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# SABAF: moving to a learning environment

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## **Abstract**

### *Purpose*

Sabaf, a world leading manufacturer of components for domestic gas cooking appliances, went through a transformation process between 1993 and 2005 to develop a strategic approach to corporate responsibility. This case describes the learning and change process within the company that set the ground for today's success.

### *Design/methodology/approach*

This teaching case builds on data gathered through sites primary and secondary data. The case research protocol explored the notion that the company was learning how to interact and respond to its changing context while its responses were creating the ground for internal organisational change that in turn would impact the relationship between the company and its context.

### *Findings*

Sabaf's case is not only a move from an implicit to explicit approach to corporate responsibility, but more profoundly it portrays a company that was engaged in developing a more 'humanistic' approach to management that permeated the whole organization. The term 'corporate responsibility' was used to describe much older concepts that valued people and the natural environment alongside economics. The case also shows the process of organizational leadership for learning, management innovation and change that supported the processes through which this approach was developed and integrated into the company.

### *Originality/value*

This case provides unique insights into the approach Sabaf adopted in its pioneering transformation to become a leading corporate responsibility company and a world leader in its sector. This case can be used as a benchmark for other companies that might embark on a similar process affecting the business as a whole.

**Key words**

Corporate Responsibility, Humanistic approach to management, Change process, Learning organisation, Strategic CR

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# SABAF: moving to a learning environment

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## 1. Introduction

Already by 2003 Sabaf was recognised as a leading company in Corporate Responsible in Italy by ten of the largest Italian institutional investors. Over the past years, Sabaf has been also listed in a number of responsible investment indexes such as the Kempen SNS SRI index – the first index for socially-responsible European small caps or Ethibel.

Giuseppe Saleri, owner of Sabaf and Angele Bettinzoli, Sabaf's CEO, are regularly interviewed in the Italian press and even internationally to give evidence of the importance of Corporate Responsibility (CR) and above all to show the business case for CR.

Sabaf was regarded as an important company because it had embedded corporate responsibility into its organisation and its approach to business. In that sense Sabaf is different from many companies that have good corporate responsibility programs. Sabaf had been through a transformation process that led to the integration of environmental and social performance with financial success.

Recognition of Sabaf's performance by journalists and analysts was well deserved but often did not address an important aspect of Sabaf's success: the process of learning and change through which Sabaf and the many other actors with which it is in relationship had been through. The learning trajectory was not always been clear and straight forward – at times it was experimental. The direction might have been obvious to the company's leaders, but the pathway or process of change was not necessarily clear to them, the company's employees and its stakeholders, and the results were not at all certain. This case highlights the multiple kinds of learning and change processes Sabaf went through to integrate CR at the strategic level and get rewarded for it through operational performance. It also highlights the key factors that have contributed to the success of the change process to embed CR in the strategy, practices, structures and culture of Sabaf.

At the time of writing this case, that is in 2011, Sabaf enjoys a leading position on its market and continues to perform at a very high level in terms of integrating social, environmental and governance issues. This case describes the transformation process that took place between 1993 and 2005 within the company that set the ground for today's success.

The case investigates the dynamic path Sabaf went through to integrate corporate responsibility at a strategic and operational level. It examines how the company reconciled competitiveness and profitability with performance in corporate responsibility and how corporate responsibility is a necessary response to a changing business context. It highlights the key managerial issues implied in this transformation process that involved management innovation, learning and change.

While on the surface the paper seems to chart how Sabaf moved from an implicit to a more explicit approach to corporate responsibility it is also possible to take the view that the company was simply

engaged in developing a more 'humanistic' approach to management that permeated the whole organization. This humanistic approach advanced at Sabaf was modelled on the business principles of the Italian company Olivetti from the 1950s but these and similar principles can just as well be found in many companies across Europe from the outset of industrial capitalism, such as the New Lanark woollen mill (Owen, 1813), Salt's Mill in the 1850s in Bradford (Balgarnie, 1877), Solvay Chemicals from 1876 in Belgium, or, WMF in Germany during the same period. What became explicit at Sabaf was a term 'corporate responsibility' that was used to describe much older concepts of business that valued people and the natural environment alongside economics and business performance.

## **2. Context**

### **Sabaf Group**

Founded in 1950 by Giuseppe Saleri together with his father and four brothers in the city of Lumezzane in the Italian province of Brescia, Lombardy, Sabaf is a hallmark success story of its region and beyond.

Sabaf is one of the world's leading manufacturers of components for domestic gas cooking appliances. Its product portfolio includes gas valves, thermostats, burners, oven and dishwasher door hinges and accessories. The company sells approximately 50 per cent of its products on the domestic market and exports the remaining half worldwide, mostly throughout Europe.

One of Sabaf key features is its attention to the highest standards of reliability and safety. Quality is central to all its activities and processes. The company is known for its technological leadership which has been achieved through the vertical integration of R&D facilities: Sabaf develops and produces its own production machinery, moulds and tools for making its final products. Another key feature of Sabaf is its care for the people. "The quality of our products would be meaningless if we were not constantly engaged in trying to make everyone happy – first our employees and then our customers" (CEO of Sabaf, Angelo Bettinzoli).

The Sabaf Group has manufacturing facilities in Italy and Brazil and maintains three additional wholly-owned subsidiaries focused on marketing and logistics in China, Mexico, and the United States. It is a leading supplier for household appliance companies such as Indesit, Bosch-Siemens and Whirlpool.

In 2009, the group employed a workforce of about 673 people, the net sales were of €127 million with a net profit of just over €11 million. Turnover growth is still expected to grow in the next five years.

### **The market**

The cooking appliance sector is a mature and increasingly global industry. The sector is characterised by producer-driven global value chains. Products are relatively similar and simple to produce

although some of the products and sub-parts use high technology and electronics. For several years, the sector had experienced solid growth in Europe but recently there are strong pressures to delocalise sourcing and assembly to developing countries where not only input costs are lower, but demand growth rates are higher as ownership of major home appliances is strongly correlated to economic development and urbanisation.

In 2007, a few, large multinational household appliance manufacturers (General Electric (U.S.), Haier (China), Bosch-Siemens (Germany), AB Electrolux (Sweden), Whirlpool (U.S.) and LG Electronics (Korea)) dominated the market. Worldwide the sector has been constant for decades but the European market has seen its growth slowdown around 2005. Interestingly international trade tends to take place within geographically proximate and relatively homogenous markets. This is due to the weight of some appliances which result in high transportation costs but also to consumers' preferences which are different in different areas.

In order to keep their competitiveness, European household appliance manufacturers have put lots of efforts on marketing, design and distribution of finished products as a way to limit low-cost non-European competitors. The design and production of components has been to a certain extent outsourced due to the problems of reconciling the complexities of maintaining high quality, and large-scale production volumes.

The manufacturers of household appliances tend to rely on highly specialised external suppliers, such as Sabaf, which act as a supplier to the global market. Sabaf operates in all the principal world markets, providing a complete range of products that meet the specific needs of those markets. Sabaf enjoys an excellent market position, enabling it to take advantage of every opportunity associated with changes in demand. In the last twenty years competition in the European market thinned out from twenty suppliers to only two due to lowering margins and fierce competition. Sabaf survived in this highly competitive environment because it is not only a producer of components, but also of the specialised machinery, moulds and tools used to make the components. Sabaf's profit margin therefore derives from the sale of finished components and the margins saved on component manufacturing machines and tools.

For several years the trend in the household appliance industry has been toward increased technical cooperation between manufacturers and their suppliers, transforming the latter into long-term partners providing a high degree of reliability, combined with design services and the guarantee of highly flexible production.

In the mature European and North American markets and the emerging markets of South America, Eastern Europe and Asia there is a trend towards products, which guarantee quality and reliability. But product safety, manufacturer responsibility and environmental protection are becoming an increasingly important dimension of products.

### **Enterprises in Italy**

The family in Italy has been a source of stability and strength in an unpredictable world where governments and borders were always changing. After the Second World War, family enterprise was the basis for the miraculous resurrection of the Italian economy. Even now, small and medium sized

(family) enterprises play a very important role in the economy. Many Italians (70%) prefer to earn their money as independent entrepreneurs or 'indipendente'. Although enterprise, diligence and thrift were the virtues of Italian family business, the weaknesses of this business model gradually become apparent: too small for export, too small for foreign investments, too little access to capital markets, too many family-members often with divergent opinions or with low skills in management and too few external senior managers. At the beginning of the 2000s, as generations die, or during reorganisations, an increasing number of family companies have taken the option to float shares or to open up ownership.

### 3. Culture, Values and Leadership

#### A tumultuous start

In 1950, Giuseppe Saleri, his father and four brothers founded Saleri Battista e Figli (Sabaf). Giuseppe was twelve years old at that time. The business involved the manufacture of bathroom valves, gas valves and motor vehicle parts. Although the company developed continuously, decision-making was characterised by disagreement. The four brothers had different ways of thinking and they could hardly find any consensus. Fortunately, the brothers agreed that an independent operational manager had to be appointed and that decision-making had to be decentralised for the sake of continuity. In 1969, Angelo Bettinzoli joined the company in a managerial role and he soon found out that the interests of the individual brothers did not always comply with the interests of the company. Fortunately Bettinzoli possessed the social ability and charisma to find a compromise between the brothers and secure the continuity of the company. As the disagreements between the brothers impeded the development of the enterprise, one of the brothers was set-aside in the early 1980s. Another brother died in a car accident. Three brothers with an equal share of ownership were left. After a few years another brother was bought out, and still the disagreements remained, even with only two brothers left. In 1993 an auction left Giuseppe Saleri with the full ownership of the company. He was determined to secure the continuity of the company.

Throughout this long and painful process Giuseppe Saleri learned two important lessons:

(1) If a company acts in a fair way, respects the law and rules and pays taxes it will be better off in the longer term than companies that try to avoid rules and taxes and disrespect people. Giuseppe's fundamental priority is "to put the company, not money, at the first place".

(2) The company cannot be run by the entire family. "If the family is in charge of the company and holds all the managerial positions, you can never attract talented people. Brilliant minds will leave" said Giuseppe. As a result he made sure his children would never take a managerial role in the company to avoid that possible conflicts within the family reach the company and to allow the company to have access to managerial skills and competencies that the family may lack. Moreover the separation of ownership helps the company to put attention to a broader set of stakeholders.

### **Diverging from the Italian Business ownership norm**

Saleri's personal values and principles, as well as the conflicts he had to face with his brothers led him to take a number of decisions that had a strong impact on the evolution of Sabaf. Saleri was also probably one of the very few to dare changing the usual way of doing business among family-owned companies in Italy.

Sabaf began in the tradition of Italian family owned company, which is owned and run by father and children. After many years of diverging interest and disagreement within the family, first the family recruited an independent CEO and secondly Giuseppe Saleri remained the sole owner of the company. From this moment, that is 1993, the restructure of the company's shareholder base and organisation led up to its listing on the Italian Stock Exchange in on March 28, 1998. The decision to become a public listed company was not driven by financial needs but rather to advance some rules and disciplines.

Through those decisions, Saleri managed to separate family ownership and management. In 2001 it was included in the STAR segment (quality small/medium caps) which implies voluntary acceptance of stricter rules for transparency and information. The company remained a family business as more than 50% of the shares are in the hand of Guiseppe Saleri. In addition to a number of large and small investors, there is a stock option plan for employees to provide them a share of ownership.

As of 2010, the board of directors was composed of 11 members: Guiseppe Saleri, as Chairman, and two other members of the family, two managers, the CEO and CFO, and six independent directors were appointed. A written agreement signed by all the Saleri family members specifies the rules concerning the relationship between the company and the family itself. According to this agreement none of Saleri's sons can become a manager of Sabaf.

### **Building a new and inspirational managerial philosophy**

Angelo Bettinzoli, Sabaf CEO, had a vision: a humanistic approach to management where people play a central role. The managerial philosophy of Bettinzoli was influenced by Adriano Olivetti, one of the family-members that owned the computer manufacturing company of the same name. Olivetti was one of the leading Italian industries in the 1950s-1970s. Adriano Olivetti was a 'renaissance personage', known as one of the pioneers in CSR in Italy. He tried to marry business with beauty. Beyond his interest in aesthetics, he had an anthropocentric vision; the central role of people. "However, when you look carefully inside the Olivetti Company at that time, you can find some critical aspects or weaknesses. The imperfection of Olivetti is that they made too much money!" Bettinzoli explains. "The margins on the products were too high, and therefore unsustainable. Those margins allowed Olivetti to maintain a managerial staff of humanists, but no real managers. After competitors entered the profitable market, they were naturally more efficient and almost destroyed Olivetti."



Despite Olivetti failure, Bettinzoli remained fascinated and was eager to apply a humanistic approach to management within Sabaf. He was convinced that people can give much more than you can expect from them to do, if you make them important and take good care of them. These or similar approaches to business and management can be found in European business history from Scotland, England, Belgium and Germany in the 19<sup>th</sup> century only to be lost with the advent of the welfare state and then lost further when business management was conflated with the economic view of the firm following on the idea that business was an economic machine (Halme, Roome and Dobers, 2009).

Up to 1993 the Saleri's brothers accepted that he was an operational leader and gave responsibility to him, but they did not accept his managerial philosophy. However in 1993, when Giuseppe Saleri became the sole owner, things changed. He instinctively agreed with Bettinzoli's view on managing the business: "Many people think that good company performance is predominantly based on the tenacious pursuit of own interests. The idea is that no one can improve his or her own position without making at least one other individual worse off. At Sabaf, however, we start from a different angle: i.e. that the company is an entity of common interest, whose activities, except for the natural goal of making profits, must be assessed on the basis of three basic parameters: the central role of the person, the integrity of the environment and the quality of life." In Bettinzoli's eyes, the economic performance of the company by itself does not grant the certainty of long-term continuity and this specific point was one of the key concerns of Giuseppe Saleri: secure the continuity and prosperity of the company.

### **1993, a new start for Sabaf**

In 1993, Bettinzoli could at last start developing and implementing his vision within Sabaf. One of the first steps was to eliminate competition between people in the company. "In order to foster this attitude, Bettinzoli for instance started to think about how he could use the company's strength and resources to develop better services for his workers, like providing help in obtaining mortgages or with finding housing. In this way the company engaged in the personal lives of its associates, in order to build a sense of community and commitment. In the relations with trade union representatives, Bettinzoli strived for maximum transparency. He wanted to give the representatives all the knowledge they needed to be able to negotiate on terms of equality and mutual respect. Bettinzoli is convinced that companies, people or countries that show respect, follow the rules and obey the law, perform better and have secure, long-term development. And furthermore, the intellectual capital of the company is not safe if it is not dominated by the ethical asset.

Transparency, new corporate governance rules with independent directors, employees' commitment and wellbeing, and stakeholders' dialogue became key words in the development of Sabaf. But as Bettinzoli said: "This is not a philanthropic vision. It is to grant more efficiency, because transparency and efficiency go in the same direction. And of course a good reputation pays off, and it is lovely to work in such a company." Bettinzoli and Saleri had a vision and strong principles of what their company should look like and the way it should function. The challenge now was to implement it and make it work. Indeed they didn't want to repeat Olivetti's mistakes.

## 4. Formalisation process

Sabaf had a vision, a humanistic approach to management. It took the company seven years to formalise this vision into practices. Through the formalisation process the term and concept of corporate responsibility became central to describe what was happening. The term was used to frame the value that senior managers at Sabaf placed on people and the natural environment.

Although CR principles have always been at the heart of Sabaf's way of doing business, many reasons may explain this need to develop an explicit CR approach. 2000 is a turning point for CR in general. There were an increasing number of companies, mainly large and listed companies, setting out to develop explicit CR strategies. The motivations of those companies are very diverse from leadership, reputation, efficiency to values. Most of the time it is a combination of drivers that have pushed companies to become more explicit on their CR approach. In the years after 2000 a number of CR tools were also developed, among what the Global Reporting Initiative (GRI) which provides a CR reporting guideline. But also significant changes took place within Sabaf around 2000. It was the start of the expansion and internationalisation of the company. In 2000, Sabaf acquired Faringosi-Hinges, one of the main manufacturers of hinges for ovens, washing machines and dishwashers in Italy. In 2001, Sabaf began production activity at Guarulhos (São Paulo, Brazil). In 2006, the company opened a manufacturing site in Mexico. As a result the number of employees at Sabaf increased significantly (from 331 in 1998 to 673 in 2009) and Sabaf had to deal with the different norms and cultures that came with this expansion.

Another underlying reason for adopting a formal and more systematic approach to CR is Bettinzoli's view that the quality of a manager can only be measured if he is no longer in the company. In order to avoid the risk that all his efforts vaporise when he leaves the company, he wanted to make sure his vision was institutionalised in the organisation. This meant building the company's social fabric, investing in industrial activities, launching new products, training, and caring for new managers. Institutionalising CR and communicating about it externally, makes the pull-back-threshold higher.

How to make sure the company's vision and values would remain in the whole organisation even in Brazil and Mexico? How to communicate the vision and values to the new employees but also to external stakeholders which are becoming increasingly demanding? How to integrate the vision and values in all the activities of the company to make it real and live through? Saleri and Bettinzoli had managed to construct the initial vision for the company connecting responsibility with the business. But in 2000 a next step was necessary for CR to gain ground in the company. It was now time to create organisational space so that time and financial resources could be devoted to the development and implementation of the vision and the innovations that follow.

### Explicit values

In 2003, Sabaf published its 'Charter of Values'. The Charter of Values is the tool of governance with which Sabaf's Board of Directors has laid down the company's values, principles of conduct and

commitments to its stakeholders . These values constitute a paradigm that informs all business decisions and represent criteria used to judge the soundness of decisions.

As represented in figure 1, Sabaf takes the “person” as the element of basic value and thus the key criterion for decision; from that concept stems the company’s vision, which is centred on the development of a new humanism that assures dignity and freedom to the person within accepted rules of behaviour. The central role of the person is a universal value, a ‘hyper-standard’ that applies without regard to time and space. In accordance with that universal value, the company promotes cultural diversity through the concept of spatial and temporal equality.

This commitment to people implies the automatic rejection of options that fail to respect the physical, cultural and moral integrity of the person, even if such decisions are efficient, economically sound and legally acceptable.

For Sabaf respecting the value of the person means, above all, placing priority on “Being” as opposed to “Doing and having”. To ensure the existence and development of the Person, the company promotes both the value of life, hence the protection of the integrity of the person, and the value of the natural environment by caring about how it is used.

Sabaf’s Vision

*To combine economic decisions and results with ethical values by going beyond the model of family capitalism in favour of a managerial logic geared not just to the creation of value, but also to respect for values.*

Sabaf’s Mission

*1) To consolidate technological and market supremacy in the design, manufacture and distribution of the entire range of components for household gas cooking appliances, by focusing on innovation and safety and the enhancement of skills at every level within the organisation.*

*2) To link Company growth with social and environmental sustainability by encouraging open lines of communication in all matters regarding the legitimate expectations of stakeholders”*

(Source: Sabaf website, [www.sabaf.it](http://www.sabaf.it), accessed March 21, 2011)

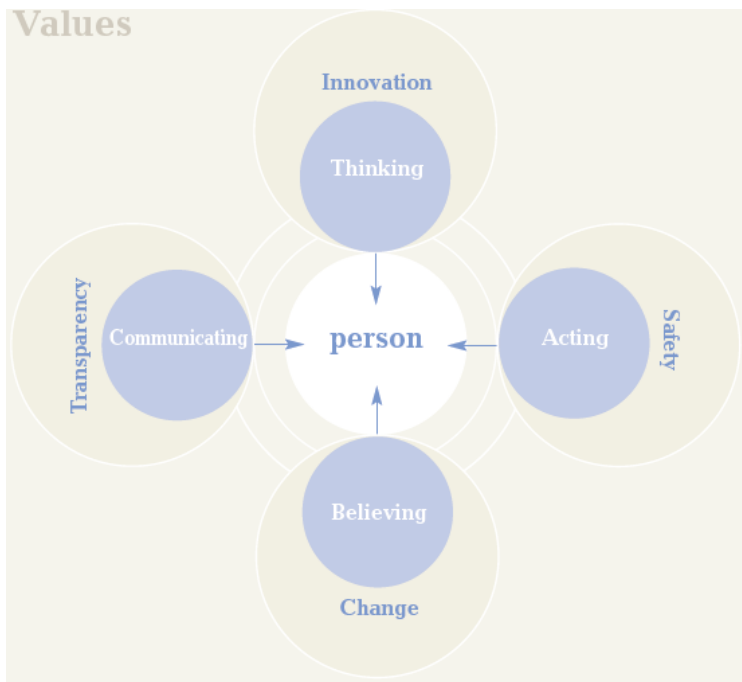


Figure 1 - Sabaf's values (source: Sabaf's social report 2002)

### Strategic considerations

Sabaf's mission is twofold: to strengthen its technological and market leadership in the design, manufacture and sale of the entire range of components for gas cooking appliances and to bring about the company's growth with social and environmental sustainability. In order to achieve this mission, Sabaf has defined five strategic points of focus, in which the values (and hence CR) are deeply integrated:

- *Innovation*: one of the essential components of Sabaf's business model and one of its main strategic levers. Thanks to constant innovation, the company has succeeded in achieving excellent results and creating a virtuous circle of continuous process and product improvement. This intellectual capital is one of the most valued and nourished assets of the company. CR is seen as a means to retain and develop this capital.
- *Safety*: beyond compliance with existing standards, safety is based on a management philosophy aiming at continuously improved performance, in order to guarantee end-users the safest possible product.
- *Growth through the development of international markets*: consistent with its corporate values and mission, the company seeks to transfer state-of-the-art know-how and technology to other countries, whilst fully respecting human and environmental rights and complying with the United Nations Code of Conduct for Transnational Corporations.
- *Ongoing expansion of the components range*: the objective is to increase customer loyalty by satisfying their needs. This expansion is accomplished through in-house research and strategic alliances with other leading players in the sector or through acquisitions in related sectors. Sabaf has also undertaken its social reporting approach in order to demonstrate that it is a reliable and transparent partner with whom to develop long-term projects and co-

makership relationships. Sabaf sees a strategic commitment to championing sustainable growth based on respect of common values and balanced customer and supplier relationships, should create a virtuous circle based on reciprocal trust. It seeks to foster the growth of shared know-how – intellectual capital – and to contribute to limitation of transaction costs and related control costs.

- *Enhanced exploitation of “intangible assets”*: a key to effective competition in the international market. Sabaf monitors and enhances the value of its true “intangible assets” – i.e. the technical and professional skills of people working in the company; its image now synonymous with quality and reliability; its reputation as a company attentive to social and environmental problems and to the needs of its counterparts. Promoting the idea of business and relationships with stakeholders as “the passion for a project founded on common ethical values in which all can symmetrically recognise themselves” is a moral commitment but also the company’s guarantee of enhanced exploitation of the value of “intangible assets” (intellectual capital). In this perspective the sharing of ethical values is the link between promoting a business culture oriented towards social responsibility and enhanced exploitation of the value of the company’s intellectual capital.

### **Integrating CR in the organisational structure of Sabaf**

The company’s Charter of Values has served to define the roles of the various players involved in the process of managing CR: namely, the Task Force on CR, the Internal Auditor, and the Internal Control and Audit Committee, including the Chairman and Managing Director. The Board of Directors has also been given the important task of overseeing the implementation of CR. In fact, it monitors the introduction of CR policies at a strategic level.

The Task Force on Social Responsibility consists of the various heads of department: Technical and Production, Sales, Finance, Internal Control, Human Resources, Procurement, and Quality Control, Prevention and Protection, Environment responsible, and Information Technology. The Task Force is directly under the supervision of Angelo Bettinzoli, the Managing Director.

Tasks and responsibilities have been defined for three main bodies that is the Task Force, the Internal Auditor and the Internal Control and Audit including monitoring, assessing, supporting, fostering, and taking decision on CR. In each and every department, CR was translated into specific objectives and goals to make it part of the daily job of Sabaf employees rather than to leave it as a non-operational ‘vision’ held by those at the top management. Indeed the challenge was to make CR a reality for all employees of the company whatever position they have in the company and whatever function they are serving. For example the sales department started its active engagement in CR around the issue of the satisfaction of industrial customers In finance the starting point for CR was transparency but also in simple things, like paying your suppliers in time, even the ones with little bargaining power. In human resources they decided to focus on the continuous increase of the value of the people and hence on the driver for growth, continuity and the total value of the company. In Research and Development the focus went immediately on making burners more energy-efficient or reducing their CO<sub>2</sub> emissions and on the use of more environmental-friendly resources Finally Quality, Health, Safety and Environment (QHSE) evolved from a quality management system to an integrated system including not only standards such as quality

(ISO9001/2000), environment (ISO14001) and health and safety (OHSAS18001) but also for SA8000 (a global social accountability standard for decent working conditions). Moreover the QHSE department very soon realised that they had to involve suppliers and work closely with R&D in the design of products, processes or production facilities.

Sabaf's CEO, Bettinzoli, is a charismatic person with lots of influence. But he has a strong quality of listening to people. He is in continual dialogue with the functional managers to define the best CR approach. As the company is relatively small, information can be disseminated and shared quite easily. Thanks to the continuous dialogue and transparency with employees, there are many information flows and decision making occur in an organic fashion.

### **Internal communication plan**

In 2001 Sabaf started to implement its Internal Communication Plan, a two-way communication process (top-down and bottom up) seeking to foster the spread of information and analysis of staff needs. This was a process that the company had already started the year before its internal climate survey, whose principal objective was to analyse employee needs by identifying the critical "points" in staff relationships. The next step was to identify the players in this process of communication and organisational change and to make them responsible for facilitating the exchange of information and analysis of staff needs. As part of the plan Sabaf launched a in-house newsletter, "Number Zero", which is still existing in 2009. Its principal goal is to reduce the distance between employee and employer, and produce a forum for employees and employer to discuss work-related issues across all levels of business.

### **CR education: making CR known and understood by all**

CR is part of Sabaf's education programmes for its employees. In 2002, a total of 428 hours were dedicated to the issue of education in CR, a number which has been multiplied by 2.42 in 2009.

Beginning 2000 Sabaf also focused its attention on the progressive involvement of heads of production through the training-discussion programme known as "Taking Values to the Heart". This programme was based on a participative approach, and sought to discuss the role, organisational and interpersonal skills required of a head of production. The sessions produced an interesting exchange of ideas. The objective was twofold: to foster the sharing of certain ideas, and the gradual, active involvement of all employees. In fact, this "process of top-down training-awareness initiatives" was designed to make the heads of production responsible for conveying the organisational, strategic importance of social responsibility and hence for facilitating the sharing of values and strategies within their own departments. Initially, they involved their immediate staff and then all those in the factory.

## **Developing management tools: reporting, measuring, improving and engaging**

Sabaf has designed and developed an advanced set of tools to integrate and implement CR in the company. It includes internal control, reporting, stakeholder engagement, intellectual capital management systems.

### *Control systems*

Internal Control provides a central function in the coordination of the strategic management process at Sabaf. The main objectives of Internal Control are: (1) adequate control of business risks; (2) ensuring effective and efficient operational processes; (3) protection of the integrity of company assets; (4) complete, reliable, and prompt accounting and management information; and (5) secure compliance of business conduct against laws, regulations, directives and company procedures. The Internal Control function enjoys strong support in the company's governance, foremost of which the Board of Directors, the Managing Director and the Internal Control and Audit Committee. It has a high degree of involvement from all staff. The head of Internal Control reports, Gianluca Beschi, directly reports to the CEO.

The integration of CR is closely linked to the system of Internal Control. Sabaf's management understands that many business risks can be kept under control by managing in a CR way one of them being attracting and retaining talent.

In 2001, the Board agreed to the formulation of Key Performance Indicators (KPI's) in order to integrate social and environmental information in this system. It was decided that a list of social and environmental aspects - that were managed by the responsible directors, were of strategic importance. These KPI's were immediately integrated in the reporting system sent to Sabaf's CEO and became part of strategic decision-making. All KIPs are measured and are centralised into a reporting system for internal and external reporting.

In order to put the values and principles of CR into practice, Sabaf has developed a system called ProGReSS© (responsible management process for sustainable development). This management system provides a standard methodology and harmonises existing operating approaches into just one responsible management process designed to apply excellence-oriented paths. Thanks to this management system, CR is not just a tool for internal and external communication, but also a strategic driver and key dimension of business strategy. The prime factors in this process are:

- Clear vision of the company
- Sharing of values, mission and of the integrated policy for sustainable development
- Adoption of a training/action process
- Development of an internal control & audit system
- Definition of key indicators
- Adoption of a reporting system
- Definition of a stakeholder feedback system

## *Reporting*

In 2001 Sabaf produced its first CR report which became an integrated and audited report in 2005. From the very beginning, the CR report was not regarded just a tool for internal and external communication a “self-referential instrument”, but also as a formal management tool to improve the company’s performance. The motivation behind public reporting was accountability or a process of management that opened the company to the judgement of the stakeholders to whom it makes commitments.

## *Stakeholder engagement*

In 2000, Sabaf formally decided engage in an open dialogue with its stakeholders. This was easier for Sabaf than many companies because it already had a very open approach to two-way communication within the company. Sabaf’s awareness of the strategic importance of stakeholder engagement, has led it to seek the opinion of its various stakeholders on its conduct towards them and on its social report. The system of stakeholder engagement has been significantly extended at the beginning of the 2000s. Based on AA1000 SES (Stakeholder Engagement Standard) Sabaf launched in 2001 its stakeholder feedback system, a monitoring system for communicating and defining together with all stakeholders the steps necessary for improvement. The dialogue with stakeholders takes the form of a series of meetings and exchanges of notes with the various stakeholder categories – which are involved periodically and systematically. These initiatives have been valuable to enhance stakeholders’ satisfaction and willingness to co-operate.

## *Intellectual Capital*

Sabaf sees intellectual capital as one of its most important strategic assets. Sabaf’s competitive advantage over the years has been created partly due to the structure of its particular sector but also due to the accumulation of specific know-how. Sabaf has developed an operational mix capable of generating:

- “Sustainability value”: associated with the ability to create value in a sustainable manner, combining economic growth with environmental efficiency and respect for values that generate growing legitimacy and reputation;
- “Intellectual capital value”: associated with people’s learning ability, know-how acquired over the years in the business and the ability to create relational networks.

The management and measurement of intellectual capital is consistent with the methodological approach used for preparing Sabaf’s Social Report. Sabaf has set up a system capable of managing and measuring the performance of its intellectual capital in terms of:

- Human Capital: the knowledge possessed by the people and teams including talent, skills and expertise. The latter component is represented by personal qualities, such as ethical behaviour, motivation to work, emotional intelligence, and ability to change and to transfer knowledge.



- Structural capital: the fundamental condition for increasing the value of human capital, by allowing individual skills to be transformed into specific skills of the organisation, as a way to create competitive advantage. It includes organisational skills, organisational culture, process and product innovation, knowledge management systems, information systems, and management and production systems..
- Relational capital: the value of the relationships that a business has with its stakeholders. The enhancement of relational capital is deeply rooted in Sabaf's management culture, since its mission is brought about through interaction and cooperation with its stakeholders, who, in their various sub-systems (eg. Employees, trade unions, etc.) and supra-systems (financial, political, social, etc.), can influence Sabaf's development.

### The full integration system

As represented in figure 2, Sabaf has integrated CR in its entire organisation meaning all its functions, and from top management to all employees. It even goes beyond the company boundary as Sabaf has managed to build a continuous engagement with its stakeholders and engage them on its CR path. That is especially important as those stakeholders include customers.

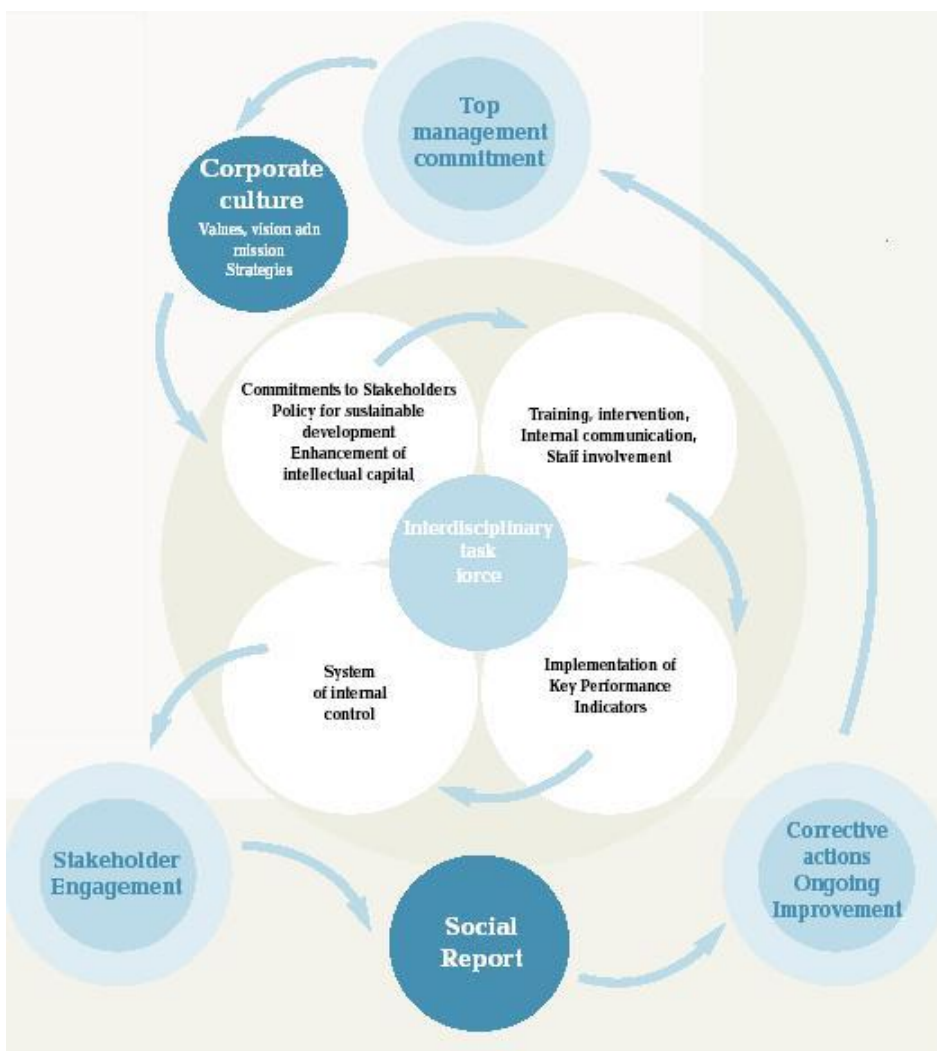


Figure 2 - Sabaf's Social Responsibility Management System (source: Sabaf 2002 Social Report)

## 5. Conclusion

This case portrays a company that has successfully managed to integrate corporate responsibility at strategic and operational levels. Between 1993 and 2005, Sabaf moved from implicit knowledge and awareness of what has come to be termed CR to an integrated approach to CR directly linked to business performance. The path the company followed was partly designed yet other parts emerged through the learning and change process. One of the key success factors has been the ability and capacity of Sabaf's managers to recognise events as moments of opportunities and their skill to turn it into an innovative business opportunity.

Sabaf is now widely recognised as a successful business in which its high level of CR maturity cannot be dissociated. It is possible to regard this as a case about what we understand through the term corporate responsibility but it is equally the case that Sabaf developed an approach to business based on a humanistic philosophy that placed value on people and the environment as integral to business success.

## 6. Teaching Orientation/Recommendations

The case of Sabaf understands CR as a process of change.

- Can you identify and give examples of different types of process going on in Sabaf such as learning, innovation (managerial and organisational as well as technological), change in routines, change in beliefs.

Looking back at the transformation process Sabaf went through several questions arise:

- Can you identify the steps the company went through to develop its leading CR position?
  - Think more deeply than just the stages in time by trying to identify the managerial issues in the change process, who took what role at each stage, what was the outcome. Do these roles connect with different processes – learning, innovation, change?
- How to make CR part of the company's business proposition or its overall approach to business?
  - What are the key managerial factors that have contributed to the development and then continued success of Sabaf's CR efforts? Or in other words,
  - What are the main hurdles or problems that Sabaf had to overcome in order to make its CR efforts a success? And how have they been overcome?
- What are the key learning points for a strategic CR approach that embeds CR in an organization and its approach to business ?

- Does the case provide elements of an answer to the question of how to reconcile CR performance with competitiveness and profitability? If so how is that done?

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## Annex 1 - SABAF's time line: 1950 - 2005

