

# **Family and Territory Values for a Sustainable Entrepreneurship: The Experience of Loccioni Group and Varnelli Distillery in Italy**

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*This study proposes a key reading of the phenomenon of the family business and of its relationship with sustainable and CSR-oriented strategies focusing on the specificities of family SMEs relative to values, culture and relationships with the territory (local context). The purpose of the current research is to demonstrate that the consolidation of authentic and durable relations among the family business, the stakeholders and the local context depends on the presence of shared values which are the fruit of a given territory's civic traditions and are the expression of the culture of the socio-economic environment in which they are embedded.*

## **INTRODUCTION**

Sustainable management refers to the ability of an enterprise to meet economic, environmental and social requirements over the long term (World Commission, 1987). Until now, the necessity for sustainability in strategic decisions has, for the most part, only been accepted in major enterprises (large, multinational, globalised companies). However, the objective of sustainability requires the active participation of all businesses of every dimension, together with those of public and private organizations, institutions and associations from the economic, social, and political worlds.

The theme of stakeholders management, like that of sustainability and CSR-oriented strategies, is predominately studied in major enterprises; in comparison, SMEs (small and medium-sized enterprises) have received relatively little attention (Thompson & Smith, 1991; Spence et al., 2003). There is a small body of literature on SMEs' experiences in industrialized countries and a very limited amount in developing countries (Perrini, 2006).

Empirical evidence shows that most of SMEs' external socially responsible activities are occasional and unrelated to their business strategy (EC, 2002). This does not, therefore, exclude the proactive contribution of small businesses, which are normally family businesses, and constitute a fundamental structural component of the socio-economic fabric in the world (IFERA, 2003; European Commission, 2004; Rankin Kerr, 2006). On both the national and international levels, there emerges the need to deepen the understanding of the motivations of the small firms' commitment to CSR (Morsing, 2006; Nielsen & Thomsen, 2006) and to provide guidelines and instruments to aid SMEs adopt and communicate socially oriented policies (Castka et al., 2004). At the same time, the need to adopt a diverse perspective with respect to conventional theories is confirmed and the necessity to bring to light specifics of SMEs (Spence, 1999; Jenkins, 2004, 2006). A systematic analysis of the possible transferability of sustainability, CSR and stakeholders management concepts for SMEs - such as the discovery of SME specific patterns - constitutes a critical gap in the research which needs to be filled (Lawrence, Collins &

Pavlovich, 2006; Rutherford, Blackburn & Spence, 2000; Revell & Blackburn, 2007), since SMEs play a critical role in industrialized and developing economies (OECD, 2009).

Based on this premise, this study proposes a key reading of the phenomenon of the family business and of its relationship with sustainable management and CSR orientation. A family firm is a business in which ownership and management are combined with a family unit and its members strive to achieve and maintain intra and extra-organizational family-based relationships. The family nature of a business is determined by the cultural and behavioural aspects introduced by long-term family and community-oriented relationships (Litz, 1995).

Starting from the pre-existing theories on family businesses and on territorial relationships, this contribution focuses on the particular importance that family SMEs play in creating pathways to the sustainable development beginning from the local context in which they are inserted, and on the synergistic relations that they create with the territory in which they operate. These relationships are expressed by virtue of the influence among the culture of the business and of the territory.

The research question can therefore be summarized in these terms: “When transferred to the business, does the fabric of values that characterises the family, which is derived from its socio-economic environment, facilitate the firm’s sustainability orientation?” The foundational hypothesis is that the presence of a solid ethical framework that surround the primary family members within the business, and is shared by diverse actors in the same territory, guides the adoption of sustainable and CSR-oriented strategies.

The work is structured as follows: The first section brings the studies on family business together with those of sustainability, emphasizing the role of the territory’s immaterial assets (social capital) and inter-organizational relations (relational capital), which are considered facilitators that inspire a way of doing business and governing the firm that are oriented towards CSR and sustainability.

The second section develops an empirical analysis based on a qualitative research that is centered on the case study method (Yin, 1994; 1995 Eisenhardt, 1989; Sharma et al., 1996).

Two Italian family businesses are considered (the Varnelli Distillery and the Loccioni Group), who are part of a wider set of businesses that serve as a model of territorial social responsibility in the Marche region. This region contains a number of “champions of CSR” (best practices) capable of leading the way in sustainable development projects that create value for the community, both near and far.

## RESEARCH DESIGN

The objective of this study is to discuss how elements of social capital associated with the concept of familiness affect the development of a CSR and sustainable orientation in family SMEs. Our line of argument is based on a starting point that the centrality of values, relations, and embeddedness to local environment are characteristic attributes of family SMEs and constitute the driving force behind long-term investments to develop capacities, human resources and lasting relations with stakeholders (Stafford et al., 1999; Olson et al., 2003; Miller & Le Breton-Miller, 2006).

In other words, the hypothesis assumes that the immaterial components of a territory (social assets, fiduciary relations, etc.), which match the relationship-building capacities of the entrepreneur, are linked to the socio-economic characteristics of the territory in which the family business operates.

In the following sections, we use the literature on family business, resource-based view and CSR to develop a discussion on a sustainable territory model that incorporates the specific features of the family nature of a firm. The final model is presented in the last section with the main conclusions of the study.

The propositions that can be derived from the literature discussion and posited as the core of the empirical study are the following:

*Proposition 1: “Embedded or “territory” family businesses are those that have inherited the best values of the socio-economic context and local traditions”.*

*Proposition 2: "Territory" family businesses have innovatively reinterpreted these values, orienting them towards sustainability, which comes from outside the civic roots of the place, experienced as community".*

Qualitative research has been undertaken to demonstrate that the values of the members of the family business and the values of their territory, which constitute the immaterial components of the firm, are in reciprocal relationships and represent a fulcrum for the development of sustainable strategies. Specifically, the research project adopted the case study method as its methodological approach because it is adaptable to the development of an exploratory analysis, as is proposed herein.

## **THEORETICAL FRAMEWORK**

Numerous contributions on family businesses (Ward, 1987; Handler, 1989; Aronoff & Ward, 1991; Wortman, 1994; Dyer & Sánchez, 1998) have created the context of a theoretical corpus that is not completely defined. This has also occurred because the theme is enriched by dialogues with disciplines such as psychology, economics, strategic management, and, more recently, ethics, corporate social responsibility and sustainability (Casillas & Acedo, 2007; Chrisman et al., 2005; Zhara & Sharma, 2004).

Despite the high fragmentation of the literature, several essential points regarding the concept and the phenomenon of the family business can be synthesized into the following shared propositions: the family business is a specific type of company; it is a real entity composed of systems (family, ownership, management) regulated by specific values and norms; it is characterized by the overlap between two institutions (the family and the firm); the conflicts and critical situations can often be ascribed to the complexity of the relations between the aforementioned sub-systems; the challenge of succession represents its most characteristic element and the instruments for dealing with this constitutes a crucial element for its survival and development.

Comparing family and non-family businesses, managerial literatures and marketing studies point out that the family business is "unique" for its potential to create durable relationships with its stakeholders (and in particular its clientele); thus it generates competitive advantages that are difficult to imitate. There are several characteristics that create this uniqueness, including: the possibility of promptly responding to the stakeholders requests thanks to less complex decision-making mechanisms; the perception of trust and credibility that the family business is able to convey (Upton, 2001); the attention by members of the family to the preservation of their own reputation by caring for relationships; informal relationships and a strict correlation of values between family members (Lyman, 1991). The centrality of these relationships and values give them a lead role in ensuring the success of the business and the maintenance of competitive advantage.

Another aspect to be highlighted is that the prevalent methodology in this field of research is characterized by descriptive studies on small-scale businesses (Bird et al, 2002; Sharma, 2004) focused on the application of resource-based view (RBV) (Wernerfelt, 1984, 1995; Cabrera-Suárez et al., 2001). The inimitable and defendable resources typical of this business are, above all, linked to the character of familiness and to the system of values possessed by the entrepreneurial family and transferred to the firm as a whole; values that often come from its socio-economic environment of origin, in which both the family and the business are linked by strong bonds. The complex of tacit understandings and intangibles (social, human, relational, and organizational capital) represent a resource that is difficult to imitate, which characterizes family businesses more than other types of firms (Berman et al., 2002).

Habbershon & Williams (1999) were the first to apply the principles of the resource-based view to explain the competitive advantage (or disadvantage) of family firms. They introduced the concept of familiness by identifying the bundle of idiosyncratic internal resources and capabilities resulting from the involvement of the family in the firm and matching them with the firms' strategic capabilities. Other authors have mentioned the involvement of family members with the firm and their interactions within it as the source of certain family-based attributes of family firms that create familiness (Pearson et al., 2008; Sharma, 2008; Sirmon & Hitt, 2003; Zellweger et. al., 2010).

Recently, a theoretical development of the familiness construct is the theory of social capital (Hoffman et al., 2006; Pearson et al., 2008). Arregle et al. (2007) defined social capital as the goodwill and resources made available to an actor via reciprocal, trusting relationships that can be both intra and inter-organizational. From a stakeholder approach, social capital, in terms of trust and reciprocity norms, relation networks and relational competences, relates to various aspects of the normative vision of stakeholder management such as transparency, goodwill and good citizenship (Ortiz-Avram & Kühne, 2008; Putnam, 2000).

Family firms may be especially oriented to investing in social capital due to their particular dependency on the network of interpersonal relationships that determine how they function (Murillo & Lozano, 2006). As a result, relations with stakeholders through specific managerial procedures may allow companies to exploit their social capital (Russo & Perrini, 2010). Arregle et al. (2007) argued that family firms are unique in this respect because they include two types of social capital: the family's and the firm's. Family firms members have strong interaction with stakeholders that help to develop organizational social capital. Sharma (2008) highlighted the importance of the so-called "bridging" social capital, given the impact of family connections with critical stakeholders (such as clients) on family firm performance.

The relevance of these aspects is also confirmed in the field of CSR and sustainability studies. One relevant aspect that emerges from the research conducted on the diffusion of CSR in SMEs (MORI, 2000; Joseph, 2000) is that the process of orientation towards CSR normally is promoted by the owner-entrepreneur and depends on his ethical orientation (Vyakarnam et al., 1997; Spence et al., 2000; Spence & Lozano, 2000; Spence & Rutherford, 2003; Kvåle & Olsen, 2006). Entrepreneurs' ethical values, as well as improved customer loyalty are the primary reasons to adopt CSR practices; better relations with the community and public authorities are also considered (Enderle, 2004). Entrepreneurs and their families are active members of a territorial community, of which they represent the "creative soul", to which they are intimately linked and in which they reinvest part of the economic wealth they generated and their energies. Family SMEs - strongly rooted in their respective region and characterized by long-term relations with stakeholders - possess a good starting position for implementing sustainability strategies as a result of their structure and territorial rootedness (Leborgne & Lipietz, 1991; Storper, 1995). Various studies have highlighted the contribution of CSR in terms of increasing the social capital of SMEs, of participating in the construction of the common good (Spence & Schmidpeter, 2003) and of the sustainability of specific territories.

This explains the development of peculiar approaches to CSR, centred on a logic of SME involvement in networks and districts (Molteni et al., 2006; Battaglia et al., 2006; Ørskov, 2006; Kromminga & Dresewski, 2006). The participation of the SME in networks characterized by the presence of a plurality of actors, both public (local institutions, chambers of commerce, universities) and private (trade associations, non-profit organizations, banks, professional orders), facilitates the implementation of actions and programmes of socially-oriented development of SMEs and of the local area in which they are inserted (Fugazza et al., 2006; Lepoutre, 2006; Maaß, 2006).

Finally, two further aspects should be highlighted.

First, one must consider the utility of the stewardship theory to understand the model of family business governance. According to this theoretical framework (Davis, Schoorman & Donaldson, 1997), the behavior of the manager towards the principle (entrepreneur) is cooperative. In the attempt to satisfy the interests of his organization, the principal considers the expectations and the interests of the workers and the territory in which the business is inserted. Thus, in this perspective, the quality of the relationships that the business fosters with the surrounding territory and with diverse local actors becomes highly important.

Secondly, one must also consider that in family SMEs the entrepreneur is often oriented towards the theory of social success (Sciarelli, 2007). Success is measured not only by the results achieved by the enterprise, but also, and perhaps more, by the achievement of respect in the surrounding community. Social leadership finds its counterbalance in social responsibility attributed to, and embraced by, the entrepreneur.

Based on such theories, the strength of the family business' relationships with the territory in which it operates assumes a major role for two fundamental reasons. On the one hand, the cohesion that characterizes familial relations and the tendency to adopt a model of governance that adheres to stewardship theory assumes a synergistic value that is difficult to recognize in other organizations. On the other hand, the relational capacities of a family business can be considered the driver that triggers the creation of sustainable pathways, which guarantee the business' and the territory's long-term survival.

Some studies have focused their attention on the importance of the quality of relations between the firm and the territory but not with specific reference to family businesses, while few have turned their attention to the role and to the quality of relationships that the family business establishes with the territory to which it belongs. The virtuous circle of entrepreneurship and the corporate culture depend on the business environment as well as on the presence of selective entrepreneurial policy (Aldrich & Martinez, 2001; Minguzzi & Passaro, 2000). A favourable business climate, which springs from a system of anthropological, social and positive economic factors, has an influence on the development of the business and favours orientation towards CSR, which finds fertile land in commonly-held values, and sets off a virtuous process that is at the basis of sustainable development of the company as well as the place where it is rooted. Trust is built both on geographical closeness, common history and on joint activities as well (Granovetter, 1985; Peredo & Chrisman, 2006). The anthropological culture of the territory and firms are strongly interconnected. The concept of culture reminds to beliefs, norms, traditions and attitudes that drive the behavior of individuals and organizations belonging to a definite community (Schein, 1990). The literature is reach with research concerning the relations between culture and management (Hofstede, 1980). Ringov & Zollo (2007) interesting contribution offers empirical evidence to test the assumption that corporations' socially responsible behavior is influenced by specific dimension of the cultural context in their home country.

Recently, the concept of the territory has assumed a "holistic" meaning. It has gone from the notion of a (static) place, with a predominant geographic and object connotation, to a dynamic concept, conceived of as a fusion of specific and contextual values ("genius loci"), heirs to past traditions and influencers of the future. It is intended to mean a complex system of tangible and intangible resources, historically determined, that gives place to a network among more actors.

In this sense the territory can be conceptualized as a meta-organization, such as the system of relations between actors in which each (business, civil society, and institutions) play an important role in the activation of developmental processes. When values and behaviors are closely shared and a collaborative climate is created at the base of relationships between diverse local actors the fusion of these factors forms the relational infrastructure of the territory, that is, its social capital: a system of distinctive intangible resources that is difficult to reproduce elsewhere.

Social capital therefore is the combined effect of relations between a plurality of subjects, including the business and the family, who are engaged and work together. The activation of such contact is motivated by the effort, and especially by the will, to generate virtuous political and socio-economic contexts. The family business becomes, in this perspective, an important motor not only for the growth of the local economy, but also for the diffusion of its culture and for social development, thanks to its mediatory role among internal and external subjects and its promotion of elements of local identity.

### **The "Third Italy" and Its Socio-Cultural Features**

The development of the regions in the "Third Italy" (i.e., Tuscany, Veneto, Emilia Romagna and Marche) can be attributed not only to more general, exogenous causes (such as crisis and restructuring of large firms) but also to endogenous causes (Bagnasco, 1977; Becattini, 1979; Fuà & Zacchia, 1983; Putnam, 1993). Among these, in particular, the presence of strong social relationships in the countryside has contributed to the birth and diffusion of a form of industrialization that is spread among neighbours based on forms of personal communication and fiduciary rapports. In this framework, the role of tradition in the rural family is significant thanks to the family's organization as an autonomous productive unit equipped with working knowledge that has constructed the foundations of the small-scale business. Italian SMEs have inherited from the rural world a work ethic of sacrifice and

the custom of cooperating among the family. The entrepreneurial development of the second half of the 1900s, which is the base of the success of “made in Italy” products sprung from the principles and the values of the sharecroppers and the small-scale farmers. In this way, a local economy characterized by a strong social matrix was born - a matrix that is the result of cohesion among the rural family. The sharecropping culture has provided tenacity, acclimation to hard work, respect and honour for promises. These elements help earn the trust of the subjects within the community with whom it enters into relationships, and favors the development of industrial activities. The continuity with its local historic roots represents the foundation upon which more and more family businesses (like the Loccioni Group and Varnelli) are constructing innovative pathways to sustainable development.

## METHODOLOGY

The current study is placed in a body of research which involves both academics as well as consulting groups and professional exponents (i.e. entrepreneurs and managers), making ample use of case studies. Consequently, the qualitative research methodology chosen to carry out the objectives indicated above is that of a multiple case study which develops the theory by examining the phenomena within its broader socio-environmental context (Yin, 1994). Recently, entrepreneurship scholars have called for a return to in-depth methods, such as narrative and case studies (Gartner, 2007). Such approaches are valuable for building theory (Eisenhardt & Graebner, 2007), generating theoretical propositions - that can then be tested using broad-based quantitative research designs - and formulate hypotheses on which theories can be constructed. In addition to developing the understanding and interpretation of the phenomenon, the case studies' purpose is to present concrete testimonies which can provide the means for critically evaluating opportunities of involvement with the community, providing solutions, and activating a virtuous cycle of development.

The businesses examined come from the Marche region, because of its predominance of small and medium-sized family businesses. A clarification is necessary with specific reference to this geographic area. The Marche region is a classic example of the afore mentioned “Third Italy” model, in which the development of SMEs (normally family SMEs) is established in small centers, without upsetting the pre-existent agricultural and artisan vocations, and preserving socio-economic fabric of relationships anchored in the territory. It is a region with one of the largest presence of artisan companies and districts. A recent study that analyzed the geography of sustainability in Italian provinces – in terms of economic, social, and environmental development – found that the provinces within the Marche region were at the top of this list and characterized by superior values than the national medium, balancing economic development with social cohesion (Unioncamere, 2010). Marchegian businesses are also highly present in different national “best practices” lists for their CSR and sustainability-oriented development projects (such as lists by ISVI, the Institute for Business Values or by Symbola<sup>1</sup>, a foundation for ensuring Italian quality active in Italy for years, adhered to by hundreds of firms - among them, SMEs from the Marche region, i.e Varnelli and the Loccioni Group, number among the most significant -, institutions, and associations, that places the territory and its uniqueness at its center, connecting competitiveness with social well-being, local traditions with innovation and orientation to the future, beauty with quality), and have also been recognized at the national and international levels (such as with the Sodalitas Social Award).

Within this broad area, a data set of Marche's SMEs was created by first identifying members of Confindustria (the leading national association for Italian entrepreneurs) who all received a survey questionnaire. Family businesses were next identified within this data set, and, from those, businesses distinguished by their relationship-building capacity - Loccioni Group and Varnelli Distillery - were selected. Particular attention was paid to the system of relationships that the founder and his successors had established with the surrounding territory, and the fiduciary relationships that had developed through time. Interest in examining the two firms also derives from the values system that characterize their mission and governance (and which is reflected in their accountability), oriented towards sustainability. In the choice of enterprises, we considered the “cohesive” and “multi-certified” Italian SMEs typology

which comes from an analysis of 4.000 companies' orientation towards CSR. A behaviors map reveals five groups of companies: cohesive; multicertificate; aware; mobilizable; skeptical; the first two types are characterized by the attention to their stakeholders' expectations and appear to be predominantly located in districts and clusters (Unioncamere, 2003; Molteni & Lucchini, 2004).

More specifically, the two family SMEs were identified and selected among those exhibiting the following qualities:

- the presence of a framework of ethically-connoted values, shared by the leaders of the firm and widespread throughout the organisation;
- carrying out and promotion of CSR actions and strategies as well as sustainability efforts;
- the adoption of CSR communication tools and development of accountability systems.

Multiple sources were triangulated: open-ended and semi-structured interviews, document analysis, and direct observations. Once the primary reflections were developed, they were discussed with the entrepreneurs. This act of fact-checking and soliciting feedback was useful for compiling the final version of the interpretive model proposed, and for the identification of future directions for the research.

The study was developed across a multi-year period, beginning in 2009 and continuing today. The interviews with the management, the entrepreneurs (founder, successors) and the family members became particularly useful for identifying the values of these actors. Also useful was the rich documentation provided by the firms, such as the social report, the statement of values, as well as the useful information posted on their official internet sites. It should also be mentioned that a participant observation approach was applied; the entrepreneurs and their collaborators were involved in projects like seminars, conferences and workshops in which their experiences and testimonies were exchanged with researchers, other entrepreneurs, and local institutions.

### Data Analys

The following is an edited profile of the two firms summarized in Table 1.

**TABLE 1  
CHARACTERISTICS OF THE FIRMS**

<i>Company title - Registered office - Year of constitution - Sector - Corporate purpose - Employees – Total Sales (2009) - Economic subject</i>	<i>Instruments of implementing and communicating CSR and sustainability, Year Introduced</i>
<i>Varnelli Distillery Spa; Pievebovigliana (MC) - Italy; 1868 Food industry: anice, bitters and herbal drink 15 employees; 10,000,000 euros; family-owned business</i>	Chart of values, year 2007; ISO 14001, year 2007; SA8000, in 2008; OHSAS, in 2010
<i>Loccioni Group, Angeli di Rosora (AN) - Italy; 1969 Electronic industry Electrical and electronics equipments, automatic equipment and plants-design-robots; automotive; integrated technologies for environmental monitoring (high technology); measurement and quality control; biomedicine and medical equipment; telecommunications and environmental control; equipment for the management of domestic energy (green energy); courses and consultancy for technical and managerial education and for business development. 297 employees; 50,000,000 euro; open family-owned business</i>	List of company values (“charter of values”), in 1969; Code of ethics, in 1996; Social report, in 1997; Intangibles impact, in 1997; Cause Related Marketing, in 1999

The two companies cited as case studies are not listed on the Stock Exchange and are by nature closed companies, which is typical of family capitalism as it exists in Italy among small and medium-sized firms. However they are emerging, well-performing companies that have been able to evolve and develop managerial capabilities (in finance, marketing and organization) which have brought them to high competitive levels at the national, European and world levels. This, despite the fact that they remain family businesses. They were founded by entrepreneurs who come from local families of agricultural extraction (i.e. former sharecroppers). In some cases they were set up after the entrepreneurs had had work experience in other firms in that area (i.e the Loccioni Group). At present the companies are

prevalently - if not entirely - family run. In particular, the Loccioni Group is made up of six companies all situated in the same province, founded over a period of forty years by the current president (Enrico Loccioni) and owned by him and his wife. The second generation of this family (a son, owner of a non-controlling quota of shares) has recently started working with the Group. Although the ownership is primarily family (the company heads), two of the businesses in the group are partially owned by non-family members (holding non-controlling quotas of stock), that is, former employees and people who dealt with the firm who have received assistance from the Group's owner in setting up a new branch of the Group through a internal spin-off process.

## RESULTS

*Proposition 1: “Embedded or “territory” family businesses are those that have inherited the best values of the socio-economic context and local traditions”.*

First, in Loccioni Group and in Varnelli trust and social solidarity are learned from the family which is intended as a primary model of community and of the relational network in which one lives by, and follows the rules for constructing the future.

Secondly, they represent family SMEs in which the entrepreneurs and their family inherited from their ancestors the fundamental values of family, faith, work, commitment, and courage. The roots of the companies are based on the 400 years of communally practicing the harvest, which have prepared marchegian populations for the world of entrepreneurship because the harvester was a small-scale businessman. The agrarian culture embraced profound religious values (that were based on Christian doctrine) that represent the foundation of their orientation towards sustainable socio-economic development (Table 2). These family businesses are characterized by the presence of a heritage of ethical and behavioral values that is passed down from generation to generation and undoubtedly represents an advantage.

**TABLE 2**  
**TERRITORY AND COMPANIES' VALUES**

<i>“Marchegian” values</i>	<i>Loccioni Group’s values</i>	<i>Varnelli Distillery’s values</i>
Trust, familial solidarity, social solidarity, faith, patience, strength of will, tradition, optimism and tenacity, adaptability, commitment, courage, sense of work and sacrifice.	Honesty, humanity, justice in relationships with the diverse actors in the socio-economic system, satisfaction of the client and of stakeholders, constancy, coherence, spirit and capacity for innovation, energy, responsibility.	Honesty, humanity, justice in relationships with the diverse actors in the socio-economic system, spirit and capacity for innovation, the satisfaction of the client and of stakeholders, respect for the person.

Below is a brief profile of the two companies, based on the direct words of the entrepreneurial actors. The *Loccioni Group* was founded in 1968 in a small town in the Province of Ancona on the intuition of Enrico Loccioni (the current president) who began his entrepreneurial “journey” in the sector of industrial electrical implants. He started his adventure as an electrician, embracing an entrepreneurial spirit and an intimately agrarian popular culture.

*“One night, when I was 5 years old, one of my father’s cows died. This meant that we couldn’t move our oxcart, we had to stop plowing the fields. The next day our neighbors got together and brought us a young calf: a vestige of the agrarian culture in which the ethics of giving trump economic rationality”* (E1 - E. Loccioni, President of The Loccioni Group, entrepreneur of the year in 2007, recipient of the Ernst & Young Award for Quality of life).



Business and family live 100% together. The family unit is at the forefront of Loccioni Group's scale of values.

*“The family is the primary source of values. It aggregates. It allows for the development of ideas. It catalyzes valuable expectations. Our business values come from the same “norms” that guide, and have guided, the family. We have a particular culture of doing business. We even compare ourselves to other models, for example, that of Olivetti, which has left an indelible mark of inestimable values in the territory. Tradition for us is an engine, even for the new generations. We are an open business. We run the business as a network: not a hierarchical network, but as nodes of understanding that dialogue with one another in relationships of shared dignity. Shared dignity means having faith in each other.” (E2 - E. Loccioni).*

Enrico Loccioni speaks of values and culture not with intellectual boldness, but with human simplicity, with the genuine candor of the self-taught man who has only made it to middle school, but who had envisioned his own model of industrial development in Werner Von Siemens and Adriano Olivetti (industrial humanism). The “metalmezzadro model” (“metal.harvester model”) of the Group is based on a parallel between the industrialist (entrepreneur-manager) and the agriculturalist (guided by rational calculation, by a work ethic and by savings), between tradition and innovation (“tradinnovation”) (Tables 3-4).

**TABLE 3**  
**LIST OF LOCCIONI GROUP'S VALUES**

<i>Imagination</i>	<i>To be capable of imagining means being capable of creating.</i>
<i>Energy</i>	<i>Much of it is needed to dream and to realize one's dreams.</i>
<i>Responsibility</i>	<i>For the air that we breathe, the land that we walk on, the resources that we utilize, and the trust that we earn.</i>
<i>Tradition &amp; Innovation</i> <i>(“Tradinnovation”).</i>	<i>To learn from the past to give form to the future.</i>

*“We take the best of the past to build the future (E3- E. Loccioni).*

*“Look towards the sky, but have your feet planted firmly on the ground” (S1 - C. Loccioni, Enrico's son)*

*“Values at the foundation of agrarian culture are “obstinacy”, desire, dedication to one's work, parsimony, the sense of one's limits, the sense of the family as the nucleus of solidarity, responsibility. We love to define ourselves as ‘metalmezzadri’. From the agrarian culture we have learned: the importance of traditional values, the communication of trust with a handshake; the habit of working under conditions of seasonal uncertainty; the merits of diversification to reduce risk, just like in sharecropping diversification of cultivations (...) Values sustain actions that are positive and responsible, generating a type of development that respects humans and the environment. Without values one cannot go far. Our intangible values are imagination (to know how to create), energy (to achieve our dreams), responsibility (for the air we breathe, the land we walk on, the resources that we utilize, the trust that we gain). Values are the self-identity of the group: they provide a common language, they give strength to our businesses and guide them as they adapt to the market. Actions, even everyday ones, require profound moral commitment.” (E4 – E. Loccioni).*

**TABLE 4**  
**THE “IDENTITY CARD” OF THE LOCCIONI GROUP**

<i>Attention to human resources</i>	<ul style="list-style-type: none"> <li>- 55% of the collaborators are high school graduates; 45% college graduates; median age is 33 years.</li> <li>- 7% of its resources dedicated to educational development.</li> <li>- Best Work Place Italia Award, from 2002 to 2007 for excellence in organizational environment and the satisfaction of collaborators (from Great Place to Work Institute, Italy).</li> <li>- Ernest &amp; Young Prize, “Entrepreneur of the year”, 2007, “Quality of Life” category.</li> <li>- Recognition as “Olivettiano businessman of the year 2008”.</li> </ul>
<i>Attention to research</i>	<ul style="list-style-type: none"> <li>- 4% of its resources invested in Research and Development.</li> <li>- 12 patents and 7 applied research projects.</li> <li>- European Recognition for the research project /DG XII, European Union) “MEDEA” (on quality control in the domestic electronics sector).</li> <li>- 11 patented research projects.</li> <li>- Best Application Award, Automotive Forum 2008 (“MEXUS” project).</li> <li>- Marchegian of the Year (2008) for technological innovation.</li> </ul>
<i>Attention to CSR and sustainability</i>	<ul style="list-style-type: none"> <li>- Sodalitas Social Award 2005 Finalist, for the category “Internal CSR Processes and network enterprise model”; “Metalmezzadro” project in the knowledge-based business.</li> <li>- Sodalitas Social Award 2008 Finalist, “Sustainability Projects” category.</li> <li>- “Business and Culture” Award 2003, project “Bluzone”.</li> <li>- Sodalitas Social Award 2009, Finalist in “sustainable initiatives” for the LOV Project, The Land Of Values.</li> <li>- Leaf Community Project: Leaf Energy and Future (partner of the European Commission in the “Sustainable Energy Europe Campaign”, accomplishments recognized by Legambiente.</li> </ul>

The *Varnelli Distillery* is located at the foot of the “Monti Sibillini” National Park. It was founded by Girolamo Varnelli who, during the course of studying the medicinal herbs of this land, compiled a number of recipes for liquors and bitters, which, at the time, were used to cure malaria and high fevers in his town. Managed by the Varnelli family from its inception, the company is controlled and managed by the fourth generation of the family - three sisters and their mother. Its mission, just like its history, is firmly anchored in the surrounding territory, which constitutes one of the business’ primary elements of competitiveness.

*“I feel that the future lies in the small towns, in traditional values and in culture. These values are the result of a process of sedimentation through time. Our region has a high level of quality among social groups. It really has an extraordinary heritage” (VI - O. Varnelli, Managing Director - successor).*

The company’s mission is marked by a balanced mix of traditional and modern management strategies, competition and social cohesion, strong local identity and a dynamic approach to the global dimension of the market. In carrying out its mission, the company particularly emphasizes its investment in intangible capital, that is, in soft elements within the value chain: human resources, competency, research, branding, links with the community, youth education, and environmental protection (Table 5).

**TABLE 5**  
**VARNELLI’S GUIDELINES**

<p><i>Respect for the rules and continuous improvement</i> <i>Conformity to the requisite rules SA8000 e ISO14001 (social and environmental sustainability) and OHSAS 18001 (security).</i> <i>In addition to conforming to all of the legislative prescriptions, the company explicitly defines its internal rules to avoid any gaps.</i></p>
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*Sustainable development and social responsibility*

Through specific programs of improvement, the company points to conserving and protecting natural resources and to minimizing the negative environmental effects associated with their products and with their productive activities (ISO9001).

*Satisfaction of all interested parties*

Starting with its directors, all of the company's personnel are involved in communicating with interested parties to help keep the company embedded in its social context and to develop constructive relationships.

*Respect for the individual*

The company respects all of the rules aimed at helping care for its labor force and for those inside its supply chain.

*Education, information, training and awareness*

These principles are mandatory in the company's goal of providing its employees the best work environment and for sharing in the work and its results.

*Collaboration with its stakeholders*

The company collaborates with its suppliers to identify opportunities for improving its impact on the environment and for undertaking socially responsible activities. It is aware of the importance of collaborating with public authorities and the greater population, and of fostering a climate of trust and transparency towards every aspect of its business.

*Efficiency and involvement in reducing pollution*

Varnelli Distillery fights against every form of pollution and urges its employees to behave in ways that reduces the consumption of energy and natural resources, in line with environmental rules.

*Goal-orientation*

The company constantly monitors and analyzes its progress in satisfying interested parties and its practices, by planning with clear objectives, teamwork, the daily example of individual employees, communication of initiatives and results, website, publications in trade journals and raising its providers' awareness.

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*Proposition 2: "Territory family businesses have innovatively reinterpreted these values, orienting them towards sustainability, which comes from outside the civic roots of the place, experienced as community".*

The above-mentioned values are ones that express a sober style of individual and familial life; in the conception of the firm as a precious good, true public goods, which must be managed with a profound sense of responsibility in considering all of its subjects and not only its shareholders.

Loccioni Group and Varnelli cultivate the objective of a growth that can also help to valorize and develop the entire territory at the same time, positing a form of sustainable development that is in harmony with the land in which the firm operates and with the human relationships that characterize it. Both the companies testify this business "way of being" adhering to multiple occasions of exchange and comparison (workshops, forums, meetings, testimonies, etc.). They desire to valorize and leave a mark on their territory and present themselves as vehicles of development. Market by a sense of community and territorial belonging, they possess a distinctive capability in activating networks of relations. The companies' network of relationships are articulated (Tables 6-7). The collaborative links are established at the local level, involving the principle subjects of the territory, as well as at the extra-local level.

**TABLE 6**  
**THE VARNELLI'S SYSTEM OF RELATIONSHIPS**

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<i>Collaborators</i>	<i>The company promotes ongoing educational activities (training meetings) with different types of collaborators, calling on the sector's professionals that teach the culture of hospitality and of the history of Varnelli's products.</i>
<i>"Valuing Labor" Award</i>	In 2007 the company received this award, which is given by the Marches Region to the region's firms who distinguish themselves in providing a safe work environment, caring for its employees, supporting equal opportunities, investing in education, fostering links with the territory, and maintaining a high quality of human relations inside the firm.
<i>Hometowns</i>	Even though the company moved its factory into a small suburb (Muccia) of its hometown in 1996, it still maintains legal residence in Pievebovigliana, so as not to privity the town of its historic company. Over 2.5% of its profits go towards funding social, cultural and athletic initiatives within the regional territory.

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<i>Collaboration with other Marche­gian firms</i>	Varnelli collaborates with other Marche­gian firms in the hospitality industry and towards the valorization of the territory’s products: such as in the case of the synergy developed with the Loccioni Group, to whom collaborators had transferred technical knowledge and skills.
<i>The Girolamo Varnelli Foundation</i>	Since 2002 the Foundation, dedicated to the founder, has undertaken cultural, educational and social initiatives aimed at promoting the tradition of distillation and the territory.
<i>Visitors to the Varnelli House</i>	The company is open to frequent visitors from schools, universities, trade associations, and enthusiasts (1000 visitors/year). These visits emphasize and transmit the added values of the Varnelli family: its entrepreneurial style and its long history.
<i>Training and Research Institutes</i>	The company cultivates a number of relationships aimed at promoting youth education: internships with educational institutions, collaboration with vocational tech colleges (such as ISTAO: Adriano Olivetti Institute for the Study of Business Management).
<i>Symbola Foundation</i>	The company is a shareholder of the Symbola Foundation for Italian Quality. This foundation’s objective is to spread the model of Soft Economic development, that is, the development of an economy based on knowledge and innovation, on identity, history, creativity and quality, of which a growing number of Italian (and specifically Marche­gian) businesses are excellent examples. “Territories help firms to meet each other; it is where alliances are created among knowledges, new technologies and traditions, and where competition is nurtured by training, research and social cohesion (first of which is still familial cohesion), and positive relationships for the community” (www.symbola.net).
<i>Participation in fairs and other events</i>	Varnelli takes part in numerous fairs and other events, both at the local as well as the extra-local levels. The company develops local relationships with surrounding towns, the province, the Marche­ region, the mountain communities, banking foundations, and universities. The firm develops extra-local relationships with a number of different subjects to safeguard its communitarian brand, such as with Slow Food; associations of Italians abroad, the official Marche­ region representative in Brussels, the University of Milan – Bocconi, Ordre International des Anyssetiers; ICE, and the European Office for Harmonizing the Internal Market.

**TABLE 7**  
**LOCCIONI GROUP’S NETWORK MODEL**

<i>U-net</i>	<i>A multidisciplinary network of universities and research centers for the development of scientific competence and applied research.</i>
<i>Crossworlds</i>	A network of large international groups that aim to stimulate the transfer of automotive technology towards other sectors.
<i>Nexus</i>	A plural-sector network of local businesses that communicate and work together towards the development of the territory and synergistic potentials. Nexus, created in 1994 by Enrico Loccioni, inspired by his idea to facilitate integration between SMEs in the Province of Ancona, thereby increasing territorial growth, as well as the growth of the single firm participants. The latter takes place through the sharing of information and experiences by a global network of local companies able to communicate, interact with and utilize the potential synergies within the group. Many initiatives are promoted by Nexus: monthly meetings, a virtual board, training courses, school collaboration, scholarships, data provision for students’ thesis, training, polytechnical institution visits, and European projects. Its staff is made up by 30 entrepreneurs/companies and more than 550 collaborators.
<i>Bluzone</i>	In 2001 Enrico Loccioni “put into method” all of the company’s formative activities and collaborations with schools and research centers, creating the network,” a kind of educational laboratory (every year more than 1000 students are hosted) in which spaces (inside the company) and people host students of every class, grade and nationality. Since 2002 Loccioni Group has been accredited as an educational organization of the Marche­ Region; it partners with 28 schools, 20 universities, and 5 master’s programs. All of this contributes to the development of a new conception of culture and the formative role of the firm, above all called to help the growth of the territory and of the young people that give it life.

The project is centered on the concept of welcoming various stakeholders. By collaborating with small local tourism agencies (especially agro-tourisms), the Group offers its work-related visitors a unique and custom-designed tourist experience, based on the particularities of the location, focusing on oenogastronomic and country tourism. In the Loccioni's companies guides on hotel and restaurant partners and tourist brochures selected on the most significant Marchegian locales, are offered (produced and published at the Group's expense, without any external contribution). Such a "heritage experience" helps transmit those values and the ethical matrix which stands at the base of its entrepreneurial culture to its partners. At the same time, it offers the community, without any ulterior motives or desire for return, an opportunity that has economic and occupational reflects and stimulates in terms of managerial development for tourism entrepreneurs.

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The following are quotes from interviews with the entrepreneurs.

*"Ours is a way of being an open enterprise from the very beginning, born to welcome interlocutors as carriers of value; formation, collaboration, team work are our practices. (...) From a strong shared culture and from driven human resources can arise the commitment for the Common Good and the strength to face the market."* (E5 - E. Loccioni).

*"The environment includes people, their values and culture. What the company gives to the environment is just as fundamental as what it receives from it."*(E6 - E. Loccioni).

*"LOV is a project that permits those who visit us the ability to share in a singular encounter of professionalism and conviviality. The visit to the Group must be a moment that involves, other than commercial intents, also moments of hospitality, that permits one to discover the values and the culture that originates in our world. The values and the passion which distinguish us come from the same Land from which we draw our energy, and it's for this reason that our concept of hospitality goes beyond work-a-day contexts and extends throughout the territory."* (E7 -E. Loccioni).

*"Varnelli considers the values that have guided it from the start before every decision it makes. It is a business that lives in harmony with the surrounding territory, that takes on its unique characteristics and its great values. The people who reside in this territory have more prospects for sustainable survival. We could seem to be self-reflexive and say that after 150 years one could think that the firm is "done" [old]. But this isn't the case; we feel that we are shouldering great responsibility to carry on the work of those who came before us. We are in an area far from the big players, but this area has a social balance that keeps us and other Marchegian firms young. We are convinced that the best way to do business is to keep in mind all of the interests of the territory. We act based on a spontaneous ethic. We act, and that's it. Ethics are something that is very intimate that you have to live, and that's it. We do not naturally want to badmouth ourselves, but if this is the price you have to pay to teach a new way of doing business, we would never hold back."* (V2 -O.M. Varnelli)

## **DISCUSSION**

Loccioni and Varnelli are territorial companies, strongly embedded to their cultural and socio-economic contexts. They can be considered "convivial" companies, whose competitive success grows out of the commitment to values and to the human spirit and where lives a type of "art", reconciling economic

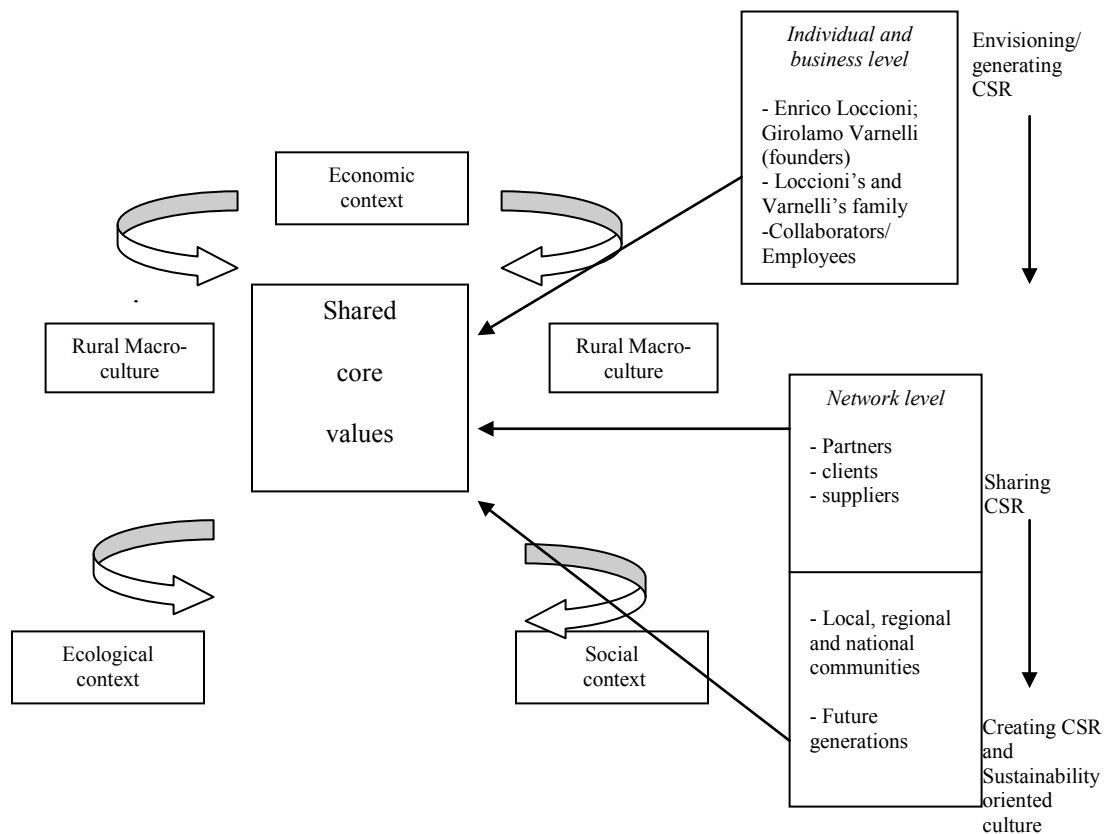
objectives and humane ones. “Conviviality” is manifested in the creation of CSR-oriented networks and partnerships.

They have a strong capacity to open itself up to others, to work together with trust and to “weave and spin” towards the force of a networking approach. Equally strong is the link between the sense of social responsibility of the companies, on the one hand, and the culture and ethics as distinctive organizational competencies, on the other. Orientation towards sustainability pervades the organizational culture. Such orientation is born and develops from the cardinal figure of the entrepreneurs and their family members, it pervades the collaborators, and from them it returns towards the managers and is transmitted to every stakeholder who enters into relation with their companies. In managing the business, the entrepreneurs have imported the principles and values typical of the rural Marchegian tradition, which constitutes a sort of meta-culture in which the firms move (Graph 1).

CSR orientation “constrains” and at the same time facilitates the construction of networks. The network represents the application of a social form (“clan”) at the base of which personal relationships subsist between individuals, who are linked by rapports of friendship, esteem, trust and even kinship.

Reinforced by their socio-cultural and anthropological values and by the typical nature of the surrounding land, the companies have become vectors of intangible factors. They have developed explicit and implicit understanding, integrating themselves with universities, schools, research institutions, technological centers, incubators. Thus development occurs for the sake of valorizing people, defending the values of the territory, elevating the quality of life and of work, generating profits and ideas.

**GRAPH 1**  
**SOCIO-CULTURAL DYNAMICS**



## CONCLUSIONS AND IMPLICATIONS

The present research has focused its reflections on the contribution offered by the wealth of immaterial elements of a territory (social and fiduciary capital) and the consolidation of lasting and stable

relations between the family business and its territory to the development of sustainable practices. It is hoped that the research presented here has provided a first step towards understanding the centrality of the anthropological culture of the place of which the family businesses are expressions and the capacity to create value through the institutionalization of useful relationships with their territories of origin. One of the assumptions in our discussion is that family firms have the potential to support the development of social responsibility and sustainability. The conviction remains that the specific traits of the family business must be understood better - particularly through analyses of cases and of specific aspects that have not yet been examined - because of their actual and potential role in the diffusion of CSR and sustainability strategies.

The work is therefore intended to closely examine the “sustainable family values” which are at the core of the family SMEs’ orientation towards stakeholders. Territory family businesses in this context refer to businesses whose sustainable development is connected to the local context in which they are inserted. Such businesses are important protagonists in the construction of sustainable oriented networks that are constituted by a plurality of actors (other public and private, for- and non-profit businesses, institutions, and organizations) with whom they enter into relationships, utilizing the exemplary social cohesion that characterises the local contexts (city, province and region) in which they operate. In this way they activate (or support) paths of sustainability inside the community and the territory from which they come - pathways that are not always exclusively local, but often extend themselves into the national and international contexts.

In light of the information collected and of the considerations made herein, it is possible to affirm that both of the family businesses have their strength in the relationship-building capacity of their founder and successors, in familial cohesion, in the quality of the values that they incorporate, and in the social cohesion of the local context in which they are inserted. This social cohesion is the primary immaterial resource that exists in the provinces of Italy’s Marches region.

The analysis reveals a profile of family businesses that are strongly committed to contributing to the promotion of the quality of their surrounding territory. They are able to sustain a process of co-evolution towards forms of communal development between the businesses and the territory in which they are rooted. This aspect is the expression of a particular way of doing business that is not altogether exclusive of these two cases.

However, the study has several limitations. First, the observation of the two case studies represents a preliminary attempt at deepening the understanding of how reciprocal relationships among the territory’s social capital, as well as how territorial and familial relations, affect a family business’ orientation towards sustainability. A more profound understanding requires an even deeper qualitative analysis that is broadened by a quantitative analysis. Second, the question remains whether it is possible to extend these findings to a broader sample (analytic generalization) - starting with SMEs belonging to the same region (Marches) - across different Italian local contexts, and across other countries. This would necessitate a more detailed investigation into how the socio-economic environments influence the entrepreneur, the family and the SMEs’ values. In addition, it can build evidence on the differences and similarities in the values framework that comes from cultural factors.

Nevertheless, because these two cases specifically interrogate these aforementioned elements, they constitute a useful point of departure for future reflections in merit of the possibility that the relationship between the culture of the territory and the culture of the family both is predicated on strategies of sustainability. Future research should focus on testing the proposition suggested in our model of territorial responsibility centered on the best practices of territory family SMEs. Consequently, it is useful to reflect on the possibility that these experiences, even in their specificity, can offer original contributions that can enrich the literature on the theme of the survival and success of family businesses and on their role in promoting pathways to sustainability.

## **ENDNOTE**

1. [www.symbola.net](http://www.symbola.net); [www.softeconomy.it](http://www.softeconomy.it).

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