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BUSINESSES AS ONE OF THE KEY ELEMENTS OF A REGION'S SUSTAINABLE DEVELOPMENT

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Summary : The regionalization and local development, encouraged by the European Union involves the notion of “territory”. Today “territory” or “region” should be seen as a system of actors. The concept of sustainable development should be taken into account by these actors. Businesses (especially SMEs) whose aim is to assure local development, economic growth and job creation are one of the key elements of territory's sustainability.

Résumé : La régionalisation favorisée par l'Union Européenne implique la notion de territoire. Des acteurs s'expriment dans des systèmes complexes et le concept de développement durable doit être globalement pris en compte. Les entreprises, acteurs de ces territoires pour assurer le développement économique et l'emploi, se retrouvent au cœur de la problématique de développement durable.

Key-words : sustainable development, territory, businesses, governance, stakeholders

Mots-clés : développement durable, territoire, entreprise, gouvernance, parties prenantes

INTRODUCTION

The Brundtland Report (1987) defined sustainable development (SD) as development that *"meets the needs of the present generation without compromising the ability of future generations to meet their needs"*. (Brundtland, 1987)

The 1995 World Summit on Social Development further defined this term as "the framework for our efforts to achieve a higher quality of life for all people," in which "economic development, social development and environmental protection are interdependent and mutually reinforcing components". In August 2002, the Johannesburg World Summit on Sustainable Development expanded this definition identifying the "three overarching objectives of sustainable development" to be (1) eradicating poverty, (2) protecting natural resources, and (3) changing unsustainable production and consumption patterns. That is to say, one of the factors which sustainable development must overcome is environmental degradation, but it must do so without forgoing the needs of economic development, social equality and justice. (UN Commission on Sustainable development site)

Many international organisations have adopted their sustainable development strategies, or even created special commissions in charge of this question. The European Union has chosen "Sustainable Development Strategy" one of its priorities. Following the review of the EU Sustainable Development Strategy 2001 launched by the Commission in 2004, the European Council adopted in June 2006 an ambitious and comprehensive renewed Sustainable Development Strategy for an enlarged European Union. A hierarchical theme framework has been developed on the basis of the policy priorities of the Sustainable Development Strategy. The ten themes, which may be further developed in the future, are:

1. Economic development
2. Poverty and social exclusion
3. Ageing society
4. Public Health
5. Climate change and energy
6. Production and consumption patterns
7. Management of natural resources
8. Transport
9. Good governance
10. Global partnership

*Source site of the European Commission
Sustainable Strategy*

The re-launched Lisbon Strategy has already been refocused on those issues of most importance to the citizens, jobs and growth, in full coherence with the Sustainable Development Strategy; special emphasis has been laid on investment in knowledge and innovation, business potential, especially of small and medium-sized enterprises (SMEs), and the employment of priority categories (EC Presidency Conclusions, 2006).

The regionalization and local development, encouraged by the EU involves the notion of "territory". Today "territory" or "region" should be seen as a system of actors. Thus the concept of sustainable development should be taken into account by these actors. Businesses (especially SMEs) whose aim is to assure local development, economic growth and job creation are one of the key-figures of territory's sustainability. But how can "territory" or "region" encourage and help the businesses to incorporate sustainable development principles into their strategies?

It is quite challenging for a company to act by itself. Authorities within and between regions often compete to attract external and local investment. Opportunities exist for communities across regions *to collaborate with each other to help their economies grow* by supporting infrastructure or environmental improvements that demonstrate a broad regional impact, for example (Swinburn, 2004). [The same](#) for businesses, their strength might be in joining networks or clusters. The idea of joining the networks may be seen as a necessity, but it is also a new opportunity.

It is usually more difficult for SMEs to "find their way" of doing things. Many multinational companies are very present and sometimes more forceful than international organisations to push ahead. Since cases like Enron, WorldCom and Arthur Anderson the way business is conducted has changed.

More and more attention is paid to questions like corporate responsibility or stakeholders' value. Some sceptics will say that this is all marketing and communication; the multinational corporations know how to use the communication tools to their advantage. But for some years now a real change has been taking place. Transparency in financial reporting is one a piece of the puzzle, social and environmental performance and dialogue with stakeholders have become crucially important to success in business (Laszlo, 2003).

More and more companies use the term “triple bottom line performance” which implies not only financial results as before, but also social and environmental performance. Almost all big multinationals are engaged in reporting on the company’s sustainable development. Sustainability reporting has become a vehicle for linking typically discrete and insular functions of the corporation—finance, marketing, research and development—in a more strategic manner. Sustainability reporting opens internal conversations (between departments within a company) where they would not otherwise occur. (Global Reporting Initiative, 2002)

SUSTAINABLE DEVELOPMENT IS AN INEVITABLE NEED FOR TERRITORY / REGION TODAY

Today every country faces the problems of globalisation or relocations, but it is regions in particular that suffer most from these problems. One of the possible answers is sustainable regional development, with respect towards environment, mutually beneficial economic development and social cohesion.

Expansion of global capital markets and information technology continue to bring unprecedented opportunities for the creation of new wealth. At the same time, there is deep scepticism among many that such wealth will do anything to decrease social inequities. While governmental and non-governmental organisations are major players in the globalisation process, it is corporate activity that remains its driving force. The borderless global economy requires also borderless governance structures to help direct private sector activity toward outcomes that are socially and environmentally, as well as economically, beneficial. (Global Reporting Initiative, 2002)

The concept of sustainable development which involves the questions of ethics and good governance obliges public and private sector to search for new models of international governance, affecting such areas as climate change, loss of bio diversity, ozone depletion, social exclusion, labour practices, and financial accounting standards. *A key element of these emerging new governance models is the demand for higher levels of transparency and cooperation.*

The same globalisation, expansion of information technologies and governance trends evident in industrial nations are taking root in emerging economies. We can talk about “global role of emerging economies”: nations such as China, India or Brazil are full participants in the globalisation

process. The technology innovation and capital flows that powered globalisation in the last decade now permeate these emerging nations, positioning them as regional and global players on the economic stage of the 21st century.

As sustainable development has become widely adopted as a foundation of public policy and organisational strategy, many organisations have turned their attention to the challenge of translating the concept into practice. The need to better assess an organisation’s status and align future goals with a complex range of external factors and partners has increased the urgency of defining broadly accepted sustainability performance indicators. (Global Reporting Initiative, 2002)

When the Brundtland Report (1987) was first published governmental interest in integrated economic, environmental, and social reporting was scant. Today, voluntary, statutory, and regulatory initiatives abound. In Japan, the United States of America, Canada and the European Union countries such as France, Germany, UK or Sweden incentives and requirements to enlarge the scope of different initiatives on diverse levels from political to ecological are rapidly unfolding. Some actions are motivated by national environmental and social policy goals, others by investor pressures to obtain a clearer picture of corporate performance via the securities regulatory process. All indications point to continuing expansion of different initiatives to new countries and regions over the next few years.

In many countries policies that hold local economies potential to account have been designed and pursued. Local development both social and economical is one of the key objectives of sustainable development of territories. Action on sustainable energy for ecological balance is being taken with a view to enhancing security of energy supply, reducing climate change and local air pollution, poverty and improving security, while promoting rural and local development. The European Union has become active in local development by introducing the local development concept into the operation of the Structural Funds and certain Community Initiatives. (OECD-LEED “*Best practices in local economic development*”, 2000)

The European Union’s regional policy is a policy promoting solidarity. It allocates more than a third of its budget to the reduction of the gaps in development among the regions and disparities among the citizens in terms of well-being (*On the review of the Sustainable Development Strategy*, Brussels, 2005). The Union sets up the policy which can help lagging regions to catch up, restructure declining industrial regions, diversify

the economies of rural areas with declining agriculture and revitalise neighbourhoods in the cities. It sets job creation as its major concern. In a word, it seeks to strengthen the social, economic and territorial cohesion of the Union.

The European Union has recognized the success of local cooperation and has launched substantial programs to foster it. Territorial pacts, area contracts, industrial districts, local system of small businesses, local economic development agencies, and cooperative networks are nowadays part of its policy lexicon and features of its largest programs. Many European Governments have adopted similar policies (England, France, Spain, Portugal). Local economic development is an appropriate process for

creating suitable conditions for sustainable employment, small and medium enterprise creation and growth; for promoting human development, and decent work. (Canzanelli, 2001)

It is necessary to highlight the importance of the dialogue between local stakeholders. The main lessons from this dialogue might be the need for a stronger focus, a clearer division of responsibilities, wider ownership and broader support, a stronger integration of the international dimension and more effective implementation and monitoring.

See Table 1: Potential Stakeholders in the local economic development process

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POTENTIAL STAKEHOLDERS		
Public Sector	Private Sector	Community Sector
▪ Municipal government including technical departments ▪ District or regional government ▪ Sector boards and authorities (health, education, transport) ▪ Zoning board ▪ Institutions of research and higher learning ▪ Utilities	▪ Large corporations ▪ Trade unions ▪ Small, medium and micro-scale entrepreneurs ▪ Land and real estate developers ▪ Banks and other financial groups ▪ Chambers of commerce ▪ News media ▪ Other business support groups ▪ Professional associations ▪ Private utilities ▪ Private education establishments ▪ Think tanks	▪ Community leaders ▪ Neighborhood groups ▪ Community service Organizations ▪ Local education institutions ▪ Local religious sector ▪ Other non-governmental organizations and groups: <i>Minorities, disabled and other disadvantaged populations; environmental issues; cultural, arts and historical interests</i>

The ultimate configuration of the stakeholder group should really be determined by a strategic assessment of the local economy and the key local economic actors themselves. (Swinburn, 2004)

Territorial Employment pacts are just one of the tools used by the European Union to promote local economic development. These come in full recognition of the importance of local participation in the local economic development processes, which is also underlined by the fact that together with the concepts of subsidiarity and additionality, partnerships and coordination are among the basic principles of the guidelines for structural funds funding.

The territorial employment pacts were elaborated originally in 1997 after the confidence pact of Mr.

Jaques Santer, former president of the European Commission. They are generally funded by the European Social Fund, which intervenes within the framework of the European Employment Strategy. Initiatives for SME support, community building projects, micro-credit programs are a clear example of this. (Canzanelli, 2001)

The European Commission now undertakes impact assessments for all major policy proposals to assess their contribution to sustainability. The reform of the agricultural and fisheries policy, the reinforcement of rural development policy as well as the modernisation of cohesion policy reflects this commitment to integrated policy making. (*On the review of the Sustainable Development Strategy*, Brussels, 2005)

It is clearly understood that, in order to realize sustainable development at local level, it is necessary that the stakeholders share a mutual vision of the future. This necessary, albeit not sufficient, condition is generally lacking in developing countries, which are exceptions to this rule. Usually the first thing to be done is to create *participation*. Sharing a mutual strategic vision of development may be one of the most difficult things to achieve and the only way to meet this condition is to commence a long and tortuous dialogue among the local actors which may also be unsuccessful. The difficulties of succeeding in the elaboration of a mutual shared vision are strictly related to the wideness of the territory concerned, being these two factors indirectly related. (Canzanelli, 2001)

The main objective of the territorial employment can be easily read in the "Guide for Territorial Employment Pacts 2000-2006". The basic objective of a pact is to encourage local regional partnerships in order to:

- identify the difficulties, concerns and future prospects facing each of the territorial players with responsibility for employment
- mobilize all available resources in favour of an integrated strategy accepted by all parties concerned, based on their real needs and expressed in a formal commitment
- improve the integration and coordination of job creation measures
- implement exemplary actions and measures in favour of employment

Territorial Employment Pacts are "participated tools" aimed at identifying and then implementing a coordinated set of interventions with the intention of mobilizing the necessary resources to trigger self-propulsive development, based on the endogenous resources of the territory. Promoting a bottom-up approach, through participation of all the local stakeholders from the public and the private sectors (who subscribe a formal memorandum of understanding which binds them to actively participate in the pact), various intervention on the territory must be planned and realized in order to render the territory more attractive to entrepreneurs.

The strategy of intervention and the action plan following it are based on a local diagnosis undertaken by the local stakeholders. Innovative means for job creation, elaborated within a more complex framework of overall local development, should be one of the final outputs of the action plan. (Canzanelli, 2001)

Transparency and public engagement are key characteristics of decision making for

sustainability, which joints the demands for the good governance.

The importance of context, the benefits of diversity and the inevitability of surprise all suggest that transparency and active public engagement are necessary qualities of governance for sustainability. Openness and participation are favoured by the emphasis of sustainability on lively citizenship, which is seen not just as a means of building understanding and commitment, but also as an end in itself – an aspect of the necessary and richer alternatives to lives centred on material consumption.

The final characteristic with implications for governance is that sustainable development is an open-ended process. It is not necessarily perceived as a particular specified target. Pursuit of sustainability is a long-term, indeed never-ending process. The notion of sustainable 'landing places' that is sometimes used by the European Commission is therefore misleading. It suggests that the problem of sustainable development can be 'solved' whereas in reality only specific issues can be resolved and managed. There will always be 'problems' and needs for change (Rammel and van den Bergh, 2003).

What is interesting to highlight is that the European regionalisation has historically been:

- *government* led rather than private-sector driven, but oriented toward *political* unification rather than economic integration.

In comparison to Latin American which is :

- *government led*, but oriented toward *economic integration* rather than political unification

and Asian which is : *private-sector driven* and oriented towards *economic integration*. (Ken-Ichi Ando, 2001)

National governments could act like catalysts and mediators:

- fostering the different initiatives for local economic development;
- eliminating the obstacles and facilitating the appropriate instruments;
- decentralizing the information, the knowledge and the decisions;
- stimulating the elaboration of development plans by the local organizations, and incorporating them in the national development strategies;
- facilitating financial endorsement for the small companies (like seed capital, risk capital, reciprocal guarantee companies, etc.),

- delegating functions of control and services to independent organisms, respecting the agreements of the territorial actors;
- jointly reinforcing the functions of evaluation with the local actors. (Ganzelli, 2001)

BUSINESSES AS REGIONAL ACTORS

Businesses are one of the key players for the successful continuous development of regions. By developing themselves they develop the territory, enrich it and create addition value. This process is interdependent. Moreover today the expectations in terms of social and environmental respect are much higher than even ten year ago. The necessity of economic development is bordered by the questions of social cohesion and ecological balance. Citizens' participation, their interests and growing demand for ethical behaviour should be taken into account by any institution functioning on the territory. The emergence of new ethics changes rapidly traditional forms of governing. It is what Ch. Laszlo calls "planetary ethics". It originates with changing social expectations as expressed by consumers, employees, local communities, business partners or other stakeholders (Laszlo, 2003).

It is not political in the sense of attempting to impose the beliefs of one group on another group; it is not moralistic because it does not exhort companies to adopt one or another moral ideology, but it expands the code of good conduct to the globe. It encompasses a company's responsibility for society and the environment, and it shifts the moral basis of action from abstract questions of right and wrong to consideration of whether a company is operating sustainability. (Laszlo, 2003)

A strategic vision for the development of a certain territory (the importance is the same as that of strategic value for businesses) is the first step the local actors pursue for fixing collective ideas and images, exchanging interests and values, identifying strengths and weaknesses of their territory, and all the necessary issues for the assessment of future coherent actions.

At the local level the relation between social and economic objectives is much more visible, because they lead to the same final aim that is the well being of the population, the maintenance and improvement of living conditions for current and future generations. So attention to gender equality, education, health, social security, workers protection, entrepreneurial values, and environment are part of the same strategy.

Another important aspect that comes from the international experience consists in the needs to involve not only the entrepreneurs, but also other **local actors**, if employment and development strategies have to be realised. It is evident that local administrations are under pressure to provide answers for unemployed women and men, but they cannot provide it without the involvement of the private sector.

On the other hand the private sector, even if strongly associated, cannot give solutions alone, because of the need of institutional framework and regulations, regarding the use of the space, of the natural resource, the training, the business services, and, least but not last, the consensus of the population about the development strategy for avoiding possible conflicts, and the lobbying with national and international institutions for different type of support (Canzanelli, 2001)

Local development strategies can be based on number of essential elements:

- they exploit a critical mass of local potential resources (natural, human, traditional know-how), rendering infinite the possibilities of generating new products (positive sum game)
- they, realise frequent innovations and high productivity through cooperation (on external economies) and competition (on internal economies and products)
- they are based on and they build a territorial awareness, a territorial system (businesses, services, governance), which turn as the real competitive factor, able to multiply the business opportunities and the attraction of new external investment. (Canzanelli, 2001)

Territorial awareness might be based on the tools of the territorial intelligence. The existing and mostly popular tools of the economic intelligence are not sufficient for prosperous region's functioning. Usually being focused only on the analysis of economical factors, they have become obsolete today. Territorial intelligence which embraces the fields of economics, geography, sociology, informational technologies, knowledge management is based also on the ethical principle of participation. The use of the tools of territorial intelligence can allow a more profound and complete analysis of the "structure and dynamics of territories" (Girardot, 2002)

Today many SMEs may find their potential market chances and business partners in different countries or territories. Nevertheless, it must be understood that their existence and competence were also strongly supported by regional or local business concentration and networking, which is based on a deep social division of labour and specialisation,

including typical subcontracting system controlled by a big manufacturer, as well as industrial districts where small manufacturing or trading firms come all together. Mostly SMEs cannot survive or can't be sustainable if they simply depend on their own limited resources and specialised skill and technological capabilities alone.

The globalising economy inevitably tests whether individual regional economies and SMEs within them can compete and survive by showing their own competitiveness or not. Once it was widely believed that the very development of transport and information technology and borderless economy would inevitably break the barrier of distance and make regional economies or industries almost meaningless. Nevertheless, surprisingly a sort of reincarnation of regionalism started in the 1980s, and many academics and researchers then ignited debates as well as numbers of empirical research works on the importance of regional industrial agglomeration and local networking. (Mitsui, 2004)

The well known notion of "clusters", introduced by Harvard Professor Michel Porter, is widely used and probably is the most popular. Clusters promote both competition and cooperation. Rivals compete intensely to win and retain customers. According to the M. Porter definition a cluster is a "geographic concentration of interconnected companies and institutions in a particular field. It includes, for example, suppliers of specialistic inputs such as components, machinery, and services, and providers of specialised infrastructure. Clusters often extend downstream to customers and laterally to manufacturers of complementary products. Finally many clusters include government and other institutions, such as universities, think tanks, vocational training providers, information, research, education, and technical support structures. Clusters represent a kind of a new spatial organisation form between the market and hierarchy, turning as an alternative way of organising the chain of value. Compared with market transactions among dispersed and random buyers and sellers, the proximity of companies and institutions in one location foster better coordination and trust." (M. Porter, 1998) One of the reasons for clusters' success is a fruitful dialogue between different potential stakeholders. (See Table 1)

Regional clusters, the geographic concentration of economic activities in a specific field connected through different types of linkages, from knowledge spill-overs to the use of a common labour market, are increasingly viewed as an interesting conceptual tool to understand the economic strength or competitiveness of a region. In recent years, this view has also motivated more and more policy makers and economic development

practitioners to turn to cluster-based concept as new tools to strengthen regional economies.

The profile of a regional cluster today depends much on its profile in the past, and understanding these dynamic relationships is critical to devise policies that can change a regional cluster's trajectory in a sustained, positive way (Ketles, 2004). Prof. C. Ketles and O. Sölvell have undertaken an interesting study on clusters functioning in the new European Union states with special attention to the systematic mapping and the analysis of regional clusters.

The observations in this report, especially the findings on the low current level of regional specialization relative to the United States and the correlations between regional specialization and economic performance, suggest that the policies pursued by the European Union institutions *should focus on enhancing the process of geographical specialization of industries within Europe*. The European Union institutions should develop data, tools, and methodology to enable cluster initiatives within member nations to become more effective. Finally, the European Union should focus its own policies on enhancing the microeconomic capacity of its member countries and their regional economies.

We must be careful, however, if we are examining possible and sustainable development of new local industries and economic revitalisation of local communities as a whole, about whether and what the vast majority of SMEs and human resources can play and contribute, as 'interconnected companies,' 'specialised suppliers' or 'service providers,' which are exploiting 'geographic, cultural and institutional proximity' and maximising the advantages of 'knowledge, relationships and motivation,' concerning the real formation and development of industrial clusters. Without many competent and vital SMEs and their joining, critical mass formation and robust business linkage cannot be completed, and local economies cannot enjoy sufficient spill-over effect and balanced sustainable development (Mitsui, 2004).

COMPANY'S SUSTAINABLE DEVELOPMENT STRATEGY

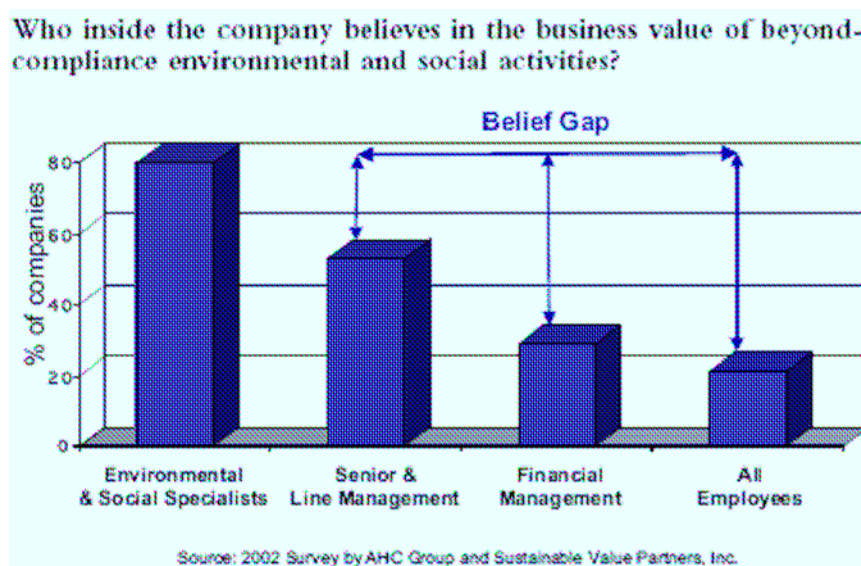
Businesses being one of the major actors of regional sustainable development face today a constellation of interests: economical, social and environmental. The question for them is the same as for the territory "how to assure their continuous development" respecting the new demands of corporate governance.

Although a lot of information already exists about sustainable development, its practical application remains quite vague, and different guidelines available on this subject are mostly used by big corporations or international companies. In spite of the fact that many forward-looking multinationals are issuing their third or fourth sustainability reports, little internal buy-in exists among the operating managers who are accountable for financial results. In many cases, the consumers, employees, investors are not even aware that sustainability performance is now a stated management objective. (Laszlo, 2004)

A survey of 20 leading multinational corporations performed by the AHC Group and Sustainable Value Partners indicates that there is a gap in the perception of the business value of beyond-compliance environmental and social initiatives, with a significant drop between environmental and social responsibility staff and senior management, and another significant drop between senior management to financial management and all management and employees. (Laszlo, 2004)

See Figure 2 Belief gap

Figure 2: Belief Gap

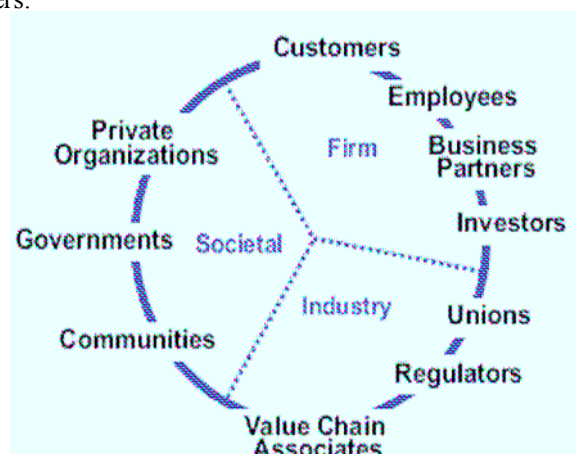


One of the major changes to incorporate for a company looking for sustainability is communication with its stakeholders. We use the following definition for company's stakeholders: "Stakeholders are individuals and groups that are impacted by and/or impact the firm's products, services, operations, and investments, participating (voluntarily or involuntarily) in the creation or transfer of value." (Laszlo, 2003)

And the following criteria for identifying significant stakeholders:

- They provide significant resources – tangible or intangible – required for company's business activities
- Business activities create significant positive or negative value for them
- They incur significant risk due to a company business activities
- Their resistance to business activities could create significant risk for the company

See Figure 3: Company's stakeholders



Source: Laszlo, Ch., 2003, *Sustainable company*

Two other important factors for company's sustainable development are entrepreneurship and innovation, but innovation respecting three principals of the sustainable development: innovation which might reduce the costs, but which is not socially or environmentally harmful.

Sustainability provokes many debates about even how to define it, moreover how to put it in practice. However, there is evidence that the pioneers who dare to apply it have achieved considerable success. For instance, a recent study "Global 100", the hundred *Most Sustainable Corporations in the World*. It is a project initiated by Corporate Knights Inc., with Innovest Strategic Value Advisors Inc. a leading research firm specializing in analyzing "non traditional" drivers of risk and shareholder value including companies' performance on social, environmental and strategic governance issues. Innovest was selected as the exclusive research analytic data provider for the Global 100. Launched in 2005, the annual *Global 100* is announced each year at the World Economic Forum in Davos.

It refers to "sustainable in the sense that they have displayed a better ability than most of their industry peers to identify and effectively manage material environmental, social and governance factors impacting the up (opportunity) and down (risk) sides of their business" (Global 100, 2006).

CONCLUSION

Local economic development encouraged by many countries today, and set up as one of the crucial priorities of the European Union politics, is assured by many factors as well as different local actors. Businesses being very present and forceful at the local level are a vital part of community life. The principles of sustainable development are equally important for the territories and businesses.

Important initiatives have been taken in the renewed Lisbon process, in the social sphere and in the pursuit of environment protection. However, the rapid pace of change requires the stepping up of efforts to keep Europe on a sustainable path. With a strengthened commitment to growth and jobs, combined with a determination to preserve and protect Europe's social and natural heritage, to exploit knowledge, to foster innovation, to approach policy development in an integrated way and to provide financial means, it can be done. (*On the review of the Sustainable Development Strategy*, Brussels, 2005)

The sustainable development strategy can be more easily achieved by companies united in networks or clusters. It also represents a competitive advantage for the businesses, especially for the SMEs. Another significant advantage is that it fosters territory's economical development, enables territory to be well represented at the national and international level. Companies, respecting the sustainable development principles act in accordance with social and environmental respect, which is mutually beneficial for them and for their territory.

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