogue with its stakeholders. An internal CSR training program has been specifically designed for Gucci's middle management, with the objective of supporting them in making such a transition. A significant effort thus took place to change the attitude of the internal managers, employees, and the external suppliers toward CSR.

Performance measurement

At the beginning, there were no direct metrics to gauge the implementation of CSR activities. The SA8000 certification was the first step in building a set of performance measures to monitor Gucci's internal production processes and external suppliers and sub-contractors.

However, such non-financial metrics were devoted more to compliance to regulation than to measurement of stakeholders' claims and reconciliation. Key CSR metrics were still hand-collected and remained constrained to tracking performance in areas strictly required by the certification process (SA8000 and ISO14001). For instance, to comply with SA8000, Gucci monitors indicators like on-the-job injuries, wage hours, strike hours, and personnel turnover. The performance measurement system dedicated to the results of CSR activities is thus emergent and not systematic. Moreover, CSR metrics were not yet part of the internal report that periodically circulated among Gucci's top management, although some CSR-related information was available in the PPR financial report, in compliance with regulation on social information disclosure in France.

Disclosure

During this phase, Gucci showed a low-profile approach when communicating its CSR commitment to the press and local communities. There was almost no voluntary disclosure about CSR activities. This attitude was consistent with the goal of implementing SA8000 as a risk management tool. Also, later in the next stage, the disclosure was selective and not formalized.

The reasons for such attitudes can be explained by the fact that the approach to CSR has been fully voluntary and incremental, without being pushed by any stakeholder after some scandal. Gucci management considers that, before opening up and publicly disclosing the CSR results, further milestones need to be achieved. Another important factor is that Gucci is a global brand that needs to be very careful about its disclosures, since a little imprudence in the external communication could transform the firm as the target of environmental NGOs and the media. Progressively, in the last two years, both the external as well the internal communication on these topics significantly increased (i.e. September 2009 agreement, CEO interviews, etc.).

Deborah Lucchetti of the Clean Clothes Campaign confirms the disclosure attitude of Gucci as follows: *"I personally understand the communication strategy adopted by Gucci to focus mainly on brand value (Gucci's primary value as quality product and not as 'green' product). However, a firm's communication with more emphasis on sustainability-related aspects (for instance focusing on transparency and accountability along the whole supply-chain) would allow in my opinion a further appreciation of Gucci's brand as a whole."*

CSR Cultural Embedment phase (2009–current): Stakeholder engagement

This phase, which aims to complete integration of CSR activities in Gucci's strategy and operating processes, is still in progress and it is therefore difficult to clearly distinguish the different stages of CSR development; however, it is relevant to analyze what has been done thus far and to point out the CSR challenges that are still awaiting reconciliation.

Gucci's top-management is looking for a deeper involvement with stakeholders' needs, as well as more transparency in the internal and external communication of CSR results. Gucci aims to achieve a genuine process of stakeholder engagement, following the example of the Joint Committee where the trade unions (partner in this initiative) were a key player.

In particular, the scope of the Joint Committee was extended beyond the social issues linked to the SA8000 to encompass all aspects of sustainability. The Committee underwent a name

change to 'Joint Committee for CSR' and was given a more operative governance function, where the CSR manager is the *trait d'union* between the Committee and the top management. Every year, the Committee formulates new CSR targets that are verified in the annual management review. To reconcile the interest of Gucci, its employees, and contractors, Gucci's senior management and the trade unions representatives appoint people with different backgrounds to the Committee.

Another innovation along the path of stakeholder engagement is the decision to form a committee on specific technical issues. For instance, the main event in this direction was the agreement signed in September 2009 between Gucci, the trade unions, and two employers' associations. The innovation of the agreement lies in the necessity to work together to preserve the knowhow of artisanal craftsmanship in the Florentine leather district and also to monitor the resilience of the Florentine leather district to cope with the financial crisis. One of the main goals of the agreement was to ensure that contractors get a fair margin to eliminate any incentive to subcontract to low-cost suppliers that do not comply with SA8000. According to Valeria Fedeli (President of the European Trade Union Federation of the Textile, Clothing and Leather sectors): *"In the first year following the agreement, the Committee focused most of its attention on the processes of restructuring occurring at the sectorial level to cope with the global economic crisis of 2009, particularly to assess the needs for the retraining and requalification of personnel. These issues are not simple to address because none of the parties involved at the beginning of this process had a clear picture about either the financial viability or the requalification requirements of suppliers across the entire chain. The development of tools to map and monitor the financial and operational health of Gucci's supplier base is an excellent start and paves the way for future activities. In addition, the mere effort to enhance the communication of objectives and initiatives taken creates awareness across the entire production cycle, with an incentive for contractors to renew attention on decisions regarding product quality, productivity, and outsourcing to sub-contractors. Positive effects of such a process of 'internalization' across the supply chain of Gucci's social and sustainability policy are already apparent at this early stage."*

The path to a full stakeholder engagement has not been an easy one. The total transparency policy of sharing information in the supply chain generates two kinds of threats:

1) a financial threat due to the flexibility required by the production process. For instance, if a crucial subcontractor presents some irregularities and the firm is forced to make them public, the risk is to terminate the contract in a very short time, putting in danger the production cycle with negative financial consequences; 2) a reputational threat due to media exposure in case of information leakage about a cases of non-compliance against Gucci's policies.

In the attempt to address these issues, the mediation of the CSR manager was insufficient to solve the conflicts, and a moral suasion of the CEO was necessary. The direct intervention of the CEO, who declared that transparency with the stakeholders is a firm's paramount value, came after several months of discussion between the CSR function and the other organizational functions involved. This is an example in which a stakeholder controversy is solved by applying a top-down approach signaling a strong commitment of the top management in implementing CSR activities.

The company also enlarged the network of its secondary stakeholders to more effectively inform them about the changes in Gucci's production system. For instance, the company joined the Rainforest Action Network (RAN) in an effort to eliminate from its operations

paper produced from Indonesian rainforests and plantations. This event can be seen as a first-mover choice to implement an industry-leading paper policy and signals the company's proactive engagement to address climate change. Lafcadio Cortesi, RAN Forest Campaign Director, commented: *"We are impressed with Gucci's actions to improve its environmental footprint. The company's decision to reduce its paper and wood consumption and only buy FSC certified products will help protect Indonesian and other endangered forests around the world. It sets an example for other companies in the luxury sector."*¹¹

Regarding the next steps in stakeholder engagement, new initiatives tackling specific CSR controversies and tensions were recently set up with different NGOs. Since these initiatives are still unfolding and are covered as confidential information, we limit to summarize the players involved and the main issue at stake:

- Greenpeace: Gucci committed to the 'Amazon Zero Deforestation' campaign that aims to tackle climate change and preserve biodiversity. The cattle sector in the Amazon is the single largest driver of global deforestation. With this campaign, Greenpeace wants to clean up the cattle trade. Although Gucci does not work with any bovine leather from Brazilian cattle, the firm opened a dialog with Greenpeace and strengthened its commitment to traceability by implementing a new requirement for suppliers to have official documentation accompanying all invoices of bovine leather used in the supply chain.
- Humane Society of the United States and Humane Society International (HSUS): Gucci is currently engaging HSUS in order to find a sustainable use of furs in its collections.
- Clean Clothes Campaign (CCC) for a campaign on sandblasting free production processes to improve working conditions in the textile sector. Deborah Lucchetti of Clean Clothes Campaign declares: *"From our point of view (CCC Italian branch), Gucci is the only company that showed a real and qualified commitment to cope with a problem emerging from society and not from the market. Gucci profiled itself as a serious and responsible counterpart regarding a complex problem that must be faced with a systematic approach. The firm's position on CSR issues has a broader scope that extends beyond the mere preservation of economic and reputational risks. CCC would like to observe with more frequency a similar organizational culture in our national context. The interesting and fundamental feature that characterizes Gucci is the integration of CSR into supply chain management. The rest is philanthropy or greenwashing."*

It is worthwhile to mention that the engagement of stakeholders, such as the above NGOs, has not been straightforward. Gucci has been progressively extended its disclosure on this subject. For example, during the summer of 2009, Greenpeace released a report linking deforestation in the Amazon to major consumer products including fast-food hamburgers, Gucci handbags, and Nike shoes. However, Gucci and the Gucci Group do not work with any Brazilian cattle farms, leather suppliers, or any products that contain bovine leather from Brazilian cattle. After the report, Gucci learned its lesson and started a constructive dialogue also with other NGOs, such as CCC, HSUS, and RAN."

The policy of full disclosure has been appreciated by the NGOs. For instance, Deborah Lucchetti from CCC commented: *"The choices implemented by Gucci have been very positive in banning the use of sandblasting, as well as in spurring a dialogue on workplace safety conditions in an open and constructive way. Moreover, they have paved the way toward establishing two essential requirements in any firm-stakeholder relationship, namely*

¹¹ Retrieved from: http://cms.ran.org/media_center/news_article/?uid=4834

transparency in the supply chain and public accountability. We acknowledge the availability and commitment that always characterized Gucci in granting us full access to its subcontractors.”

Gucci has definitely moved from a defensive approach to a more open dialogue with its stakeholders, although in reaction to NGOs’ request (e.g., by Greenpeace against the deforestation in Amazonia). A current challenge is to further develop a proactive stakeholder engagement. There is an effort to make ‘CSR policies’ part of the common business knowledge in an attempt to push sustainability instead of being pulled from external forces (e.g., NGOs).

Corporate identity

In 2010, Gucci formalized its ‘CSR policies’ where it is clearly stated that Gucci’s aspiration is to produce ‘sustainable value.’¹² The document reflects a wider social and environmental orientation and addresses the following areas.

Definition of mission and values

Gucci’s mission is to manufacture products of paramount quality following sustainable principles, both internally and in the supply chain. The concept of ‘sustainable value’ is explicitly defined (i.e., combine long-term economic performance with fair and honest business practices towards partners and the environment in which they operate) and also the importance of the measurement of CSR performance is stated.

Workforce rights and supply chain activity

Employees, contractors and sub-contractors (the artisans) are considered internal stakeholders. They represent an important strategic investment for Gucci’s success.

The principles explicitly stated are the following:

- Human rights standards;
- Employees rights and equal opportunities;
- Health, safety, and well-being;
- Training and skill enhancement;
- Driving social and environmental standards through the supply chain;
- Building a control-and-promote system on CSR principles.

Marketplace activities

Regarding the external stakeholders, Gucci management is inspired to fair and honest business practices, with full adherence to the laws and regulations applicable in all business areas. The company explicitly recognizes the right of the customer to know how the product is manufactured.

Stakeholder engagement

Gucci recognizes that an effective CSR management must pay attention to stakeholders by adopting integrative strategic management processes, transparent reporting, and communication.

Community activities

Gucci states a commitment to engage and promote the development of local, national, and international communities.

¹² Internal document dated October 11 2010 and signed by the CEO Patrizio di Marco.

Environmental activities

Gucci recognizes the importance of rethinking its technologies, its products, and its services to offer an eco-friendly product.

Strategy

In this phase, CSR and sustainability are increasingly recognized as Gucci's competitive factors, a real element of differentiation. Globalization tends to standardize processes, and therefore to stand out in the market is essential. Gucci aims to 'research innovative and competitive solutions for products' that are in line with the CSR policies and 'identify and anticipate new environmental and social needs.' CSR expanded from a focus on issues predominantly related to working practices and labor standards to a pervasive presence throughout the supply chain to embrace environmental sustainability. A clear example of a more strategic approach to CSR relates to the launch of a worldwide eco-friendly program designed to progressively reduce the company's impact on the environment. The centerpiece of this new initiative is newly designed packaging to reduce materials, exclusively use Forest Stewardship Council (FSC) certified paper, and to be 100% recyclable. Gucci is a leader in its segment for having complied with every requirement stipulated, as well as compelling all the company's contractors to be involved in the launch of the new FSC certified packaging. By the end of 2010, Gucci successfully saw to it that all of its purchases of non-recycled forest products were FSC certified to ensure that no paper is being sourced from endangered forests. Furthermore, the company will continue to seek alternative fiber options to be used in its packaging products, including biodegradable bags made of corn, bamboo, and cotton.

Frida Giannini, creative director of Gucci, fully embraces this philosophy: *"This project proves that you sacrifice nothing creatively when working with environmentally friendly materials. The new packaging is very beautiful and evokes perfectly the combination of Gucci's values and the traditions for which it has become renowned since Guccio Gucci founded the company in Florence nearly 90 years ago. I believe we have a collective responsibility towards future generations to minimize our impact on the environment."*¹³ Another initiative consists of reducing the carbon footprint, with several actions being taken to decrease energy consumption in stores and the company fleet (refer to Table 4).

Structure

During this phase, the CSR organizational unit receives a more official structure with a direct assigned budget and employees to accomplish the certifications in process, the ongoing social and environmental projects, and to contribute to the various organizational arrangements around CSR issues. The evolution of the CSR structure is apparent when examining the 2011 CSR organizational chart (Figure 1).

With regard to the formal activity undertaken during this phase, the following seem the most relevant improvements:

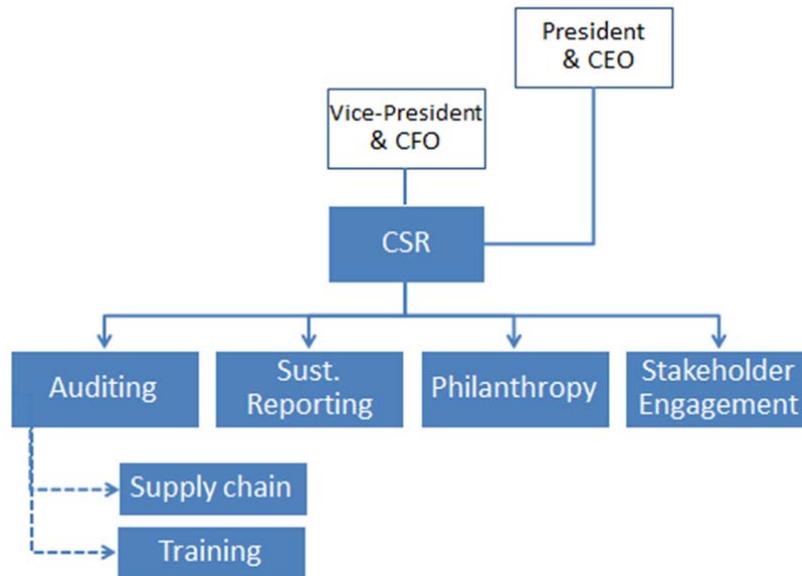
- enhance the integration of CSR in decision-making processes and improve inter-functional coordination;

¹³ PPR press releases (June 5 2010): Gucci announces the launch of a worldwide eco-friendly initiative aimed at reducing paper consumption and CO₂ emissions. Retrieved from: http://www.ppr.com/sites/default/files/press-release/Gucci20EcoFriendly20Initiatives20FINAL_0.pdf

- improve the communication of CSR activities and results, organizing seminars in which to share experiences and knowledge across the organization;
- following the example of the Joint Committee with the trade unions, promote the creation of additional stakeholders' focus groups and their progressive integration in the formal decision-making process.

The next challenge is to create a sort of stakeholder engagement platform to institutionalize the following initiatives: one-to-one interviews, submission of questionnaires, and Internet-based stakeholder dialogue through a web-based forum.

Figure 1: CSR organizational chart



Performance measurement

There is currently a need for a better alignment between Gucci’s CSR strategy and the formal performance measurement system. Gucci’s ambition is to build a measurement system able to measure, verify, and report stakeholders’ performance and satisfaction. The objective is to obtain timely feedback on CSR activities. The metrics should be the results of the stakeholder engagement process. In fact, the involvement of stakeholders is the best signal for the credibility of CSR policies and plays a positive role in building trustful relationships with the interested parties. Such an enlarged set of metrics should then be used to set objectives and targets, periodically review performance, and determine remuneration and career progression at various organizational levels.

The first result of this effort became evident in June 2010 when Gucci for the first time communicated the following company targets with deadline the end of 2010:¹⁴

- tons of reduction of plastic waste;

¹⁴ PPR press releases (June 5 2010).

- tons of reduction of paper consumption (coming from the implementation of the new packaging, the replacement of a cardboard boxes with a recyclable bags, and the optimization of paper consumption from catalogs and promotional materials);
- tons of reduction of CO₂ emissions;
- liters of reduction of gas and oil consumption.

This is a first step toward a systematic process of plan–do–act–check in the CSR activities.

Disclosure

The internal communication about CSR goals and activities improved in this stage by a higher circulation of official documents, reports, and training events across the various company levels. The extent and quality of CSR-related external disclosures, however, is still limited, with some exceptions related to initiatives with a larger marketing impact (such as the launch of the worldwide eco-friendly initiative). Gucci recognizes that a consequent step forward should align the internal reporting system with the firm’s external disclosures. Gucci is considering the publication of report on corporate sustainability, with the aim of accounting and representing, qualitatively and quantitatively, the implementation of its CSR practices.

Finding

The Gucci case illustrates how CSR actions become progressively more systematic in addressing both internal and external stakeholders (see a summary in Table 4). Among the initiatives that were more instrumental in addressing the claims and pressures by internal stakeholders, the creation of the Joint Committee definitely represents an emblematic example of stakeholder engagement. In combination with the certification processes (SA8000 and ISO14001), the input provided by the trade unions and other stakeholders’ representatives facilitated performance improvement across the supply chain, using a non-adversarial and constructive model of industrial relations that is quite unique, especially in the luxury goods sector.¹⁵ In particular, the conditions of many suppliers in the sector of leather goods has meanwhile improved remarkably in terms of health and safety, and also the third-party audits made by inspection agencies confirmed a significant improvement of working conditions. The Gucci approach of building a dialog with contractors and sub-contractors on CSR issues suggests a potential mutual benefit to the whole chain.

Case evidence deviates significantly from the tenet that “*the more interest stakeholders have in CSR (e.g., NGOs), the less important (economically speaking) they are to the company*”.^{vi} Because NGOs have the possibility of putting at risk the most valuable asset of a luxury firm, NGOs’ priorities are taken very seriously by Gucci to strengthen the credibility and legitimacy of CSR internally and reinforce the value of reputational branding externally. In fact, compliance with the protocol imposed by the institutional certification bodies and opening up the supply chain to external observers (i.e., the ‘Joint Committee’) are costly decisions for those companies who are merely interested in philanthropy or greenwashing. It is not a surprise that, despite the concerns surrounding the working conditions of contractors in the leather chain in the Tuscany region, so far Gucci has always been above any allegation. For instance, an investigation by Italian TV channel Rai-Tre screened in December 2007,

¹⁵ This consideration was confirmed by both of the NGO’s representatives that we interviewed. In particular, Chiara Campione (Greenpeace) commented: “*Gucci’s position in its sector is definitely among the best performing firms. From our experience, not many firms in the fashion industry enforced CSR principles in their purchasing policies that were as strict as Gucci’s.*”

addressed the manufacturing conditions of top brands. It reported that many bags and shoes were actually made in workshops where labor abuses occurred (such as using illegal or migrant labor paid morally insufficient wages, with workers forced to live in cramped conditions above the factory floor to be available to fulfil orders at any time). In that situation, Gucci could prove that the illegal sweatshops were outside their official list of contractors.^{vii}

With regards to CSR issues raised by external stakeholders, brand reputation is an essential driver for a company operating in luxury goods because a greater proportion of their brand value is derived from empathy and trust. When compared to other sectors,^{viii} customers of luxury companies seem to be more sensitive to CSR-related topics. Customers not only can avoid purchasing, but also have the option to dissent and thereby support the call by NGOs (respectively ‘voice’ and ‘exit’ actions to use Hirschman’s labels) if they believe that a company is not behaving according to their expectations.^{ix} As emphasized by Anthony Kleanthous, Senior WWF Policy Adviser and co-author of the study *‘Luxury labels brandish green credentials’*: *“Initially the companies were quite defensive, but now they are pushing environmental and social responsibility as a positive driver of brand value.”*^x What customers purchase in this segment is not merely the tangible product, but more importantly the intangible experience associated with the brand. This type of consumer is therefore concerned about the ethical consequences of its buying behavior, demanding more accountability about compliance to CSR minimum standards.

Table 4: CSR activities and stakeholder dialogue at Gucci

CSR dimension	Stakeholder engaged	CSR issues	CSR actions put in place and target reached	CSR actions in progress
SOCIAL	<ul style="list-style-type: none"> • Contractors and sub-contractors represented by Trade unions (CGIL-Filtea) • Industrial employers association (Confindustria) • Artisanal employers association (CNA) • Tuscany Region 	<p>Supplier selection</p> <p>Supply chain labor standards (e.g., labor rights, regulation of migrant workers)</p>	<p>Agreement on the sustainability of Gucci supply chain Innovative agreement signed between Gucci, Trade Unions, and two employers’ associations (CNA and Confindustria).</p> <p>Certifications and audits SA8000 certification successfully obtained for the following supply chains:</p> <ul style="list-style-type: none"> • leather goods and jewelry in August 2007 • shoes in March 2009 • ready-to-wear (RTW) and silk in November 2009 • logistic platform in December 2009 <p>Approximately 1000 contractors and sub-contractors underwent third-party verification</p> <p>Training and seminars Approximately 20 half-day training sessions for about 400 contractors and sub-contractors in:</p> <ul style="list-style-type: none"> • leather goods (raw material) • packaging • shoes (60% of shoes sub-contractors) • ready-to-wear and silk <p>In July 2009 a special CSR workshop carried out, with the aim of launching the SA8000 certification for RTW and silk. About 300 supplier representatives attended</p>	<ul style="list-style-type: none"> • SA8000 certification of Italian stores • Continue to carry out training and seminar for contractors and sub-contractors • Carry out audits “sustainable oriented” (social, environmental, and economics audit) • New tools to carry out and manage the audit above will be in place
	<ul style="list-style-type: none"> • Employees 	<p>Supply chain labor standards</p>	<p>Training Approximately 600 employees and managers trained in CSR design and implementation. CSR training programs in collaboration with Italian universities</p>	<ul style="list-style-type: none"> • Continuous training for employees and managers

Table 4 (continued)

ENVIRONMENT	<ul style="list-style-type: none"> National environmental NGOs (LAV, Greenpeace) 	<p>Supply chain environmental standards (e.g., waste, chemicals, waste water, and water)</p>	<p>Certifications and audits</p> <ul style="list-style-type: none"> Environmental pre-audit against ISO 14001 for Gucci Spa and Gucci Logistics carried out in September 2009 ISO 14001 Environmental Audit carried out successfully in December 2010 	<ul style="list-style-type: none"> Clean Clothes Campaign, for a pilot project on sandblasting free
	<ul style="list-style-type: none"> International environmental NGOs (Rainforest Action Network, Greenpeace) 	<p>Materials sourcing (e.g., biodiversity; land use and deforestation; animal welfare)</p> <p>Product packaging (e.g., reduction, reuse, recycle, and materials)</p> <p>Organic products</p> <p>Climate change (e.g., transportation; stores; value chain)</p>	<p>Certifications and audits</p> <ul style="list-style-type: none"> New product packaging certified Forest Stewardship Council (FSC) in 2009 Certification Global Organic Textile Standard attained in May 2009 on the specific product of Alexander McQueen (Foulard Organic produced for Home Film event) <p>Actions</p> <ul style="list-style-type: none"> Concerning the packaging of leather products during the transportation from manufacturing plants to warehouse: eliminated cardboard boxes and replaced with biodegradable bags for 40% of leather products. This change also reduced the number of shipments 'Go green' option for catalogues New recyclable mannequins, fully made in Italy, finished with water-based paints Realized the T-shirt Gucci (Home Film) using organic cotton Reduction of lighting of stores after opening hours and instalment of light detectors Switching to halogen lights and substitution of standard 50W halogen bulb with 35W in stores Initial replacement of company cars with a progressive shift from Euro 4 to Euro 5 to lower carbon emissions 	<ul style="list-style-type: none"> Packaging across the whole range of Gucci's products will be FSC certified Future use in stores of composite stone instead of real marble/granite Incorporate LEED lighting and windows/night time timers to reduce light consumptions in stores Replacement of company fleet Design of parking lot at corporate office with photovoltaic solutions Participation in 'Amazon Zero Deforestation' campaign (Greenpeace)

Table 4 (continued)

COMMUNITIES	<ul style="list-style-type: none"> • Social Accountability International • Responsible Jewellery Council • SODALITAS 	<p>Industry membership, network for best practices in cooperation with international NGOs</p>	<p>Actions</p> <ul style="list-style-type: none"> • Member of Social Accountability International since May 2009 • Member of RJC (Responsible Jewellery Council) since November 2009 • Member of SODALITAS (linked to CSR Europe) since November 2009 	
	<ul style="list-style-type: none"> • UNICEF • Film Foundation • China Children & Teenager’s Fund • FFAWN (Foundation for the Advancement of Women Now) • Tribeca Documentary Fund • Ambulante Grant 	<p>Corporate philanthropy</p> <p>Social investment activities</p>	<p>Actions</p> <ul style="list-style-type: none"> • Since 2004 Gucci established a partnership with UNICEF, which in the past six years has generated more than US\$ 9 million for its projects supporting disadvantaged children and women in sub-Saharan Africa. • Largest corporate donor to UNICEF’s ‘Schools for Africa’ that was established in 2004 by UNICEF, the Nelson Mandela Foundation, and the Hamburg Society. Its goal is to increase access to basic schooling for all, with a special emphasis on children orphaned by HIV/AIDS and children living in extreme poverty • Donation of \$1.5 million to the Film Foundation for the restoration of classic Italian movies such as ‘<i>Il Gattopardo</i>’ and ‘<i>La Dolce Vita</i>’. • Local community initiatives: ‘Run for life’, Meyer Children’s Hospital 	

In sum, avoiding the reputational risks was initially the strongest incentive for Gucci to be transparent and certify its production processes along with the quality of its output ('value protection' phase). In its current phase, however the case documents an increased emphasis on innovation and reconciliation of different stakeholder needs ('value creation' phase). Moreover, the Gucci approach toward corporate social *responsibility* is very much related to the original meaning of the term (to be answerable and accountable)¹⁶ and significantly context dependent, with specific historical and geographical reasons underlying the way CSR activities shaped up over time. Gucci's approach to incorporate sustainability is consistent with its critical success factors since Guccio Gucci established the company in 1921: 'artisanal craftsmanship, paramount quality, made in Italy, and passion.'¹⁷ The firm clearly capitalizes on a rich heritage of high-quality craftsmanship with a distinctive territorial dimension. Most of Gucci's contractors and sub-contractors are located in the Florentine leather industrial district. These contractors have been manufacturing leather goods for centuries and tend to possess a kind of 'leather culture and knowledge' that is hard to transfer. Using a metaphor, the district is like a forest that gives oxygen for Gucci to prosper. The health of the trees is crucial for Gucci and the market seems to recognize this mutual commitment and alignment of interests. According to Deborah Lucchetti (CCC), "*Currently global supply chains tend to delocalize their production activities instead of relying on the traditional vertical integration in one firm. To a certain extent, Gucci provides a special case of a firm that decides to maintain 100% of its operations in Italy. This approach gives the various stakeholders concrete opportunities for discussion. With regard to the campaign against sandbagging, CCC witnessed availability and openness for dialogue by Gucci. The firm's organizational structure and its business operations were particularly functional to act upon issues like transparency, accountability, and stakeholder engagement. We cannot predict what could have happened if Gucci had a different business model, based upon a delocalized production structure. Probably CSR instances promoted by CCC would have been ignored or dismissed, as done by many other firms in the sector. After all, the path towards sustainability cannot be separated from core business decisions that have an effect on and are reflected in a firm's organizational culture.*" Gucci provides therefore an example of 'civil enterprise,' which does not pursue the mere objective of profit maximization;^{xi} rather it strives for the accomplishment of a long-term and sustainable business endeavour (cf. the idea of a company as a 'project firm' theorized by Becattini, 2003).^{xii}

Conclusions

In this chapter, we document the relevance of adopting a phase-dependent approach to better understand the linkages and the dynamic adaptation of cultural and organizational traits in CSR development. Using the MLS model across two cultural phases and three stages, we highlighted the main CSR-related challenges addressed by a company in the luxury industry, where several pressures to incorporate CSR in the business agenda are increasing. Our study illustrates that organizational culture shapes the context within which organizations design their strategies and policies. We specifically confirm the crucial role corporate leaders and internal champions play in influencing the nature and scope of an organization's responsiveness to stakeholder demands. Adding to previous evidence, our case underlines

¹⁶ Responsibility comes from the Latin word 'responses', past participle of the verb 'respondere' (i.e., to answer).

¹⁷ Press release for the signature of the "Agreement on the Sustainability of our Supply Chain," September 16 2009.

that the ability to embed intangible CSR values and beliefs in an organizational culture crucially depends on the adoption of formalized managerial control systems. Notwithstanding the peculiarities of Gucci (historical heritage as a 'civil enterprise' and its territorial position), the case provides useful insights that can be generalized to other contexts.

First, the Gucci system signals the evolution of CSR from a rather unarticulated managerial discourse into a structured, business-as-usual management system. Leadership and corporate identity are necessary but not sufficient conditions to accomplish such a transition. Across the three-stages of CSR implementation, the case highlights the central role played by a series of initiatives aiming, on one hand, at formalization (SA8000, ISO14001 systems) of CSR and at its codification ('Code of Business Practices'), and, on the other hand, to the engagement of stakeholders. It would be interesting to investigate across firms the consequences of various configurations (depth and span) of CSR activities on variables such as brand recognition, market share, or company's cost of capital. As the Gucci case demonstrates, the transparency of CSR processes may be positively affected by the close scrutiny of NGOs. Further research is required to understand whether the relationship between CSR disclosure and firm performance depends on the scrutiny level by NGOs, provided that firms' can decide to enter partnership programs with NGOs at different engagement levels.

Second, the case emphasizes that the strategic integration of CSR in the business agenda requires some radical organizational arrangements in the responsibility structure, namely through the formal appointment of executives in charge of CSR programs. Such a change increases visibility at the board level, facilitates coordination among various organizational levels, and establishes integration of CSR in the company's internal and external communications.

Third, the case is emblematic of a firm that, while having consumers' individualistic values as its core business (luxury goods), at the same time seeks for active engagement with its suppliers, contractors and the trade unions to cope with complex CSR expectations. Gucci's example of the 'Joint Committee for CSR' provides an interesting model of a multi-stakeholder dialogue that might work as well for other sectors, particularly in presence of increasing pressure for more transparent and collaborative business-society approaches. Further research could corroborate whether other firms across various sectors also combine a strategy of brand dominance with a relational or collectivistic identity like Gucci does, and how such strategies play out.

Lastly, on a more critical note, we observe that the level of sophistication with which CSR performance is defined, measured, and disclosed currently suffers from several drawbacks when large multinationals like Gucci take steps to implement holistic sustainability policies. The lack of clear and international standards on CSR indicators often forces firms to start from scratch and makes it difficult to agree on common indicators and define benchmarks, particularly when supply chains are broad and opaque, like in the leather and textile sectors. Further research addressing the measurement and the disclosure of CSR performance in the luxury goods sector seems therefore warranted.

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